IMPORTANT NOTICE

NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES

IMPORTANT: You must read the following before continuing. The following applies to the offering circular following this page (the "Offering Circular"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THE ATTACHED OFFERING CIRCULAR HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY BE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR IN CASE OF REGULATION S CATEGORY 2 OFFERING, TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE ATTACHED OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY UNITED STATES ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: The attached Offering Circular is being sent at your request and by accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to represent to the Issuers, the Parent Guarantors, the Arrangers and the Dealers that (1) you are not in the United States and in case of Regulation S Category 2 offering, are not a U.S. person nor acting for the account or benefit of a U.S. person and, to the extent you purchase the securities described in the attached Offering Circular, you will be doing so pursuant to Regulation S under the Securities Act; (2) the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions, and (3) you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that the attached Offering Circular has been delivered to you on the basis that you are a person into whose possession the attached Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the attached Offering Circular to any other person.

The materials relating to the offering of securities to which the attached Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of The Hongkong and Shanghai Banking Corporation Limited and UBS AG Singapore Branch (the "**Arrangers**") or any such entity appointed as a dealer under the programme described herein (together with the Arrangers, the "**Dealers**" and each Arranger and each such entity a "**Dealer**"), or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Dealer or such affiliate on behalf of the relevant Issuer (as defined in the attached Offering Circular) in such jurisdiction.

The attached Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Arrangers, the Dealers, any person who controls any Arranger or any Dealer, or any director, officer, employee or agent of any Arranger or any of the Dealers, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the attached Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Arrangers and the Dealers.

You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

OFFERING CIRCULAR

SMIC SG Holdings Pte. Ltd.

(incorporated as a private company limited by shares in Singapore) (registered in Singapore under registration number 202219950R)

SMPHI SG Holdings Pte. Ltd.

(incorporated as a private company limited by shares in Singapore) (registered in Singapore under registration number 202409569W)

U.S.$3,000,000,000

Euro Medium Term Note Programme

unconditionally and irrevocably guaranteed by

SM Investments Corporation

(incorporated with limited liability in the Republic of the Philippines)

to be unconditionally and irrevocably guaranteed by

SM Prime Holdings, Inc.

(incorporated with limited liability in the Republic of the Philippines)

Under this U.S.$3,000,000,000 Euro Medium Term Note Programme (the "**Programme**"), established by SMIC SG Holdings Pte. Ltd. ("**SMIC SG Holdings**") and SMPHI SG Holdings Pte. Ltd. ("**SM Prime SG Holdings**" and, together with SMIC SG Holdings, the "**Issuers**"), the relevant Issuer may from time to time issue notes ("**Notes**") denominated in any currency agreed between the relevant Issuer and the relevant Dealer or Dealers (as defined below) subject to compliance with all relevant laws, regulations, and directives. On or prior to the first issue of the Notes by the relevant Issuer under the Programme, SM Investments Corporation ("**SMIC**") will enter into a deed of guarantee with the Trustee (as defined herein) which will provide for the guarantee by SMIC in respect of the Notes issued by SMIC SG Holdings under this Programme (the "**SMIC Guarantee**") and SM Prime Holdings, Inc. ("**SM Prime**" and, together with SMIC, the "**Parent Guarantors**") will enter into a deed of guarantee with the Trustee (as defined herein) which will provide for the guarantee by SM Prime in respect of the Notes issued by SM Prime SG Holdings under this Programme (the "**SM Prime Guarantee**" and, together with the SMIC Guarantee, the "**Guarantees**").

The maximum aggregate principal amount of Notes from time to time outstanding under the Programme will not exceed U.S.$3,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuers (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the relevant Dealer shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe to such Notes. Application has been made to the Singapore Exchange Securities Trading Limited ("**SGX-ST**") for permission to deal in, and quotation of, any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST (the "**Official List**"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission to the Official List and quotation of any Notes on the SGX-ST are not to be taken as an indication of the merits of the Issuers, the Parent Guarantors, their subsidiaries, their associated companies, the Programme or the Notes. Notice of the aggregate principal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes, will be set out in the pricing supplement (the "**Pricing Supplement**") which, with respect to Notes to be listed on the SGX-ST, will be delivered to the SGX-ST on or before the date of issue of the Notes of such Tranche.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the relevant Issuer and the relevant Dealer or Dealers. The Issuers may also issue unlisted Notes which are not listed and/or not admitted to trading on any market.

An investment in Notes issued under the Programme involves certain risks. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

Each Tranche of Notes of each Series to be issued in bearer form will initially be represented by either a temporary bearer global note (a "**Temporary Bearer Global Note**") or a permanent bearer global note (a "**Permanent Bearer Global Note**" and, together with a Temporary Bearer Global Note, the "**Bearer Global Notes**," and each a "**Bearer Global Note**"), as indicated in the applicable Pricing Supplement. Registered Notes will initially be represented by a global note in registered form, without receipts or coupons (a "**Registered Global Note**"). The Bearer Global Notes and Registered Global Notes may be deposited on the relevant issue date with a common depositary on behalf of Euroclear and Clearstream or with a sub-custodian for the CMU operated by the Hong Kong Monetary Authority.

The applicable Pricing Supplement will specify that definitive Notes will be made available in certain limited circumstances.

The Notes and the Guarantees have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or with any U.S. securities laws and Bearer Notes are subject to U.S. tax law requirements. The Notes and the Guarantees may not be offered, sold or delivered within the United States or, in case of Regulation S (as defined below) Category 2 offering, to any U.S. person or any person acting for the account or benefit of a U.S. person (as such term is defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws. See "*Subscription and Sale*".

The Issuers may agree with any Dealer and the Trustee (as defined herein) that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, such rating will be specified in the applicable Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Arrangers (in alphabetical order)

HSBC **UBS**

Dealers (in alphabetical order)

BDO Capital **China Bank Capital** **HSBC** **J.P. Morgan** **Morgan Stanley** **Standard Chartered Bank** **UBS**

The date of this Offering Circular is 6 May 2024

NOTICE TO INVESTORS

Each of the Issuers and the Parent Guarantors accept responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuers and the Parent Guarantors (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. Investors should only rely on the information contained in this Offering Circular. The information contained in this Offering Circular is given only as of the date of this Offering Circular. The business, financial condition, results of operations and prospects of the Issuers and the Parent Guarantors may have changed since that date.

In the case of an issuance of Notes by SM Prime SG Holdings, unless otherwise provided herein, investors should only consider and rely on the disclosure in relation to SM Prime in this Offering Circular (and not any disclosure in relation to SMIC SG Holdings, SMIC or the SM Group). SM Prime is the only Parent Guarantor with respect to any issuance of Notes by SM Prime SG Holdings and SMIC will not provide any guarantee or credit support for Notes issued by SM Prime SG Holdings. Investors should therefore not consider nor rely on any disclosure relating to SMIC SG Holdings, SMIC or the SM Group with respect to any issuance of Notes by SM Prime SG Holdings. For the avoidance of doubt, SMIC is the only Parent Guarantor with respect of any issuance of Notes by SMIC SG Holdings and SM Prime will not provide any guarantee or credit support for Notes issued by SMIC SG Holdings.

This Offering Circular is based on information provided by the Issuers and the Parent Guarantors and by other sources that they believe are reliable. No assurance can be given that such information from other sources is accurate or complete.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated in, and form part of, this Offering Circular.

This Offering Circular has been prepared by the Issuers and the Parent Guarantors for use in connection with the offer and sale of the Notes outside the United States. The Issuers, the Parent Guarantors, the Arrangers and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States, or in the case of a Regulation S Category 2 offering, for the account or benefit of, U.S. persons. Distribution of this Offering Circular by any person outside the United States to any person within the United States is unauthorised and any disclosure without the prior written consent of the Issuers and the Parent Guarantors of any of its contents to any such person within the United States, is prohibited.

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the Programme or the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuers, the Parent Guarantors, any of the Dealers or the Arrangers, The Hongkong and Shanghai Banking Corporation Limited as trustee (the "**Trustee**") or any of the Agents (as defined in the Agency Agreement referred to herein), or any of their respective directors, officers, employees, agents, representatives, advisers or affiliates or any person who controls any of them,. Save as expressly stated in this Offering Circular, nothing contained herein is, or may be relied upon as, a promise or representation as to the future performance or policies of the Issuers, the Parent Guarantors or any of their respective subsidiaries or associated companies. Neither this Offering Circular nor any other document or information or any part thereof, delivered or supplied under or in relation to the Programme may be used for the purpose of, and does not constitute an offer of, such solicitation or invitation by or on behalf of the Issuers, the Parent Guarantors, the Arrangers, any of the Dealers, the Trustee or the Agents or any of their respective directors, officers, employees, agents, representatives, advisers or affiliates or any person who controls any of them, to subscribe for or purchase the Notes in any jurisdiction or under any circumstances in which such offer, solicitation or invitation is unlawful, or not authorised or to any person to whom it is unlawful to make such offer, solicitation or invitation.

Neither the delivery of this Offering Circular (or any part thereof) nor any sale, offering or purchase made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the prospects, results of operation or general affairs of the Issuers, the Parent Guarantors or their respective subsidiaries and/or associated companies since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuers, the Parent Guarantors or their respective subsidiaries and/or associated companies since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution and publication of this Offering Circular or any such other document or information and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons who distribute or publish this Offering Circular or any such other document or information or into whose possession this Offering Circular or any such other document or information comes are required by the Issuers, the Parent Guarantors, the Dealers and the Arrangers to inform themselves about and to observe any such restrictions and all applicable laws, orders, rules and regulations. The Notes and the Guarantees have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes (as defined herein) that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes and the Guarantees may not be offered, sold, or, in the case of Bearer Notes, delivered within the United States or, in case of Regulation S Category 2 offering, to any U.S. person or any person acting for the account or benefit of a U.S. person (as such term is defined in Regulation S). Registered Notes are subject to certain restrictions on transfer. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area (the "**EEA**"), the United Kingdom, Hong Kong, Singapore, Japan and the Philippines. See "*Subscription and Sale.*"

This Offering Circular and/or any other document or information (or any part thereof) delivered or supplied under or in relation to the Programme shall not be deemed to constitute an offer of, or an invitation by or on behalf of the Issuers, the Parent Guarantors, any of the Arrangers, the Dealers, the Trustee or the Agents or any of their respective directors, officers, employees, agents, representatives, advisers or affiliates or any person who controls any of them, to subscribe for, or purchase, any Notes. This Offering Circular and any other documents or materials in relation to the issue, offering or sale of the Notes have been prepared solely for the purpose of the initial sale by the relevant Dealer(s) of the Notes from time to time to be issued pursuant to the Programme. Recipients of this Offering Circular shall not reissue, circulate or distribute this Offering Circular or any part thereof in any manner whatsoever.

None of the Arrangers, the Dealers, the Trustee or any of the Agents or any of their respective directors, officers, employees, agents, representatives, advisers or affiliates or any person who controls any of them, have separately verified the information contained in this Offering Circular or incorporated by reference. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arrangers, the Dealers, the Trustee or any of the Agents or any of their respective directors, officers, employees, agents, representatives, advisers or affiliates or any person who controls any of them, as to the accuracy or completeness of the information contained in this Offering Circular or incorporated by reference, or of any other information supplied in connection with the Notes or the Programme and none of the Arrangers, the Dealers, the Trustee or the Agents or any of their respective directors, officers, employees, agents, representatives, advisers or affiliates or any person who controls any of them, accept any responsibility for any acts or omissions of the Issuers, the Parent Guarantors or any other person (other than the relevant Dealers) in connection with the issue and offering of the Notes. Each person receiving this Offering Circular acknowledges that such person has not relied on the Arrangers, the Dealers, the Trustee or any of the Agents or any of their respective directors, officers, employees, agents, representatives, advisers or affiliates or any person who controls any of them, in connection with its investigation of the accuracy of such information or its investment decision. To the fullest extent permitted by law, none of the Dealers, the Arrangers, the Trustee or any of the Agents or any of their respective directors, officers, employees, agents, representatives, advisers or affiliates or any person who controls any of them accepts any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Arranger, Dealer, the Trustee or any of the Agents or any of their respective directors, officers, employees, agents, representatives, advisers or affiliates or any person who controls any of them or on its behalf in connection with the Issuers, the Parent Guarantors, or the issue and offering of the Notes. Each Arranger, Dealer, the Trustee and any of the Agents and any of their respective directors, officers, employees, agents, representatives, advisers or affiliates and any person who controls any of them accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

This Offering Circular is not intended to provide the basis of any credit or other evaluation, nor should it be considered as a recommendation by any of the Issuers, the Parent Guarantors, the Arrangers, the Dealers, the Trustee or any of the Agents or any of their respective directors, officers, employees, agents, representatives, advisers or affiliates or any person who controls any of them, that any recipient of this Offering Circular should purchase the Notes. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Notes should be based upon such independent investigations and consultations with its own tax, legal and business advisers as it deems necessary. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

Any purchase or acquisition of the Notes is in all respects conditional on the satisfaction of certain conditions set out in the Dealer Agreement and the issue of the Notes by the Issuers pursuant to the Dealer Agreement. Any offer, invitation to offer or agreement made in connection with the purchase or acquisition of the Notes or pursuant to this Offering Circular shall (without any liability or responsibility) on the part of the Issuers, the Parent Guarantors, the Arrangers or any of the Dealers) lapse and cease to have any effect if (for any other reason whatsoever) the Notes are not issued by the Issuers pursuant to the Dealer Agreement.

Any person(s) who is invited to purchase or subscribe for the Notes or to whom this Offering Circular is sent shall not make any offer or sale, directly or indirectly, of any Notes or distribute or cause to be distributed any document or other material in connection therewith in any country or jurisdiction except in such manner and in such circumstances as will result in compliance with any applicable laws and regulations.

It is recommended that persons proposing to purchase or subscribe for any of the Notes consult their own tax adviser, legal adviser, financial adviser and business adviser as to tax, legal, financial, business and related matters concerning the acquisition, ownership or disposal of the Notes.

IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

Prospective investors should be aware that certain intermediaries in the context of certain offerings of Notes pursuant to this Programme (each such offering, a "**CMI Offering**"), including certain Dealers, may be "capital market intermediaries" ("**CMIs**") subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the "**SFC Code**"). This notice to prospective investors is a summary of certain obligations the SFC Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as "overall coordinators" ("**OCs**") for a CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuers, a CMI or its group companies would be considered under the SFC Code as having an association ("**Association**") with the Issuers, the CMI or the relevant group company. Prospective investors associated with the Issuers or any CMI (including its group companies) should specifically disclose this when placing an order for the relevant Notes and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to the relevant CMI Offering, such order is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should ensure, and by placing an order prospective investors are deemed to confirm, that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). A rebate may be offered by the relevant Issuer to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby they are deploying their own balance sheet for onward selling to investors),

payable upon closing of the relevant CMI Offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate. Details of any such rebate will be set out in the applicable Pricing Supplement or otherwise notified to prospective investors. If a prospective investor is an asset management arm affiliated with any relevant Dealer, such prospective investor should indicate when placing an order if it is for a fund or portfolio where the relevant Dealer or its group company has more than 50% interest, in which case it will be classified as a "proprietary order" and subject to appropriate handling by CMIs in accordance with the SFC Code and should disclose, at the same time, if such "proprietary order" may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order." If a prospective investor is otherwise affiliated with any relevant Dealer, such that its order may be considered to be a "proprietary order" (pursuant to the SFC Code), such prospective investor should indicate to the relevant Dealer when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order." Where prospective investors disclose such information but do not disclose that such "proprietary order" may negatively impact the price discovery process in relation to the relevant CMI Offering, such "proprietary order" is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the relevant Dealers and/or any other third parties as may be required by the SFC Code, including to the Issuers, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. Failure to provide such information may result in that order being rejected.

SINGAPORE SFA PRODUCT CLASSIFICATION

In connection with Section 309B of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuers have determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

EEA RETAIL INVESTORS

If the Pricing Supplement in respect of any Notes includes a legend entitled "*Prohibition of Sales to EEA Retail Investors*," the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK RETAIL INVESTORS

If the Pricing Supplement in respect of any Notes includes a legend entitled "*Prohibition of Sales to UK Retail Investors*," the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

MiFID II PRODUCT GOVERNANCE/TARGET MARKET

The Pricing Supplement in respect of any Notes may include a legend entitled "*MiFID II Product Governance/Professional investors and ECPs only target market*" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MiFIR PRODUCT GOVERNANCE/TARGET MARKET

The Pricing Supplement in respect of any Notes may include a legend entitled "*UK MiFIR Product Governance/Professional investors and ECPs only target market*" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

THE NOTES ARE EXEMPT FROM REGISTRATION PURSUANT TO SECTION 10.1(L) OF REPUBLIC ACT NO. 8799 OR THE SECURITIES REGULATION CODE OF THE PHILIPPINES ("SRC") AND RULES 10.1.3 AND 10.1.4 OF THE 2015 IMPLEMENTING RULES AND REGULATIONS OF THE SRC ("SRC RULES"). THE NOTES BEING OFFERED OR SOLD HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION ("PHILIPPINE SEC") UNDER SECTION 10.1 OF THE PHILIPPINE SRC AND THE SRC RULES. ANY FUTURE OFFER OR SALE OF THE NOTES WITHIN THE PHILIPPINES IS SUBJECT TO THE REGISTRATION REQUIREMENTS UNDER THE SRC UNLESS SUCH OFFER OR SALE IS MADE UNDER CIRCUMSTANCES IN WHICH THE NOTES QUALIFY AS EXEMPT SECURITIES OR QUALIFIES AS AN EXEMPT TRANSACTION UNDER THE SRC. THE SECURITIES SHALL NOT BE NEGOTIATED, TRANSFERRED OR ASSIGNED TO ANY ONE OTHER THAN TO "QUALIFIED BUYERS" AS DEFINED IN SECTION 10.1(L) OF THE SRC, AS AMENDED, OR "PRIMARY INSTITUTIONAL LENDERS" PURSUANT TO RULE 10.1.4 OF THE SRC RULES. THE OFFER, SALE AND PURCHASE OF THE NOTES ARE SUBJECT TO APPLICABLE REGULATIONS OF THE PHILIPPINE SEC.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

CERTAIN DEFINITIONS

In this Offering Circular, references to "**SMIC**" are to SM Investment Corporation and "**SM Group**" refer to the SMIC group of companies, which includes SMIC's subsidiaries (including SM Prime Holdings, Inc. ("**SM Prime**")).

References to an "**Issuer**" or the "**relevant Issuer**" shall be to either of SMIC SG Holdings Pte. Ltd. ("**SMIC SG Holdings**") or SMPHI SG Holdings Pte. Ltd. ("**SM Prime SG Holdings**"), as the context requires, and references to the "**Issuers**" shall be to each Issuer collectively. References to the "**Parent Guarantor**" or the "**relevant Parent Guarantor**" shall be to either of SMIC or SM Prime, as the context requires, and references to the "Parent Guarantors" shall be to each Parent Guarantor collectively. References to "Terms and Conditions of the Notes" shall be to any of the SMIC Terms and Conditions of the Notes, the SM Prime Terms and Conditions of the Notes or both the SMIC Terms and Conditions of the Notes and the SM Prime Terms and Conditions of the Notes, as the context requires.

References to "**Sy Family**" shall be to Felicidad T. Sy and her children Teresita T. Sy, Elizabeth T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy, Harley T. Sy and their legal heirs.

References to the "**Government**" are to the government of the Republic of the Philippines and all references to the "**Philippines**" are to the Republic of the Philippines. References to the "**United States**" or "**U.S.**" in this Offering Circular shall be to the United States of America, its territories and possessions, any State of the United States and the District of Columbia. References to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China. References to the "**China**" are to the People's Republic of China excluding Hong Kong, the Macau Special Administrative Region of China and Taiwan. All references to dates and times are to Metro Manila dates and times, unless otherwise specified.

PRESENTATION OF FINANCIAL INFORMATION

The Parent Guarantors publish their respective consolidated financial statements in Philippine Pesos and are prepared based on its accounting policies, which are in accordance with the Philippine Financial Reporting Standards ("**PFRS**") issued by the Financial and Sustainability Reporting Standards Council of the Philippines ("**FSRSC**"). PFRS include statements named PFRS and Philippine Accounting Standards, and Philippine Interpretations from International Financial Reporting Interpretations Committee.

Unless otherwise stated, all financial information relating to each of SMIC and SM Prime contained herein is stated in accordance with PFRS.

Figures in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown in the same item of information may vary, and figures which are totals may not be an arithmetic aggregate of their components.

References to "**U.S.$**" and "**U.S. dollars**" in this Offering Circular are to United States dollars, the lawful currency of the United States of America, references to "**₱**", "**Philippine Peso**" and "**Peso**" are to the lawful currency of the Philippines. This Offering Circular contains translations of certain amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Philippine Peso amounts represent such U.S. dollar amounts or could be, or could have been, converted into U.S. dollars at the rates indicated or at all. Unless otherwise indicated, all translations from Philippine Pesos to U.S. dollars have been made at a rate of ₱55.567 = U.S.$1.00, being the daily Philippine Peso per U.S. dollar rate quoted by the *Bangko Sentral ng Pilipinas* ("**BSP**") on 29 December 2023. On 29 April 2024, the daily rate quoted by the BSP was ₱57.80 = U.S.$1.00.

The financial information included in this Offering Circular has been derived from the consolidated financial statements of each of SMIC and SM Prime. Unless otherwise indicated, the description of the business activities of SMIC and SM Prime in this Offering Circular is presented on a consolidated basis.

NON-PFRS FINANCIAL MEASURES

The term "**EBITDA**" refers to earnings before interest expenses, taxes, depreciation and amortization. In this Offering Circular, EBITDA for SMIC is calculated as Income from Operations plus Depreciation and Amortization while EBITDA for SM Prime is calculated as Income from Operations less Net Income Attributable to Non-controlling Interest, plus Depreciation and Amortization. EBITDA is not a measure determined in accordance with PFRS and prospective investors should not consider EBITDA as an alternative to net income as a measure of operating performance or to cash flow as a measure of free cash flow for management's discretionary use, as it does not reflect certain cash requirements such as interest payments, tax payments and capital expenditures. The calculation of EBITDA of each of SMIC and SM Prime may be different from the calculations used by other companies, and, as a result, the EBITDA of SMIC and SM Prime may not be comparable to other similarly titled measures of other companies.

SMIC and SM Prime believe that EBITDA facilitates operating performance comparisons from period to period and from company to company by eliminating potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses) and the age and book depreciation of tangible assets (affecting relative depreciation expense). In particular, EBITDA eliminates non-cash depreciation expenses that arise from the capital intensive nature of the businesses of the SM Group. SMIC also believes that EBITDA is a supplemental measure of the ability to meet debt service requirements of the SM Group. Finally, each of SMIC and SM Prime present EBITDA because it believes EBITDA is frequently used by securities analysts and investors in the evaluation of companies in its industry.

BASIS FOR CERTAIN MARKET DATA

Market data and certain industry forecasts and other data used throughout this Offering Circular were obtained or derived from internal surveys, market research, governmental data, publicly available information and/or industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but the accuracy and completeness of such information are not guaranteed and have not been independently verified by the Issuers, the Parent Guarantors, the Arrangers, Dealers, the Trustee, the Agents or any of their respective directors, officers, employees, agents, representatives, advisers, or affiliates or any person who controls any of them. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Issuers, the Parent Guarantors, the Arrangers, Dealers, the Trustee, the Agents or any of their respective directors, officers, employees, agents, representatives, advisers, or affiliates or any person who controls any of them make any representation or warranty, express or implied, as to the accuracy or completeness of such information. In addition, such information may not be consistent with other information compiled within or outside the Philippines.

ENFORCEABILITY OF CIVIL LIABILITIES

Each of SMIC and SM Prime is organized under the laws of the Republic of the Philippines, and a substantial portion of their respective assets are located in the Philippines. It may be difficult for investors to effect service of process from outside the Philippines upon the Parent Guarantors, with respect to claims pertaining to the offering or the Notes. Moreover, it may be difficult for investors to enforce in the Philippines judgments against the Parent Guarantors obtained outside the Philippines, in any action pertaining to the Notes, particularly with respect to actions for claims to which such Parent Guarantor has not consented to service of process outside the Philippines. In addition, most of the directors and officers of each Parent Guarantor are residents of the Philippines, and all or a substantial portion of the assets of such persons are or may be located in the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons in an action outside the Philippines or enforce against such persons judgments obtained in courts or arbitral tribunals outside the Philippines.

The Philippines is party to the Convention on Recognition and Enforcement of Foreign Arbitral Awards, but it is not party to any international treaty relating to the recognition or enforcement of foreign judgments.

Nevertheless, a final and conclusive judgment of a foreign court is enforceable in the Philippines through an independent action filed to seek recognition and enforcement of such judgment, and without re-trial or re-examination of the issues, only if (i) the court rendering such judgment had jurisdiction in accordance with its jurisdictional rules, (ii) the other party had notice of the proceedings, (iii) such judgment was not obtained by collusion or fraud or based on a clear mistake of fact or law, and (iv) such judgment was not contrary to public policy, public order, good morals or good customs in the Philippines.

The Philippine Rules of Civil Procedure provide that a judgment or final order of a foreign court has the following effects: (i) in case of a judgment or final order upon a specific thing, the judgment or final order is conclusive upon the title to the thing; and (ii) in case of a judgment or final order against a person, the judgment or final order is presumptive evidence of a right as between the parties and their successors in interest by a subsequent title. Under the Philippine Rules on Evidence, a foreign judgment must be proven as a fact and shall be evidenced by (i) an official publication thereof or a copy attested by the officer having legal custody of the record or by his deputy; and (ii) accompanied by a certificate that such officer has the custody. Furthermore, the Philippine Supreme Court has held that a foreign judgment is presumed to be valid and binding in the country from which it issues, until the contrary is shown, and the party contesting the foreign judgment has the burden of overcoming the presumption of its validity.

The Philippines enacted Republic Act No. 9285, otherwise known as the Alternative Dispute Resolution Act of 2004, to facilitate the enforcement of foreign arbitral awards in the Philippines.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors which may cause actual results, performance or achievements of the SM Group to be materially different from any future results; and
- performance or achievements expressed or implied by forward-looking statements.

The words "believe", "expect", "anticipate", "estimate", "project", "may", "plan", "intend", "will", "shall", "should", "would" and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular are forward-looking statements. Statements in this Offering Circular as to the opinions, beliefs and intentions of the Issuers, as the case may be, the opinions, beliefs and intentions of the management of each of SMIC and SM Prime, as to such matters at the date of this Offering Circular, although there is no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Offering Circular discloses, under the section "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the expectation of the Issuers and the Parent Guarantors. All subsequent written and oral forward-looking statements attributable to any of the Issuers, the Parent Guarantors or persons acting on behalf of any of them are expressly qualified in their entirety by cautionary statements. Such forward-looking statements are based on assumptions regarding the present and future business strategies and the environment in which the SM Group will operate in the future. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- the ability of each of SMIC and SM Prime to successfully implement its strategies;
- the ability of each of SMIC and SM Prime to anticipate and respond to consumer trends;
- the ability of the SM Group to successfully manage its growth;
- the condition and changes in the Philippines, Asian or global economies;
- any future political instability in the Philippines, Asia or other regions;
- changes in interest rates, inflation rates and the value of the Peso against the U.S. Dollar and other currencies;
- changes in government regulations, including tax laws, or licensing requirements in the Philippines, Asia or other regions; and
- competition in the industries in the Philippines and globally.

Additional factors that could cause actual results, performance or achievements of the SM Group to differ materially include, but are not limited to, those disclosed under "*Risk Factors*" and elsewhere in this Offering Circular. These forward-looking statements speak only as of the date of this Offering Circular. Each of the Issuers, SMIC, SM Prime and the Arrangers and Dealers expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the expectations of the SM Group with regard thereto or any change in events, conditions, assumptions or circumstances on which any statement is based.

DOCUMENTS INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with:

(i) each applicable Pricing Supplement;

(ii) all amendments and supplements to this Offering Circular circulated by the Issuers from time to time; and

(iii) any annual or interim financial statements (whether audited or unaudited) of SMIC / SM Prime that are published subsequent to the date of this Offering Circular, as amended and supplemented from time to time.

Any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

Any published unaudited interim financial statements which are, from time to time, deemed to be incorporated by reference in this Offering Circular, will not have been audited by the auditors of the Parent Guarantors. Accordingly, there can be no assurance that, had an audit been conducted in respect of such financial statements, the information presented therein would not have been materially different, and investors should not place undue reliance upon them.

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GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuers, subject to compliance with all relevant laws, regulations, and directives, may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the relevant Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "*Form of the Notes*."

This Offering Circular and any supplement will only be valid for listing Notes on the SGX-ST in an aggregate principal amount which, when added to the aggregate principal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.$3,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate principal amount of Notes issued under the Programme from time to time:

(a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") shall be determined by the principal paying agent (which for the time being is The Hongkong and Shanghai Banking Corporation Limited (the "**Principal Paying Agent**") for the Notes listed on the SGX-ST), as of the date on which agreement is reached for the issue of Notes on the basis of the spot rate for the sale of the U.S. dollar against the purchase of that Specified Currency in the relevant foreign exchange market quoted by leading international bank selected by the Principal Paying Agent on the relevant day of calculation;

(b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") shall be calculated in the manner specified above by reference to the original principal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the amount of the subscription price paid); and

(c) the U.S. dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the principal amount of those Notes.

OVERVIEW OF THE PROGRAMME

The following overview is a general summary and does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. The Issuers, the Parent Guarantors and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of listed Notes only and if appropriate, a supplemental Offering Circular will be published.

Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" shall have the same meanings in this Overview.

Issuers	SMIC SG Holdings Pte. Ltd. SMPHI SG Holdings Pte. Ltd.
Parent Guarantor (in respect of Notes to be issued by SMIC SG Holdings Pte. Ltd.)	SM Investments Corporation
Parent Guarantor (in respect of Notes to be issued by SMPHI SG Holdings Pte. Ltd.)	SM Prime Holdings, Inc.
The Guarantees	SMIC will enter into a deed of guarantee with the Trustee on or around 6 May 2024, which will provide for the guarantee by SMIC in respect of the Notes issued by SMIC SG Holdings (the "**SMIC Guarantee**"). On or prior to the first issue of the Notes by SM Prime SG Holdings under the Programme, SM Prime will enter into a deed of guarantee with the Trustee which will provide for the guarantee by SM Prime in respect of the Notes issued by SM Prime SG Holdings (the "**SM Prime Guarantee**" and, together with the SMIC Guarantee, the "**Guarantees**").
Description	Euro Medium Term Note Programme
Programme Size	U.S.$3,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Programme*") in aggregate principal amount of Notes outstanding at any time. The Issuers may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Arrangers	HSBC and UBS
Dealers	BDO Capital, China Bank Capital, HSBC, J.P. Morgan, Morgan Stanley, Standard Chartered Bank and UBS

Certain Restrictions	Each issue of Notes in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Offering Circular. **Notes having a maturity of less than one year** Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*".
Trustee.	The Hongkong and Shanghai Banking Corporation Limited
Principal Paying Agent	The Hongkong and Shanghai Banking Corporation Limited
Registrar and Transfer Agent.	The Hongkong and Shanghai Banking Corporation Limited
CMU Lodging and Paying Agent. . . .	The Hongkong and Shanghai Banking Corporation Limited
Distribution	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis. The Notes will be issued in Series having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest or distributions, if any), the Notes of each Series being intended to be interchangeable with all other Notes of the Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest or distributions and principal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be specified in the Pricing Supplement.
Currencies	Subject to any applicable legal or regulatory restrictions, any currency agreed between the relevant Issuer and the relevant Dealer.
Maturities	Such maturities as may be agreed between the relevant Issuer and the relevant Dealer and indicated in the applicable Pricing Supplement, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer, the relevant Parent Guarantor or the relevant Specified Currency.

Issue Price	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes	The Notes may be in bearer form and/or registered form. Bearer Notes will be in bearer form and will on issue be represented by a temporary bearer global note (a "**Temporary Bearer Global Note**") or a permanent bearer global note (a "**Permanent Bearer Global Note**" and together with the Temporary Bearer Global Note, the "**Bearer Global Notes**") as indicated in the applicable Pricing Supplement. Temporary Bearer Global Notes will be exchangeable either for (i) interests in a Permanent Bearer Global Note or (ii) Bearer Notes in definitive form ("**Definitive Bearer Notes**") as indicated in the applicable Pricing Supplement. Permanent Bearer Global Notes will be exchangeable for Definitive Bearer Notes upon either (i) not less than 60 days' written notice from Euroclear, Clearstream and/or the CMU (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent or the CMU Lodging and Paying Agent as described therein or (ii) upon the occurrence of an Exchange Event as described under "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and vice versa.
Fixed Rate Notes	Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the relevant Issuer and the relevant Dealer.
Floating Rate Notes	Floating Rate Notes will bear interest at a rate determined (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as of the Issue Date of the first Tranche of the Notes of the relevant Series); (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; (c) on the basis of SOFR as reference rate; or (d) on such other basis as may be agreed between the relevant Issuer and the relevant Dealer. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.

Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the relevant Issuer and the relevant Dealer may agree.
Other provisions in Floating Rate Notes and Index Linked Interest Notes	Floating Rate Notes and Index Linked Interest Notes may also have a relation to maximum interest rate, a minimum interest rate or both Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the relevant Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the relevant Issuer and the relevant Dealer.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the relevant Issuer and the relevant Dealer may agree.
Zero Coupon Notes.	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Other Notes	The relevant Issuer may agree with any Dealer and the Trustee that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event the relevant provisions will be included in the applicable Pricing Supplement
Redemption	The applicable Pricing Supplement will specify the basis for calculating the redemption amounts payable (detailed in a formula or otherwise). Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom or the activity of issuing the Notes is carried on from an establishment maintained by the relevant Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of FSMA must have a minimum redemption amount of £100,000 (or its equivalent in other currencies). Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions – Notes having a maturity of less than one year*" above.
Redemption by Instalments	The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.

Optional Redemption	Notes may be redeemed before their stated maturity at the option of the relevant Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the applicable Pricing Supplement.
Redemption upon occurrence of a Change of Control	Upon the occurrence of a Change of Control, each Noteholder shall have the right, at its option, to require the relevant Issuer to repurchase all (but not some only) of its Notes, at a redemption price equal to 101.0% of the principal amount thereof plus accrued interest (the "**Change of Control Redemption Amount**") on the Change of Control Put Date, as further described in Condition 7.4 of the Terms and Conditions of the Notes and as may be further specified in the applicable Pricing Supplement.
Redemption for Tax Reasons	Notes will be redeemable at the relevant Issuer's option prior to maturity for taxation reasons as further described in Condition 7.2 of the Terms and Conditions of the Notes.
Denomination of Notes	Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions – Notes having a maturity of less than one year*" above.
Taxation	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction (as defined in Condition 8.2), subject as provided in Condition 8. In the event that any such deduction is made, the relevant Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge	The terms of the Notes will contain a negative pledge provision as further described in Condition 4.
Cross Acceleration	The terms of the Notes will contain a cross acceleration provision as further described in Condition 10.1(c).
Listing	Application has been made to the SGX-ST for permission to deal in, and quotation of, any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the relevant Issuer and the relevant Dealer in relation to each Series. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes if traded, will be traded on the SGX-ST in a minimum board lot size of at least S$200,000 (or its equivalent in other currencies). Unlisted Notes may also be issued.

	The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).
Ratings	Notes issued under the Programme may be rated or unrated. Where a certain Series of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme and (where applicable) such rating will be specified in the applicable Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
Governing Law	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.
Clearing System	Euroclear, Clearstream, the CMU and/or any other clearing system, as specified in the applicable Pricing Supplement (see "*Form of Notes*").
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, the European Economic Area, Japan, Hong Kong, Singapore, and the Philippines and such other restrictions as may be required in connection with the offering and sale of a particular Tranche (see "*Subscription and Sale*"). In connection with the offering and sale of a particular Series of Notes, additional restrictions may be imposed which will be set out in the applicable Pricing Supplement. Bearer Notes will be issued in compliance with rules in substantially the same form as U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) for purposes of Section 4701 of the U.S. Internal Revenue Code (the "**Code**") ("**TEFRA D**") unless (i) the applicable Pricing Supplement states that the Bearer Notes are issued in compliance with rules in substantially the same form as U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) for purposes of Section 4701 of the Code ("**TEFRA C**") or (ii) the Bearer Notes are issued other than in compliance with TEFRA D or TEFRA C. In the case of Bearer Notes, only Notes with a term of 365 days or less (taking into account any unilateral rights to rollover or extend the term) will be issued other than in compliance with TEFRA D or TEFRA C and will be referred to in the applicable Pricing Supplement as a transaction to which the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**") is not applicable. Bearer Notes with a term of more than 365 days (taking into account any unilateral rights to rollover or extend the term) that are held through the CMU must be issued in compliance with TEFRA C, unless at the time of issuance the CMU and the CMU Lodging and Paying Agent have procedures in place so as to enable the relevant Issuer to comply with the certification requirements under TEFRA D. Where TEFRA D is applicable, Bearer Notes must initially be issued in the form of Temporary Bearer Global Notes, exchangeable for Permanent Bearer Global Notes or Definitive Bearer Notes upon certification of non-U.S. beneficial ownership.

	The Issuers will not register the Notes for resale under the Securities Act or the securities laws of any other jurisdiction or offer to exchange the Notes for registered Notes under the Securities Act or the securities laws of any other jurisdiction.
United States Selling Restrictions . . .	Regulation S Category 1 or 2, as specified in the applicable Pricing Supplement. TEFRA C/TEFRA D/TEFRA applicable or not applicable, as specified in the applicable Pricing Supplement.
Risk Factors	There are certain factors that may affect the relevant Issuer's ability to fulfill its obligations under the Notes issued under the Programme. These are set out under "Risk Factors" below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under "Risk Factors" and include certain risks relating to the structure of particular Series of Notes and certain market risks.

FORM OF THE NOTES

Terms used in this section that are not otherwise defined shall have the meanings given to them in "Terms of Conditions of the Notes."

The Notes of each Series will be in either bearer form, with or without interest coupons attached ("**Bearer Notes**"), or registered form, without interest coupons attached ("**Registered Notes**"). Bearer Notes will be issued outside the United States to non-U.S. persons in reliance on Regulation S. Registered Notes will be issued outside the United States (and in the case of Notes offered or sold in reliance on Category 2 of Regulation S, to non-U.S. persons outside the United States) in reliance on Regulation S.

Notes to be listed on the SGX-ST will be accepted for clearance through Euroclear, Clearstream or the CMU and/or any other clearing system as specified in the applicable Pricing Supplement.

BEARER NOTES

Each Tranche of Bearer Notes will be initially issued in the form of either a Temporary Bearer Global Note or a Permanent Bearer Global Note as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the "**Common Depositary**") for Euroclear and Clearstream or a sub-custodian for the Central Moneymarkets Unit Service (the "**CMU**") operated by the Hong Kong Monetary Authority. Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear, Clearstream and/or the CMU and Euroclear, Clearstream and/or the CMU, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date which is 40 days after a Temporary Bearer Global Note is issued (the "**Exchange Date**"), interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a notice as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series without receipts, interest coupons and talons attached or (ii) for Definitive Bearer Notes of the same series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of Definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement) in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive Definitive Bearer Notes. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for Definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear, Clearstream and/or the CMU against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for Definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days' written notice from Euroclear and/or Clearstream or, in the case of the CMU Notes, the CMU (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent or the CMU Lodging and Paying Agent as described therein or (ii) upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that the relevant Issuer has been notified that both Euroclear and Clearstream, or in the case of CMU Notes, the CMU, have been closed for business for a continuous period

of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative clearing system satisfactory to the Trustee is available. The relevant Issuer will promptly give notice to the Noteholders and the Trustee in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note), or, in the case of the CMU Notes, relevant account holders in the CMU, may give notice to the Principal Paying Agent or, in the case of the CMU Notes, the CMU Lodging Agent, requesting exchange. Any such exchange following an Exchange Event shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

All Notes will be issued pursuant to the Trust Deed and the Agency Agreement (each as defined under "*Terms and Conditions of the Notes*").

The following legend will appear on all Notes (other than Temporary Bearer Global Notes), receipts, interest coupons and talons relating to such Notes where TEFRA D is specified in the applicable Pricing Supplement:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts, interest coupons and talons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts, interest coupons and talons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear, Clearstream or the CMU, as the case may be.

REGISTERED NOTES

The Registered Notes of each Tranche will initially be represented by a global note in registered form (a "**Registered Global Note**").

Registered Global Notes will be deposited with, and registered in the name of (i) any nominee for Euroclear and Clearstream or (ii) the HKMA and delivery of the relative Registered Global Notes to the Common Depositary or the sub-custodian for the HKMA as operator of the CMU (as the case may be). Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form ("**Definitive Registered Notes**").

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6.4) as the registered holder of the Registered Global Notes. None of the Issuers, any Paying Agent or the Registrar (each as defined under "*Terms and Conditions of the Notes*") will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Definitive Registered Notes will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6.4) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for Definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that the relevant Issuer has been notified that both Euroclear and Clearstream or in the case of the CMU Notes, the CMU, have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor or alternative clearing system satisfactory to the Trustee is available. The relevant Issuer will promptly give notice to Noteholders and the Trustee in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Registered Global Note), or, in the case of the CMU Notes, relevant account holders in the CMU, may give notice to the Registrar or, in the case of the CMU Notes, the CMU Lodging Agent, requesting exchange. Any such exchange following an Exchange Event shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar or the CMU Lodging Agent.

TRANSFER OF INTERESTS

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear, Clearstream and the CMU, in each case to the extent applicable.

GENERAL

For so long as any of the Notes is represented by a Global Note or a Registered Global Note (each a "**Global Note**") held on behalf of Euroclear and/or Clearstream, each person (other than Euroclear or Clearstream) who is for the time being shown in the records of Euroclear or of Clearstream as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the relevant Issuer, its agents and the Trustee as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the relevant Issuer, its agents and the Trustee as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the Trust Deed and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly.

If a Global Note is lodged with a sub-custodian for or registered with the CMU, the person(s) for whose account(s) interests in such Global Note are credited as being held in the CMU in accordance with the CMU Rules, and if applicable, as notified by the CMU to the CMU Lodging and Paying Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU (which notification, in either case, shall be conclusive evidence of the records of the CMU save in the case of manifest error) shall be the only person(s) entitled or in the case of Registered Notes, directed or deemed by the CMU as entitled to receive payments in respect of Notes represented by such Global Note and the relevant Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to the CMU for his share of each payment so made by the relevant Issuer in respect of such Global Note.

Any reference herein to Euroclear and/or Clearstream shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or otherwise approved by the Issuers, the Parent Guarantors, the Trustee and the Principal Paying Agent.

So long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuers shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that the Global Note representing such Notes is exchanged for definitive Notes. In addition, an announcement of such exchange will be made through the SGX-ST. Such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

No Noteholder, Receiptholder or Couponholder (each as defined in "*Terms and Conditions of the Notes*") shall be entitled to proceed directly against the Issuers unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 5, 6, 7 (except Condition 7.2), 11, 12, 13, 14 (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 17 they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

FORM OF THE GUARANTEES

On or prior to the first issue of the Notes by the relevant Issuer under the Programme, each of SMIC and SM Prime will enter into a deed of guarantee (each, a "**Deed of Guarantee**" and together, the "**Deeds of Guarantee**") with the Trustee which will provide for the guarantee by SMIC in respect of the Notes issued by SMIC SG Holdings under this Programme (the "**SMIC Guarantee**") and for the guarantee by SM Prime in respect of the Notes issued by SM Prime SG Holdings under this Programme (the "**SM Prime Guarantee**" and, together with the SMIC Guarantee, the "**Guarantees**"). Notes issued by each Issuer are obligations solely of that Issuer and are without any recourse whatsoever to the other Issuer.

Each Guarantee will be direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the relevant Parent Guarantor and (save for such obligations required to be preferred by applicable laws) will rank *pari passu*, without any preference or priority among themselves, with all other present and future unsecured and unsubordinated obligations of the relevant Parent Guarantor, but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights. The obligations of the relevant Parent Guarantor under the applicable Guarantee are solely with respect to the relevant Issuer.

SMIC will enter into the Deed of Guarantee with the Trustee on or around 6 May 2024. The entry into the Deed of Guarantee by SM Prime is subject to the amendment of SM Prime's Articles of Incorporation to expressly include the power to guarantee among its corporate powers (the "**SM Prime Amendment**"). As of the date of this Offering Circular, the SM Prime Amendment requires approval of the Philippine SEC. Thereafter and on or before the first issue of Notes by SM Prime SG Holdings under the Programme, SM Prime expects to execute the Deed of Guarantee.

FORM OF THE PRICING SUPPLEMENT

The form of Pricing Supplement that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

Pricing Supplement dated [●]

[SMIC SG HOLDINGS PTE. LTD.]

[SMPHI SG HOLDINGS PTE. LTD.]

Issue of [Aggregate Principal Amount of Tranche] [Title of Notes]

under the U.S.$[●] Euro Medium Term Note Programme

[**MiFID II product governance/Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*.] Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[**UK MiFIR product governance/Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in the UK MiFIR; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**")] should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement IDD, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

Singapore Securities and Futures Act Product Classification – In connection with Section 309B of the Securities and Futures Act 2001 of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are [prescribed capital markets products]/[capital markets products other than prescribed capital markets products] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and are [Excluded Investment Products]/[Specified Investment Products] (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).[1]

Where interest, discount income, early redemption fee or redemption premium is derived from any of the Notes by any person who is not resident in Singapore and who carries on any operations in Singapore through a permanent establishment in Singapore, the tax exemption available for qualifying debt securities (subject to certain conditions) under the Income Tax Act 1947 of Singapore (the "**Income Tax Act**"), shall not apply if such person acquires such Notes using the funds and profits of such person's operations through a permanent establishment in Singapore. Any person whose interest, discount income, early redemption fee or redemption premium derived from the Notes is not exempt from tax (including for the reasons described above) shall include such income in a return of income made under the Income Tax Act.

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the "**Conditions**") set forth in the Offering Circular dated 6 May 2024 [(the "**Offering Circular**")] [and the supplemental Offering Circular dated [●]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented].

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the "**Conditions**") set forth in the Offering Circular dated [●] [(the "**Offering Circular**")] [and the supplemental [Offering Circular] dated [●]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date] [and the supplemental Offering Circular dated [●]], save in respect of the Conditions which are extracted from the Offering Circular dated [●] and are attached hereto.]

1 For any Notes to be offered to investors in Singapore, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.*]

1	(i) Issuer:	[SMIC SG Holdings Pte. Ltd./SMPHI SG Holdings Pte. Ltd.]
	(ii) Parent Guarantor:	[SM Investments Corporation]/[SM Prime Holdings, Inc.]
2	(i) Series Number:	[●]
	[(ii) Tranche Number:	[●]
	(If fungible with an existing Series, details of that Series, including the date on which the Notes became fungible.)]	The Notes will be consolidated and form a single Series with [identify earlier Tranches] on [the Issue Date/exchange of the Temporary Bearer Global Note for interests in the Permanent Bearer Global Note, as referred to in paragraph [32] below, which is expected to occur on or about [date]] [Not Applicable]
3	Specified Currency or Currencies:	[●]
4	Aggregate Principal Amount:	[●]
	(i) [Series:]	[●]
	(ii) [Tranche:	[●]
5	(i) Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] *(in the case of fungible issues only, if applicable)*]
	(ii) Net Proceeds:	[●]
6	(i) Specified Denomination:	[●][2]
	(ii) Calculation Amount:	[●]
7	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[Specify/Issue date/Not Applicable]
	(iii) Trade Date	[●]

2 If the Specified Denomination is expressed to be €100,000 or its equivalent and multiples of a lower nominal amount (for example €1,000), insert the following: "€100,000 plus integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000]". Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

8	Maturity Date:	[*Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to* [*specify month and year*]]
9	Interest Basis:	[[●] per cent. Fixed Rate [*specify* Reference Rate] +/- [●] Floating Rate [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [*specify other*] (further particulars specified below)
10	Redemption/Payment Basis:	[Redemption at par] [Index Linked] [Dual Currency] [Partly-paid] [Instalment] [Other (specify)]
11	Change of Interest or Redemption/Payment Basis:	[Applicable/Not Applicable] *(If applicable, specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis)*
12	Put/Call Options:	[Redemption at the Option of the Issuer] [Redemption upon Change of Control] [Investor Put] [(further particulars specified below)]
13	Status of the Notes:	Senior
14	Listing and admission to trading:	[[SGX-ST (*specify other*)/None]
15	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16	Fixed Rate Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Rate of Interest:	[●] per cent. per annum payable in arrear on each Interest Payment Date
	(ii) Interest Payment Date(s):	[●] in each year up to and including the Maturity Date *(Amend appropriately in the case of irregular coupons)*

	(iii) Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
	(iv) Broken Amount(s):	[[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]]/[Not Applicable]
	(v) Day Count Fraction:	[Actual/Actual (ICMA)] [30/360] [Actual/365 (Fixed)] [Other]
	(vi) Determination Date:	[[●] in each year]/[Not Applicable] *(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*
17	Floating Rate Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph.)*
	(i) Interest Period(s):	[●]
	(ii) Specified Interest Payment Dates:	[●]
	(iii) Interest Period Date:	[●] *(Not applicable unless different from Interest Payment Date)*
	(iv) Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other] [Not Applicable]
	(v) Additional Business Centre(s)	[●]
	(vi) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other *(give details)*]
	(vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]
	(viii) Screen Rate Determination:	
	• Reference Bank:	[●]
	• Benchmark:	[●]
	• Reference Rate:	[●]
	• Interest Determination Date(s):	[●]
	• Relevant Screen Page:	[●]

18	SOFR Benchmark:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(i) SOFR Benchmark:	[Compounded Daily SOFR/Compounded SOFR Index]
	(ii) Observation Method:	[Not Applicable/SOFR Lag/SOFR Observation Shift] *(Only applicable where the Reference Rate is Compounded Daily SOFR)*
	(iii) [Lookback Days]/[SOFR Observation Shift Days]:	[Not Applicable/[●] U.S. Government Securities Business Day(s)] *(Only applicable in the case of Compounded Daily SOFR)*
19	ISDA Determination:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(i) ISDA Definitions:	[●] *(if different from those set out in the Conditions)*
	(ii) Floating Rate Option:	[●]
	(iii) Designated Maturity:	[●]
	(iv) Reset Date:	[●]
20	Margin(s):	[+/-][●] per cent. per annum
21	Minimum Rate of Interest:	[●] per cent. per annum
22	Maximum Rate of Interest:	[●] per cent. per annum
23	Day Count Fraction:	[Actual/Actual/Actual/Actual – ISDA] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360/360/360/Bond Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Other]
24	Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]

25	Zero Coupon Note Provisions:	[Applicable/Not Applicable]
		(If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Amortisation Yield:	[●] per cent. per annum
	(ii) Any other formula/basis of determining amount payable:	[●]
26	Index Linked Interest Note Provisions:	[Applicable/Not Applicable]
	(i) Index/Formula:	[●]
	(ii) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent):	[●]
	(iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[●]
	(iv) Interest Period(s):	[●]
	(v) Specified Interest Payment Dates:	[●]
	(vi) Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other] [Not Applicable]
	(vii) Additional Business Centre(s):	[Not Applicable]/[give details]
	(viii) Minimum Rate of Interest:	[●]
	(ix) Maximum Rate of Interest:	[●]
	(x) Day Count Fraction:	[●]
27	Dual Currency Interest Note Provisions:	[Applicable/Not Applicable]
		(If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
	(ii) Party, if any, responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]):	[●] shall be the Calculation Agent

(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [●]

(iv) Person at whose option Specified Currency(ies) is/are payable: [●]

PROVISIONS RELATING TO REDEMPTION

28 Redemption at the Option of the Issuer: [Applicable/Not Applicable]

(i) Optional Redemption Date: [●]

(ii) (Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): [[●] per Calculation Amount/Make-whole Amount/ specify other]

[*(If Make-whole Amount is selected, include items (A) to (E) below or relevant options as are set out in the Conditions)*]

[(A) Reference Bond: [*Insert applicable Reference Bond*]]

[(B) Quotation Time: [●]]

[(C) Redemption Margin: [[●] per cent.]]

[(D) Determination Date: [●]]

[(E) Discount Basis: [annual/semi-annual]] [*(Relevant to Make-Whole Amount only.)*]

(iii) If redeemable in part:

a. Minimum Redemption Amount: [●] per Calculation Amount

b. Maximum Redemption Amount: [●] per Calculation Amount

(iv) Notice periods: Minimum period: [●] days

Maximum period: [●] days

29 Redemption at the Option of the Noteholders: [Applicable/Not Applicable]

(i) Optional Redemption Date: [●]

(ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): [[●] per Calculation Amount/specify other]

(iii) Notice periods: Minimum period: [●] days

Maximum period: [●] days

30	Redemption upon Change of Control:	[Applicable/Not Applicable]
	(i) Change of Control Put Date:	[●]
31	Final Redemption Amount of each Note:	[[●] per Calculation Amount/specify other/see Appendix]
	(i) Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[[●] per Calculation Amount/specify other/see Appendix]
	(ii) Applicable Spread:	[[●]% per annum]/[Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

32	Form of Notes:	[Bearer Notes/Registered Notes] [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Bearer Global Note] [Temporary Bearer Global Note exchangeable for Definitive Notes on [●] days' notice] *(For this option to be available, such Notes shall only be issued in denominations that are equal to, or greater than, €100,000 (or its equivalent in other currencies) and integral multiples thereof)* [Permanent Bearer Global Note/Registered Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Bearer Global Note/Registered Global Note] *(N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Denomination Amount of the Notes in paragraph 6 includes language substantially to the following effect: "€100,000 plus integral multiples of €1,000 in excess thereof up to and including €199,000." Furthermore, such Denomination Amount construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Bearer Global Note exchangeable for Definitive Notes.)* [Definitive Notes]
33	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/give details]

34	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. If yes, *give details*]
35	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*]
36	Details relating to Instalment Notes: amount of each instalment ("**Instalment Amount**"), date on which each payment is to be made ("**Instalment Date**"):	[Not Applicable/*give details*]
37	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions [annexed to this Pricing Supplement] apply]
38	Consolidation provisions:	[Not Applicable/The provisions [in Condition [●]] [annexed to this Pricing Supplement] apply]
39	Any applicable currency disruption/fallback provisions	[Not Applicable]/[*give details*]
40	Other terms or special conditions:	[Not Applicable/*give details*]

DISTRIBUTION

41	If syndicated, names of Managers:	[Not Applicable/*give name*]
	Stabilising Manager (if any):	[Not Applicable/*give name*]
42	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
43	U.S. selling restrictions:	Regulation S Category [1/2]; The Notes are being offered and sold only in accordance with Regulation S.
44	Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable:	[TEFRA D/TEFRA C/TEFRA Not Applicable]
45	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

46	Legal Entity Identifier (LEI) of Issuer:	254900CQKQDZMZH3G563 *(SMIC SG Holdings Pte. Ltd.)*/ 2549002L5A656JV9N907 *(SMPHI SG Holdings Pte. Ltd.)*
47	ISIN Code:	[●]
48	Common Code:	[●]
49	CMU Instrument Number:	[●]
50	Any clearing system(s) other than Euroclear, Clearstream and the CMU Service and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
51	Delivery:	Delivery [against/free of] payment
52	Additional Paying Agent(s) and/or Calculation Agent(s) (if any):	[Not Applicable/*give name and address*]
53	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] *(If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.)*
54	Prohibition of Sales to UK Retail Investors:	[Applicable/Not Applicable] *(If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.)*

GENERAL

55	In the case of Registered Notes, specify the location of the office of the Registrar if other than [Hong Kong]:	[●]
56	In the case of Bearer Notes, specify the location of the office of the Principal Paying Agent if other than [Hong Kong]:	[●]
57	Use of Proceeds:	[●]
58	Ratings:	[The Notes to be issued are unrated/*give details*]
59	Governing Law:	English law

(i)	Rebates:	[A rebate of [●] bps is being offered by the [Issuer] to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of this offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate.]/[Not Applicable]
(ii)	Contact email addresses of the [Overall Coordinators/Capital Market Intermediaries] where underlying investor information in relation to omnibus orders should be sent:	[*Include relevant contact email addresses of the Overall Coordinators/Capital Market Intermediaries where the underlying investor information should be sent – OCs/CMIs to provide*]/[Not Applicable]
(iii)	Marketing and Investor Targeting Strategy	[*if different from the Programme OC*]

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the Singapore Exchange Securities Trading Limited of the Notes described herein pursuant to the U.S.$[●] Euro Medium Term Note Programme.

[**STABILISATION**

In connection with this issue, [insert name of Stabilising Manager] (the "**Stabilising Manager**") (or persons acting on behalf of any Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or persons acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.]

INVESTMENT CONSIDERATIONS

There are significant risks associated with the Notes including, but not limited to, counterparty risk, country risk, price risk and liquidity risk. Investors should contact their own financial, legal, accounting and tax advisers about the risks associated with an investment in these Notes, the appropriate tools to analyse that investment, and the suitability of the investment in each investor's particular circumstances. No investor should purchase the Notes unless that investor understands and has sufficient financial resources to bear the price, market liquidity, structure and other risks associated with an investment in these Notes.

Before entering into any transaction, investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.

RESPONSIBILITY

Each of the Issuer and the Parent Guarantor accepts responsibility for the information contained in this Pricing Supplement.

[The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Pricing Supplement. Approval in-principle from, the admission of the Notes to the Official List of, and the listing and quotation of the Notes on, the SGX-ST are not to be taken as indications of the merits of the Issuer, the Parent Guarantor, any of their respective subsidiaries, their respective associated companies, the Programme or the Notes.]

Signed on behalf of **[SMIC SG HOLDINGS PTE. LTD./SMPHI SG HOLDINGS PTE. LTD.]**

By _____
Duly authorised

Signed on behalf of **[SM INVESTMENTS CORPORATION]/[SM PRIME HOLDINGS, INC.]**

By _____
Duly authorised

SMIC TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the relevant Issuer, the relevant Parent Guarantor and the relevant Dealer at the time of issue but, if not so permitted and not so agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to the "Form of the Pricing Supplement" section of the Offering Circular for a description of the content of the Pricing Supplement which will specify which of such terms are to apply in relation to the relevant Notes. Unless otherwise provided, capitalised terms have the meanings given to them in these Terms and Conditions.

This Note is one of a Series of Notes issued by SMIC SG Holdings Pte. Ltd. (the "**Issuer**"), and guaranteed by SM Investments Corporation (the "**Parent Guarantor**") pursuant to the deed of guarantee (such deed of guarantee as amended and/or supplemented and/or restated from time to time, the "**Deed of Guarantee**") to be entered into by the Parent Guarantor on or about 6 May 2024. The Notes are constituted by a trust deed dated 6 May 2024 (such trust deed as amended and/or supplemented and/or restated from time to time, the "**Trust Deed**") made between the Issuer, as one of the issuers therein, the Parent Guarantor, as one of the parent guarantors therein, and The Hongkong and Shanghai Banking Corporation Limited (the "**Trustee**", which expression shall include any successor trustee appointed in accordance with the Trust Deed) as trustee for the Noteholders.

References herein to the "**Notes**" shall be references to the Notes of this Series and shall mean:

(i) in relation to any Notes represented by a global Note (a "**Global Note**"), units of each Specified Denomination in the currency specified therein or, if none is specified, the currency in which the Notes are denominated (the "**Specified Currency**");

(ii) any Global Note in bearer form (a "**Bearer Global Note**");

(iii) any Global Note in registered form (a "**Registered Global Note**");

(iv) definitive Notes in bearer form (the "**Definitive Bearer Notes**", and together with the Bearer Global Notes, the "**Bearer Notes**") issued in exchange for a Bearer Global Note; and

(v) definitive Notes in registered form (the "**Definitive Registered Notes**", and together with the Registered Global Notes, the "**Registered Notes**"), whether or not issued in exchange for a Registered Global Note.

The Notes, the Receipts and the Coupons have the benefit of an agency agreement dated 6 May 2024 (such agency agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") and made between the Issuer, as one of the issuers therein, the Parent Guarantor, as one of the parent guarantors therein, the Trustee, The Hongkong and Shanghai Banking Corporation Limited as principal paying agent, The Hongkong and Shanghai Banking Corporation Limited as CMU lodging and paying agent for Notes to be held in the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the "**CMU**") and the other agents named in it. The principal paying agent, the CMU lodging and paying agent, the other paying agents, The Hongkong and Shanghai Banking Corporation Limited as registrar and as the transfer agent for each Series of Notes other than CMU Notes (as defined in the Agency Agreement), and The Hongkong and Shanghai Banking Corporation Limited as the registrar and as the transfer agent for CMU Notes and The Hongkong and Shanghai Banking Corporation Limited as the calculation agent for the time being (if any) under the Agency Agreement are referred to below, respectively, as the "**Principal Paying Agent**" (which expression shall include any additional or successor

principal paying agent), the "**CMU Lodging and Paying Agent**" (which expression shall include any additional or successor CMU lodging and paying agent), the "**Paying Agents**" (which expression shall include any additional or successor paying agent and shall include the Principal Paying Agent), the "**Registrar**" (which expression shall include any additional or successor registrar), the "**Transfer Agents**" (which expression shall include the Registrar and any additional or successor transfer agent), the "**CMU Registrar**" (which expression shall include any additional or successor CMU registrar), the "**CMU Transfer Agent**" (which expression shall include any additional or successor CMU transfer agent) and the "**Calculation Agent(s)**" (which expression shall include any additional or successor calculation agent) and collectively, the "**Agents**". For the purposes of these Terms and Conditions ("**Conditions**"), all references to the Principal Paying Agent, Registrar and Transfer Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent, CMU Registrar and CMU Transfer Agent, respectively, and all such references shall be construed accordingly.

Interest bearing Definitive Bearer Notes (unless otherwise indicated in the applicable Pricing Supplement) have interest coupons ("**Coupons**") and, if indicated in the applicable Pricing Supplement, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes repayable in instalments have receipts ("**Receipts**") for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of this Note. References to the "**applicable Pricing Supplement**" are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note relating to it or the person in whose name a Registered Note is registered (as the case may be) and "**holder**" (in relation to a Note, Coupon, Talon or Receipt) means the bearer of any Bearer Note, Coupon, Talon or Receipt or the person in whose name a Registered Note is registered (as the case may be) and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to "**Receiptholders**" shall mean the holders of the Receipts and any reference herein to "**Couponholders**" shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons. The Trustee acts for the benefit of the Noteholders, the Receiptholders and the Couponholders, in accordance with the provisions of the Trust Deed.

As used herein, "**Tranche**" means Notes which are identical in all respects (including as to listing) and "**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates (as specified in the applicable Pricing Supplement), (unless this is a Zero Coupon Note) Interest Commencement Dates (as specified in the applicable Pricing Supplement) and/or Issue Prices (as specified in the applicable Pricing Supplement).

Subject to prior written request and proof of holding and identity to the satisfaction of the Trustee, copies of the Trust Deed and the Agency Agreement are (i) available at all reasonable times during normal business hours (being between 10:00 a.m. to 3:00 p.m. (Hong Kong time)) at the principal office for the time being of the Trustee (presently at Level 26, HSBC Main Building, 1 Queen's Road Central, Hong Kong) and at the specified office of each of the Principal Paying Agent and the other Paying Agents, or (ii) available electronically via e-mail from the Trustee. Copies of the applicable Pricing Supplement are obtainable at all reasonable times during normal business hours (being between 10:00 a.m. to 3:00 p.m. (Hong Kong time)) at the specified office of each of the Paying Agents or electronically via e-mail save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the Paying Agents as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, are

entitled to the benefit of, and are bound by, all the provisions of the Trust Deed and the applicable Pricing Supplement which are applicable to them and are deemed to have notice of those provisions applicable to them of the Agency Agreement. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed.

Words and expressions defined in the Trust Deed and the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and *provided* that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between these Conditions, the Trust Deed or the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1 FORM, DENOMINATION AND TITLE

The Notes may be in bearer form and/or in registered form and, in the case of definitive Notes, will be serially numbered, in the currency (the "**Specified Currency**") and the denominations (the "**Specified Denomination(s)**") specified in the applicable Pricing Supplement. Save as provided in Condition 2, Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons and (if applicable) Receipts and Talons attached, unless they are Zero Coupon Notes in which case references to Coupons, Receipts, Couponholders and Receiptholders in these Conditions are not applicable.

Subject as set out below, title to the Bearer Notes and the Coupons, Talons and Receipts will pass by delivery. Title to Registered Notes will pass upon registration of transfers in the books of the Registrar in accordance with the provisions of the Agency Agreement. The Issuer, the Parent Guarantor, the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar and any Transfer Agent will (except as otherwise ordered by a court of competent jurisdiction or as required by law) deem and treat the bearer of any Bearer Note, Coupon, Talon or Receipt and any person in whose name a Registered Note is registered as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held by a common depositary on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream**"), each person (other than Euroclear or Clearstream) who is for the time being shown in the records of Euroclear or of Clearstream as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Parent Guarantor, the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar and any Transfer Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer or registered holder of the relevant Global Note shall be treated by the Issuer, the Parent Guarantor, the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar and any Transfer Agent as the

holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly.

If a Note (whether in global or definitive form) is held through the CMU, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time and such payments shall discharge the obligation of the Issuer and the Parent Guarantor in respect of that payment under such Note.

In determining whether a particular person is entitled to a particular nominal amount of Notes, as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and/or Clearstream and/or CMU, as the case may be. References to Euroclear and/or Clearstream and/or CMU shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Parent Guarantor, the Trustee and the Principal Paying Agent.

2 TRANSFERS OF REGISTERED NOTES

2.1 Transfers of Interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by Euroclear, Clearstream or CMU, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be exchangeable for Registered Notes in definitive form only in the authorised denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of Euroclear, Clearstream or CMU, as the case may be, and in accordance with the Global Note and the terms and conditions specified in the Trust Deed and the Agency Agreement.

2.2 Transfers of Registered Notes Generally

Registered Notes may not be exchanged for Bearer Notes and *vice versa*.

Upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Definitive Registered Note may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer: (i) the holder or holders must (a) surrender the Definitive Registered Note for registration of the transfer of the Definitive Registered Note (or the relevant part of the Definitive Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (b) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after being satisfied with the documents of title and the identity of the person making the request and subject to such reasonable regulations as the Issuer, the Parent Guarantor, the Trustee, the Registrar, or as the case may be, the relevant Transfer Agent may prescribe (such initial regulations being set out in Schedule 2 to the Agency Agreement), which may be changed by the Issuer and the Parent Guarantor with the prior written approval of the Registrar and the Trustee or by the Registrar with the prior written approval of the Trustee. A copy of the current regulations is available at the specified office of the

Registrar for inspection by any Noteholder at all reasonable times during normal business hours (being between 10:00 a.m. and 3:00 p.m. (Hong Kong time), Monday to Friday (other than public holidays)) following prior written request and proof of holding and identity to the satisfaction of the Registrar. Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, as soon as reasonably practicable, authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by mail to such address as the transferee may request, a new Definitive Registered Note of a like aggregate nominal amount to the Definitive Registered Note (or the relevant part of the Definitive Registered Note) transferred. In the case of the transfer of part only of a Definitive Registered Note, a new Definitive Registered Note (which shall be in a Specified Denomination) in respect of the balance of the Definitive Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor. Each new Definitive Registered Note to be issued pursuant to this Condition 2.2 shall be available for delivery within seven business days of receipt of the form of transfer and surrender of the Definitive Registered Note for exchange.

2.3 Registration of Transfer upon Partial Redemption

In the event of a partial redemption of Notes under Condition 7.3, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, that is called for partial redemption.

2.4 Costs of Registration

Registration of transfers will be effected without charge by or on behalf of the Issuer (or the Parent Guarantor, as the case may be), the Registrar or the relevant Transfer Agent, but upon payment (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the relevant Transfer Agent may require) in respect of any tax or other governmental charges which may be imposed in relation to it, *provided* that neither the Issuer nor the Parent Guarantor shall be responsible for any documentary stamp tax payable on the transfer of Notes effected in the Republic of the Philippines (the "**Philippines**") unless the Issuer or the Parent Guarantor is the counterparty directly liable for such documentary stamp tax.

2.5 Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered during the period of:

(i) 15 days prior to (and including) any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 7.3;

(ii) 15 days ending on (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note; or

(iii) 15 days ending on (and including) any Record Date (as defined in Condition 6.4 below).

3 GUARANTEE AND STATUS

3.1 Guarantee

Subject to the execution of the Deed of Guarantee, the Parent Guarantor unconditionally and irrevocably guarantees the due and punctual payment (in accordance with the provisions in the Deed of Guarantee) of the principal of and premium (if any) and interest on the Notes and of any and all sums expressed to be payable by the Issuer under the Trust Deed and the Notes (the "**Guarantee**"). The Parent Guarantor's obligations under the Guarantee are contained in the Deed of Guarantee.

The Parent Guarantor undertakes that it will execute the Deed of Guarantee and any additional documents which may be reasonably necessary to reflect its status as Parent Guarantor under the Trust Deed and the Notes.

3.2 Status of the Notes and the Guarantee

The Notes and any related Receipts and Coupons constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (save for such obligations required to be preferred by applicable laws) will rank *pari passu*, without any preference or priority among themselves, with all other present and future unsecured and unsubordinated obligations of the Issuer, but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

The Guarantee is set out in the Deed of Guarantee and constitutes direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligation of the Parent Guarantor and (save for such obligations required to be preferred by applicable laws) will rank *pari passu*, without any preference or priority among themselves, with all other present and future unsecured and unsubordinated obligations of the Parent Guarantor, but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

Under Philippine law unsecured debt (including guarantees of debt) of a borrower in insolvency or liquidation that is documented by a public instrument, as provided in Article 2244(14) of the Civil Code of the Philippines, ranks ahead of unsecured debt that is not so documented. Debt is treated as documented by a public instrument if it is acknowledged before a notary or any person authorised to administer oaths in the Philippines. The Issuer's or the Parent Guarantor's debt which is documented by a public instrument will rank ahead of the Notes or the Guarantee, as the case may be (that are not documented by a public instrument) in the event the Issuer or the Parent Guarantor is unable to service its debt obligations.

4 NEGATIVE PLEDGE

So long as any of the Notes remains outstanding (as defined in the Trust Deed):

(i) each of the Issuer and the Parent Guarantor will not, and the Parent Guarantor will ensure that none of its Principal Subsidiaries will, create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("**Security**") upon the whole or any part of the assets or revenues, present or future, of the Issuer, the Parent Guarantor or any Principal Subsidiary of the Parent Guarantor, respectively, to secure any Relevant Debt, or to secure any guarantee of or indemnity in respect of any Relevant Debt, in each case, unless, at the same time or prior thereto, the Issuer's or the Parent Guarantor's obligations under the Notes, the Trust Deed and the Deed of Guarantee, as the case may be, (a) are secured by such Security equally and ratably therewith, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (which is defined in the Trust Deed as, *inter alia*, a resolution duly passed by a majority of at least 66 2/3 per cent. of the votes cast thereon) of the Notes; and

(ii) each of the Issuer and the Parent Guarantor will not create or permit to subsist any preference or priority in respect of any of its other Relevant Debt pursuant to Article 2244(14) of the Civil Code of the Philippines, or any successor Philippine law providing for preferences or priority in respect of notarised Relevant Debt, unless all amounts payable by it under the outstanding Notes or the Guarantee, as the case may be, are granted preference or priority equally and ratably therewith.

For the purposes of these Conditions:

"**Principal Subsidiary**" means, at any time, a Subsidiary of the Parent Guarantor:

(i) whose net income (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial

period to which the then latest audited consolidated accounts of the Parent Guarantor and its Subsidiaries relate, are equal to) not less than 20.0 per cent. of the consolidated net income or, as the case may be, consolidated total assets of the Parent Guarantor and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Parent Guarantor and its Subsidiaries; or

(ii) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Parent Guarantor which immediately prior to such transfer is a Principal Subsidiary, *provided* that the transferor Subsidiary shall upon such transfer forthwith cease to be a Principal Subsidiary and the transferee Subsidiary shall become a Principal Subsidiary pursuant to this subparagraph (ii) on the date on which the consolidated accounts of the Parent Guarantor and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (i) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or

(iii) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Parent Guarantor and its Subsidiaries relate, generate net income equal to) not less than 20.0 per cent. of the consolidated net income, or represent (or, in the case aforesaid, are equal to) not less than 20.0 per cent. of the consolidated total assets of the Parent Guarantor and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (i) above, *provided* that the transferor Subsidiary (if a Principal Subsidiary) shall upon such transfer forthwith cease to be a Principal Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate net income equal to) not less than 20.0 per cent. of the consolidated net income, or its assets represent (or, in the case aforesaid, are equal to) not less than 20.0 per cent. of the consolidated total assets of the Parent Guarantor and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (i) above, and the transferee Subsidiary shall become a Principal Subsidiary pursuant to this subparagraph (iii) on the date on which the consolidated accounts of the Parent Guarantor and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (i) above or, prior to or after such date, by virtue of any other applicable provision of this definition.

A certificate signed by an Authorised Signatory of the Parent Guarantor (whether or not addressed to the Trustee) delivered by the Parent Guarantor to the Trustee that in its opinion a Subsidiary of such Guarantor is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary, may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall be conclusive and binding on all parties and the Trustee shall not be liable in any way for relying on such certificate.

"**Relevant Debt**" means any present or future indebtedness in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities ("**Indebtedness**") which are for the time being are intended to be or capable of being quoted, listed or ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market, in each case, having an original maturity of more than one year from the date of issue, and *provided* that, Relevant Debt shall exclude Indebtedness denominated, payable or optionally payable in Philippine Pesos.

"**Subsidiary**" means in relation to any person (the "**first person**") at any particular time, any other person (the "**second person**") whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person.

5 INTEREST

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note), the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest (as specified in the applicable Pricing Supplement). Interest will be payable in arrear on the Interest Payment Date(s) (as specified in the applicable Pricing Supplement) in each year up to (and including) the Maturity Date (as specified in the applicable Pricing Supplement).

If the Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount (as specified in the applicable Pricing Supplement) so specified.

As used in these Conditions, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest (as specified in the applicable Pricing Supplement) to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount (as specified in the applicable Pricing Supplement);

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 5.1:

(a) if "**Actual/Actual (ICMA)**" is specified in the applicable Pricing Supplement:

(i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

(ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;

(b) if "**30/360**" is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360; or

(c) if "**Actual/365 (Fixed)**" is specified in the applicable Pricing Supplement, the actual number of days in the Accrual Period divided by 365.

In these Conditions:

"**Determination Period**" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

"**sub-unit**" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

5.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest will be payable in arrear on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an Interest Payment Date) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each "**Interest Period**" (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as specified in the applicable Pricing Supplement) the Margin (as specified in the applicable Pricing Supplement) (if any). For the purposes of this subparagraph (i), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under an interest rate swap transaction for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as of the Issue Date of the first Tranche of the Notes (the "**ISDA Definitions**") and under which:

(A) the Floating Rate Option is as specified in the applicable Pricing Supplement;

(B) the Designated Maturity is a period specified in the applicable Pricing Supplement; and

(C) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the Euro-zone inter-bank offered rate (EURIBOR) or on the Secured Overnight Financing Rate (SOFR), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this subparagraph (i), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity" and "Reset Date" have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Notes (other than Floating Rate Notes which specify the Reference Rate as SOFR)

Where Screen Rate Determination is specified as the manner in which the Rate of Interest is to be determined and the Reference Rate is specified as either EURIBOR or the Hong Kong Interbank Offered Rate (HIBOR) in the applicable Pricing Supplement, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page (as specified in the applicable Pricing Supplement) as of 11.00 a.m. (Brussels time, in the case of EURIBOR, Hong Kong time, in the case of HIBOR) on the Interest Determination Date in question plus or minus (as specified in the applicable Pricing Supplement) the Margin (if any), all as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

(iii) Screen Rate Determination for Floating Rate Notes where the Reference Rate is specified as being SOFR Benchmark

Where Screen Rate Determination is specified as the manner in which the Rate of Interest is to be determined and the Reference Rate is specified as SOFR Benchmark in the applicable Pricing Supplement, the Rate of Interest for each Interest Period will, subject as provided below, be equal to the relevant SOFR Benchmark plus or minus the Margin (if any), all as determined by the Calculation Agent on the relevant Interest Determination Date.

The "SOFR Benchmark" will be determined based on Compounded Daily SOFR or Compounded SOFR Index, as follows (subject in each case to Condition 5.2(i) as further specified hereon):

(A) If "Compounded Daily SOFR" is specified in the applicable Pricing Supplement as the manner in which the SOFR Benchmark will be determined, the SOFR Benchmark for each Interest Period shall be calculated by the Calculation Agent in accordance with one of the formulas referenced below depending upon which is specified as applicable in the applicable Pricing Supplement:

(1) SOFR Lag:

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_{i-\times USBD}\times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**$SOFR_{i\text{-}xUSBD}$**" for any U.S. Government Securities Business Day "i" in the relevant Interest Period, is equal to the SOFR reference rate for the U.S. Government Securities Business Day falling the number of Lookback Days prior to that U.S. Government Securities Business Day "i";

"**Lookback Days**" means such number of U.S. Government Securities Business Days as specified in the applicable Pricing Supplement;

"**d**" means the number of calendar days in the relevant Interest Period;

"**d_o**" means the number of U.S. Government Securities Business Days in the relevant Interest Period;

"**i**" means a series of whole numbers ascending from one to d_o, representing each relevant U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant Interest Period (each a "U.S. Government Securities Business Day (i)"); and

"**n_i**", for any U.S. Government Securities Business Day (i) means the number of calendar days from (and including) such U.S. Government Securities Business Day (i) up to (but excluding) the following U.S. Government Securities Business Day.

(2) SOFR Observation Shift:

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**$SOFR_i$**" for any U.S. Government Securities Business Day (i) in the relevant SOFR Observation Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day (i);

"**SOFR Observation Period**" means, in respect of an Interest Period, the period from (and including) the date falling the number of SOFR Observation Shift Days prior to the first day of such Interest Period to (but excluding) the date falling the number of SOFR Observation Shift Days prior to the Interest Period Date for such Interest Period;

"**SOFR Observation Shift Days**" means the number of U.S. Government Securities Business Days as specified in the applicable Pricing Supplement;

"**d**" means the number of calendar days in the relevant SOFR Observation Period;

"**d_o**" means the number of U.S. Government Securities Business Days in the relevant SOFR Observation Period;

"**i**" means a series of whole numbers ascending from one to d_o, representing each U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant SOFR Observation Period (each a "U.S. Government Securities Business Day (i)"); and

"**n_i**", for any U.S. Government Securities Business Day (i), means the number of calendar days from (and including) such U.S. Government Securities Business Day (i) up to (but excluding) the following U.S. Government Securities Business Day.

The following defined terms shall have the meanings set out below for the purpose of Condition 5.2(b)(iii)(A):

"**Bloomberg Screen SOFRRATE Page**" means the Bloomberg screen designated "SOFRRATE" or any successor page or service;

"**Reuters Page USDSOFR=**" means the Reuters page designated "USDSOFR=" or any successor page or service;

"**SOFR**" means, in respect of a U.S. Government Securities Business Day, the reference rate determined by the Calculation Agent in accordance with the following provision:

(1) the Secured Overnight Financing Rate published at the SOFR Determination Time as such reference rate is reported on the Bloomberg Screen SOFRRATE Page; the Secured Overnight Financing Rate published at the SOFR Determination Time as such reference rate is reported on the Reuters Page USDSOFR=; or the Secured Overnight Financing Rate published at the SOFR Determination Time on the SOFR Administrator's Website;

(2) if the reference rate specified in (1) above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have not occurred, the SOFR reference rate shall be the reference rate published on the SOFR Administrator's Website for the first preceding U.S. Government Securities Business Day for which SOFR was published on the SOFR Administrator's Website; or

(3) if the reference rate specified in (1) above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 5.2(i) shall apply as specified in the applicable Pricing Supplement; and

"**SOFR Determination Time**" means approximately 3:00 p.m. (New York City time) on the immediately following U.S. Government Securities Business Day.

(B) If "Compounded SOFR Index" is specified as applicable in the applicable Pricing Supplement, the SOFR Benchmark for each Interest Period shall be equal to the compounded average of daily SOFR reference rates for each day during the relevant SOFR Observation Period as calculated by the Calculation Agent as follows:

$$\left(\frac{SOFR\ Index_{End}}{SOFR\ Index_{Start}} - 1\right) \times \left(\frac{360}{d_c}\right)$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**SOFR Index**" means, in respect of a U.S. Government Securities Business Day, the SOFR Index value as published on the SOFR Administrator's Website at the SOFR Index Determination Time on such U.S. Government Securities Business Day, *provided* that:

(1) if the value specified above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have not occurred, the "SOFR Index" shall be calculated on any Interest Determination Date with respect to an Interest Period, in accordance with the Compounded Daily SOFR formula described above in Condition 5.2(b)(iii)(A)(2) ("**SOFR Observation Shift**"), and the term "**SOFR Observation Shift Days**" shall mean five U.S. Government Securities Business Days; or

(2) if the value specified above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 5.2(i) shall apply as specified in the applicable Pricing Supplement;

"**SOFR Index$_{End}$**" means, in respect of an Interest Period, the SOFR Index value on the date that is the number of U.S. Government Securities Business Days specified in the applicable Pricing Supplement prior to the Interest Period Date for such Interest Period (or in the final Interest Period, the Maturity Date);

"**SOFR Index$_{Start}$**" means, in respect of an Interest Period, the SOFR Index value on the date that is the number of U.S. Government Securities Business Days specified in the applicable Pricing Supplement prior to the first day of such Interest Period;

"**SOFR Index Determination Time**" means, in respect of a U.S. Government Securities Business Day, approximately 3:00 p.m. (New York City time) on such U.S. Government Securities Business Day;

"**SOFR Observation Period**" means, in respect of an Interest Period, the period from (and including) the date falling the number of SOFR Observation Shift Days prior to the first day of such Interest Period to (but excluding) the date falling the number of SOFR Observation Shift Days prior to the Interest Period Date for such Interest Period;

"**SOFR Observation Shift Days**" means the number of U.S. Government Securities Business Days as specified in the applicable Pricing Supplement; and

"**d_c**" means the number of calendar days in the applicable SOFR Observation Period.

The following defined terms shall have the meanings set out below for the purpose of this Condition 5.2(b)(iii)(B):

"**SOFR Administrator's Website**" means the website of the Federal Reserve Bank of New York (currently being, https://www.newyorkfed.org/markets/reference-rates/sofr-averages-and-index), or any successor source;

"**SOFR Benchmark Replacement Date**" means the Benchmark Replacement Date with respect to the then-current Benchmark;

"**SOFR Benchmark Transition Event**" means the occurrence of a Benchmark Event with respect to the then-current Benchmark; and

"**U.S. Government Securities Business Day**" means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(iv) If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than EURIBOR, HIBOR or SOFR, the Rate of Interest in such Notes will be determined as provided in the applicable Pricing Supplement.

(c) Minimum and/or Maximum Rate of Interest

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

Unless otherwise stated in the applicable Pricing Supplement, the Minimum Rate of Interest shall be deemed to be zero.

(d) Determination of Rate of Interest and Calculation of Interest Amounts

The Calculation Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period and notify the Issuer, the Trustee, and the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Calculation Agent will calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

(A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2(d):

(i) if "**Actual/Actual (ISDA)**" or "**Actual/Actual**" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;

(iii) if "**Actual/365 (Sterling)**" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360] \times (Y_2\text{-}Y_1)] + [30 \times (M_2\text{-}M_1)] + (D_2\text{-}D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2\text{-}Y_1)] + (M_2\text{-}M_1)] + (D_2\text{-}D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30; and

(vii) if "**30E/360 (ISDA)**" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

(e) Notification of Rate of Interest and Interest Amounts

The Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and the Principal Paying Agent as soon as practicable after their determination but in no event later than the fourth Business Day thereafter. Notice thereof shall promptly be given by the Issuer to the Noteholders and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have been admitted to listing, trading and/or quotation. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified by the Issuer to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders. For the purposes of this paragraph, the expression "**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(f) Determination or Calculation

If for any reason at any relevant time the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Calculation Agent defaults in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i), subparagraph (b)(ii), or subparagraph (b)(iii) above or as otherwise specified in the applicable Pricing Supplement, as the case may be, and in each case in accordance with paragraph (d) above, the Issuer shall at its own expense, appoint an independent investment bank of international repute (an "**Independent Investment Bank**") to determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Pricing Supplement), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Independent Investment Bank shall calculate the

Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances. In the event there are provisions in the Notes or the ISDA Definitions that require the Calculation Agent to exercise discretion, such references will be deemed to be the references to the Calculation Agent acting upon instruction of the Issuer or the Issuer will appoint an Independent Investment Bank to make the relevant determination, or the Issuer shall appoint another entity to act as Calculation Agent as soon as reasonably practicable after being notified by the Calculation Agent of its inability to exercise such discretion and the existing Calculation Agent shall be released of its obligations in respect of that particular series of Notes without liability.

(g) Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5, whether by the Principal Paying Agent or, if applicable, the Calculation Agent or the Independent Investment Bank, shall (in the absence of wilful default, fraud or manifest error) be binding on the Issuer, the Parent Guarantor, the Trustee, the Principal Paying Agent, the Registrar, the Calculation Agent (if applicable), the other Paying Agents, the Transfer Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of gross negligence, wilful default or fraud) no liability to the Issuer, the Parent Guarantor, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent, the Registrar, the other Paying Agents, the Transfer Agents, the Independent Investment Bank or the Trustee in connection with the exercise or non-exercise by any of them of their powers, duties and discretions pursuant to such provisions.

(h) Benchmark Discontinuation (General)

Where the Original Reference Rate is not SOFR, in addition and notwithstanding the terms set forth elsewhere in these Conditions, this Condition 5.2(h) shall apply.

(i) Independent Adviser

If a Benchmark Transition Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 5.2(h)(iv)). In making such determination, the Independent Adviser appointed pursuant to this Condition 5.2(h)(i) shall act in good faith and in a commercially reasonable manner as an expert. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Parent Guarantor, the Principal Paying Agent, the Paying Agents, or the Noteholders for any determination made by it, pursuant to this Condition 5.2(h)(i).

If (1) the Issuer is unable to appoint an Independent Adviser; or (2) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 5.2(h)(i) prior to the date which is ten business days prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest determined using the Original Reference Rate last displayed on the relevant Screen Page prior to the relevant Interest Determination Date. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant

Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in this Condition 5.2(h).

(ii) Successor Rate or Alternative Rate

If the Independent Adviser determines that:

(A) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5.2(h)); or

(B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5.2(h)).

(iii) Adjustment Spread

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be). If the Independent Adviser is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Rate (as applicable) will apply without an Adjustment Spread.

(iv) Benchmark Amendments

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 5.2(h) and the Independent Adviser, determines (i) that amendments to these Conditions and/or the Trust Deed/the Agency Agreement are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5.2(h)(v), without any requirement for the consent or approval of Noteholders, vary these Conditions and/or the Trust Deed/Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by one Authorised Signatory of the Issuer pursuant to Condition 5.2(h)(v), the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed, *provided* that the Trustee shall not be obliged so to concur if, in the opinion of the Trustee, doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

None of the Trustee, the Calculation Agent or the Principal Paying Agent shall be responsible or liable for any determinations or certifications made by the Issuer or the Independent Adviser with respect to any Successor Rate or Alternative Rate (as applicable) or any other changes and shall be entitled to rely conclusively on certifications provided to it.

Notwithstanding any other provision of this Condition 5.2(h), the Calculation Agent or any Paying Agent is not obliged to concur with the Issuer or the Independent Adviser in respect of any changes or amendments as contemplated under this Condition 5.2(h) to which, in the sole opinion of the Calculation Agent or the relevant Paying Agent, as the case may be, would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Calculation Agent or the relevant Paying Agent (as applicable) in the Calculation Agency Agreement, the Agency Agreement and/or these Conditions.

In connection with any such variation in accordance with this Condition 5.2(h)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(v) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 5.2(h) will be notified at least ten business days prior to the relevant Interest Determination Date by the Issuer to the Trustee, the Calculation Agent and the Paying Agents. Notice shall be provided by the Issuer to the Noteholders promptly thereafter. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Noteholders of the same, the Issuer shall deliver to the Trustee, the Calculation Agent and the Paying Agents a certificate signed by one Authorised Signatory of the Issuer:

(A) confirming (1) that a Benchmark Transition Event has occurred, (2) the Successor Rate or, as the case may be, the Alternative Rate, (3) the applicable Adjustment Spread and (4) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 5.2(h); and

(B) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

Each of the Trustee, the Calculation Agent and the Paying Agents shall be entitled to rely conclusively on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Trustee's, or the Calculation Agent's or the Paying Agents' ability to rely on such certificate as aforesaid) be binding on the Issuer, the Parent Guarantor, the Trustee, the Calculation Agent, the Paying Agents and the Noteholders.

Notwithstanding any other provision of this Condition 5.2(h), if following the determination of any Successor Rate, Alternative Rate, Adjustment Spread or Benchmark Amendments (if any), in the Calculation Agent's opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 5.2(h), the Calculation Agent shall notify the Issuer thereof and the

Issuer shall direct the Calculation Agent in writing as to which alternative course of action to adopt. If the Calculation Agent is not promptly provided with such direction, or is otherwise unable (other than due to its own gross negligence, wilful default or fraud) to make such calculation or determination for any reason, it shall notify the Issuer thereof and the Calculation Agent shall be under no obligation to make such calculation or determination and (in the absence of such gross negligence, wilful default or fraud) shall not incur any liability for not doing so.

(vi) Survival of Original Reference Rate:

Without prejudice to the obligations of the Issuer under Conditions 5.2(h)(i) to 5.2(h)(iv), the Original Reference Rate and the fallback provisions provided for in Condition 5.2(b)(ii) will continue to apply unless and until a Benchmark Transition Event has occurred.

(vii) Definitions:

As used in this Condition 5.2(h):

"**Adjustment Spread**" means either (1) a spread (which may be positive, negative or zero) or (2) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(A) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);

(B) the Independent Adviser determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if the Independent Adviser determines that no such spread is customarily applied);

(C) the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 5.2(h)(ii) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes.

"**Benchmark Amendments**" has the meaning given to it in Condition 5.2(h)(iv).

"**Benchmark Transition Event**" means:

(A) the Original Reference Rate ceasing to be published for a period of at least five business days or ceasing to exist; or

(B) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

(C) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or

(D) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes; or

(E) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate is or will be (or is or will be deemed by such supervisor to be) no longer representative of its relevant underlying market; or

(F) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder using the Original Reference Rate;

provided that the Benchmark Transition Event shall be deemed to occur (1) in the case of subparagraphs (A) and (C) above, on the date of the cessation of publication of the Original Reference Rate or the discontinuation of the Original Reference Rate, as the case may be, (2) in the case of subparagraph (D) above, on the date of the prohibition of use of the Original Reference Rate and (3) in the case of subparagraph (E) above, on the date with effect from which the Original Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

The occurrence of a Benchmark Transition Event shall be determined by the Issuer and promptly notified to the Trustee, the Calculation Agent and the Paying Agents. For the avoidance of doubt, neither the Trustee, the Calculation Agent nor the Paying Agents shall have any responsibility for making such determination.

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer at its own expense.

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes.

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(B) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (1) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (2) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (3) a group of the aforementioned central banks or other supervisory authorities or (4) the Financial Stability Board or any part thereof.

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(i) Benchmark Replacement (SOFR)

Where the Original Reference Rate is SOFR, in addition and notwithstanding the terms set forth elsewhere in these Conditions, this Condition 5.2(i) shall apply.

(i) Benchmark Replacement

If the Issuer or its designee determines on or prior to the relevant Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the-then current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates.

(ii) Benchmark Replacement Conforming Changes

In connection with the implementation of a Benchmark Replacement, the Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes from time to time. For the avoidance of doubt, the Trustee shall, at the direction and expense of the Issuer, effect such consequential amendments to the Trust Deed, the Agency Agreement and/or these Conditions as may be required to give effect to Condition 5.2(i). Noteholders' consent shall not be required in connection with effecting any such changes, including the execution of any documents or any steps to be taken by the Trustee and the Agents (if required). Further, none of the Trustee, the Calculation Agent, the Paying Agents, the Registrars or the Transfer Agents shall be responsible or liable for any determinations, decisions or elections made by the Issuer or its designee with respect to any Benchmark Replacement or any other changes and shall be entitled to rely conclusively on any certifications provided to each of them in this regard. Neither the Trustee nor the Agents shall be obliged to concur with the Issuer in respect of any changes or amendments as contemplated under this Condition 5.2(i) to which, in the sole opinion of the Trustee or the Agents, as the case may be, would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee or the Agents in the Trust Deed or the Agency Agreement, as the case may be.

(iii) Decisions and Determinations

Any determination, decision or election that may be made by the Issuer or its designee pursuant to this Condition 5.2(i), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection will be conclusive and binding absent manifest error, will be made in the sole discretion of the Issuer or its designee, as applicable, and notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the holders of the Notes or any other party.

(iv) Certain Defined Terms:

As used in this Condition 5.2(i):

"**Benchmark**" means, initially, the relevant SOFR Benchmark specified in the applicable Pricing Supplement; *provided* that if the Issuer or its designee determines on or prior to the Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the relevant SOFR Benchmark (including any daily published component used in the calculation thereof) or the then-current Benchmark, then "Benchmark" means the applicable Benchmark Replacement;

"**Benchmark Replacement**" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(A) the sum of:

(i) the alternate reference rate that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof); and

(ii) the Benchmark Replacement Adjustment;

(B) the sum of:

(i) the ISDA Fallback Rate; and

(ii) the Benchmark Replacement Adjustment; or

(C) the sum of:

(i) the alternate reference rate that has been selected by the Issuer or its designee as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) giving due consideration to any industry-accepted reference rate as a replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) for U.S. dollar-denominated floating rate notes at such time; and

(ii) the Benchmark Replacement Adjustment;

"**Benchmark Replacement Adjustment**" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(A) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

(B) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or

(C) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark (including any daily published component used in the calculation thereof) with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated floating rate notes at such time;

"**Benchmark Replacement Conforming Changes**" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) that the Issuer or its designee decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer or its designee decides that adoption of any portion of such market practice is not

administratively feasible or if the Issuer or its designee determine that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer or its designee determines is reasonably necessary);

"**Benchmark Replacement Date**" means the earliest to occur of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

(A) in the case of subparagraph (A) or (B) of the definition of "Benchmark Transition Event," the later of:

(i) the date of the public statement or publication of information referenced therein; and

(ii) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or

(B) in the case of subparagraph (C) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event that gives rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

"**Benchmark Transition Event**" means the occurrence of one or more of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

(A) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component), permanently or indefinitely, *provided* that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(B) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, *provided* that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(C) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

"**designee**" means a designee as selected and separately appointed by the Issuer in writing;

"**ISDA Definitions**" means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time, including the 2021 ISDA Interest Rate Derivatives Definitions (as amended or supplemented from time to time);

"**ISDA Fallback Adjustment**" means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

"**ISDA Fallback Rate**" means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark (including any daily published component used in the calculation thereof) for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

"**Reference Time**" with respect to any determination of the Benchmark means (1) if the Benchmark is the SOFR Benchmark, the SOFR Determination Time (where Compounded Daily SOFR is specified as applicable in the applicable Pricing Supplement) or SOFR Index Determination Time (where Compounded SOFR Index is specified as applicable in the applicable Pricing Supplement), or (2) if the Benchmark is not the SOFR Benchmark, the time determined by the Issuer or its designee after giving effect to the Benchmark Replacement Conforming Changes;

"**Relevant Governmental Body**" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto; and

"**Unadjusted Benchmark Replacement**" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

5.3 Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

5.4 Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

5.5 Accrual of Interest

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment of a court of competent jurisdiction) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date.

5.6 Definitions

"**Business Day**" means:

(a) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(b) in the case of euro, any day on which T2 is open for the settlement of payments in euro (a "**TARGET Business Day**") and/or

(c) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"**Business Day Convention**": If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is:

(a) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment;

(b) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day;

(c) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or

(d) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Period, the date specified as such in the applicable Pricing Supplement or, if none is so specified:

(a) the day falling two TARGET Business Days prior to the first day of such Interest Period if the Specified Currency is euro; or

(b) (where SOFR Benchmark is specified in the applicable Pricing Supplement as the Reference Rate and where SOFR Lag or SOFR Observation Shift is specified as applicable in the applicable Pricing Supplement to determine Compounded Daily SOFR or where Compounded SOFR Index is specified as applicable in the applicable Pricing Supplement) the fifth U.S. Government Securities Business Day prior to the last day of each Interest Period.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified in the applicable Pricing Supplement.

"**Reference Rate**" means the rate specified in the applicable Pricing Supplement.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the applicable Pricing Supplement or such successor or replacement page, section, caption, column or other part as may replace it on that information service.

6 PAYMENTS

6.1 Method of Payment

Subject as provided below:

(a) payments in a Specified Currency other than euro will be made by transfer to an account in the relevant Specified Currency maintained by the payee with a Bank. In these Conditions, "**Bank**" means a bank in the principal financial centre of the country of such Specified Currency or, in the case of euro, in a city in which banks have access to T2; and

(b) payments in euro will be made by transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto.

In these Conditions, "**T2**" means the real time gross settlement system operated by the Eurosystem, or any successor system.

6.2 Presentation of Bearer Notes, Receipts and Coupons

Payments of principal in respect of Definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Definitive Bearer Notes, and payments of interest in respect of Definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of Definitive Bearer Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 6.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Bearer Note to which it appertains. Receipts presented without the Definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9).

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "**Long Maturity Note**" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon, *provided* that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

6.3 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Bearer Notes represented by any Bearer Global Note will (subject as provided below) be made in the manner specified above in relation to Definitive Bearer Notes or otherwise in the manner specified in the relevant Bearer Global Note against presentation and surrender of such Bearer Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation and surrender of any Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

Payments of principal and interest in respect of Bearer Notes held in the CMU will be made to the CMU for its distribution to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU in accordance with the CMU Rules at the relevant time, and payment made to the CMU in accordance thereof shall discharge the obligations of the Issuer and the Parent Guarantor in respect of that payment.

6.4 Payments in respect of Registered Notes

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to an account denominated in such currency with, a Bank of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the "**Register**") (i) where in global form, at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note (whether or not in global form) will be made by transfer to an account denominated in such currency with, a Bank of the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, and (ii) where in definitive form, at the close of business on the fifteenth day (whether

or not such fifteenth day is a Business Day) before the relevant due date (the "**Record Date**") at the holder's address shown in the Register on the Record Date and at its risk. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Payments of principal and interest in respect of Registered Notes held in the CMU will be made to the CMU for its distribution to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU on the Clearing System Business Day in accordance with the CMU Rules at the relevant time, and payment made to the CMU in accordance thereof shall discharge the obligations of the Issuer and the Parent Guarantor in respect of that payment.

No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

None of the Issuer, the Parent Guarantor, the Trustee, the Registrar, any Transfer Agent or any Paying Agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

In these Conditions:

"**Clearing System Business Day**" means (in respect of Euroclear or Clearstream) a weekday (Monday to Friday, inclusive) except 25 December and 1 January, and (in respect of CMU) a day on which CMU is open for business.

6.5 General Provisions Applicable to Payments

(a) The holder of a Global Note (or as provided in the Trust Deed, the Trustee) shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer (or the Parent Guarantor, as the case may be) will be discharged by payment to, or to the order of, the holder of such Global Note (or the Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream or CMU as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream or CMU, as the case may be, for his share of each payment so made by the Issuer (or the Parent Guarantor, as the case may be) in respect of such Global Note to, or to the order of, the holder of such Global Note.

(b) Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of the Bearer Notes is payable in U.S. Dollars, such U.S. Dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in New York City in the same manner as aforesaid if:

(i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. Dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. Dollars; and

(iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer (or the Parent Guarantor, as the case may be), adverse tax consequences to the Issuer (or the Parent Guarantor, as the case may be).

(c) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement

Date, as the case may be, shall only be payable against presentation (and surrender, if appropriate) of the relevant Bearer Note or Registered Note, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Bearer Note or Registered Note, as the case may be.

6.6 Payment Day

If any date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such postponed payment. For these purposes, "**Payment Day**" means (subject to Condition 9):

(a) a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

(i) in the case of Notes in definitive form only, the relevant place of presentation; and

(ii) each Additional Financial Centre specified in the applicable Pricing Supplement; and

(iii) the specified office of the relevant Paying Agent; and

(b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency; or (B) in relation to any sum payable in euro, a day on which T2 is open for the settlement of payments in euro.

6.7 Interpretation of Principal and Interest

Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(a) any Additional Amounts which may be payable with respect to principal under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;

(b) the Final Redemption Amount of the Notes;

(c) the Early Redemption Amount of the Notes;

(d) the Optional Redemption Amount(s) (if any) of the Notes;

(e) in relation to Notes redeemable in instalments, the Instalment Amounts;

(f) in relation to Zero Coupon Notes, the Amortised Face Amount; and

(g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any Additional Amounts which may be payable with respect to interest under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

7 REDEMPTION AND PURCHASE

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

7.2 Redemption for Tax Reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note), on giving not less than 30 nor more than 60 calendar days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 7.5) (together with interest accrued to the date fixed for redemption), if:

(a) the Issuer (or the Parent Guarantor, as the case may be) satisfies the Trustee immediately before the giving of such notice that it has or will on the occasion of the next payment due under the Notes become obliged to pay Additional Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or treaties (or any rules or regulations thereunder) of a Tax Jurisdiction, or any change in the official application or official interpretation of such laws, treaties, rules or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes for such Series; and

(b) such obligation is continuing and cannot be avoided by the Issuer (or the Parent Guarantor, as the case may be) taking reasonable measures available to it, *provided* that no such notice of redemption shall be given earlier than 90 calendar days prior to the earliest date on which the Issuer (or the Parent Guarantor, as the case may be) would be obliged to pay such Additional Amounts were a payment in respect of the Notes (or the Guarantee, as the case may be) then due.

Prior to the publication of any notice of redemption pursuant to this Condition 7.2, the Issuer shall deliver to the Trustee (1) a certificate signed by one Authorised Signatory of the Issuer (or the Parent Guarantor, as the case may be) stating that the obligation referred to in (a) above cannot be avoided by the Issuer (or the Parent Guarantor, as the case may be) taking reasonable measures available to it. The Issuer (or the Parent Guarantor, as the case may be) is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer (or the Parent Guarantor, as the case may be) has or will become obliged to pay such Additional Amounts as a result of such change or amendment. The Trustee shall be entitled without liability to any person and without further enquiry to accept and rely on the certificate(s) and the opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

Notes redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.5 below together (if any) with interest accrued to (but excluding) the date of redemption.

7.3 Redemption at the Option of the Issuer (Issuer Call)

If Issuer Call is specified as being applicable in the applicable Pricing Supplement, the Issuer may, on giving not less than 15 nor more than 30 calendar days' notice to the Noteholders (or such other notice period as may be specified in the applicable Pricing Supplement) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and/or not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement.

In the case of a partial redemption of Notes (or, as the case may be, parts of Registered Notes), the Notes to be redeemed ("**Redeemed Notes**") will be selected in such place as the Trustee may approve and in such manner as it deems fit, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream and/or CMU (as appropriate), in the case of Redeemed Notes represented by a Global Note, not more than 30 calendar days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, the Issuer will ensure that a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes or represented by a Global Note shall in each case bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding and Notes outstanding represented by such Global Note, respectively, bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, *provided* that, if necessary, appropriate adjustments shall be made to such nominal amounts to ensure that each represents an integral multiple of the Specified Denomination. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the Issuer to the Noteholders at least five calendar days prior to the Selection Date.

7.4 Redemption upon Change of Control

Upon the occurrence of a Change of Control, each Noteholder shall have the right, at its option, to require the Issuer to repurchase all (but not some only) of its Notes, at a redemption price equal to 101.0% of the principal amount thereof plus accrued interest (the "**Change of Control Redemption Amount**") on the Change of Control Put Date. Within 14 days following a Change of Control, the Issuer shall notify the Trustee and cause the Principal Paying Agent to notify each Noteholder, which notice shall state (i) that a Change of Control has occurred and that such Noteholder has the right to require the Issuer to redeem its Notes at the Change of Control Redemption Amount; (ii) the date set by the Issuer for such repurchase (which shall be no earlier than 30 days and no later than 60 days from the date such notice is given) (the "**Change of Control Put Date**"); and (iii) the procedures determined by the Issuer, consistent with the Trust Deed, that a Noteholder must follow in order to have its Notes redeemed. The Trustee shall not be required to take any steps to ascertain whether a Change of Control or any event which could lead to the occurrence of a Change of Control has occurred nor be liable to any person for any failure to do so.

In these Conditions:

"**Change of Control**" means the occurrence of any event that would result in either (i) the Permitted Holders collectively ceasing to control or hold beneficial ownership of at least 35 per cent. of the outstanding voting capital stock of the Parent Guarantor, (ii) the Permitted Holders in aggregate ceasing to be the largest beneficial owners of the outstanding voting capital stock of the Parent Guarantor, or (iii) the Parent Guarantor consolidates with or merges into or sells or transfers substantially all of its assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring control over the Parent Guarantor.

"**Permitted Holders**" means any or all of the following: (i) Felicidad T. Sy and her children Teresita T. Sy, Elizabeth T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy, Harley T. Sy and their legal heirs; (ii) the relatives until the fourth degree of consanguinity or affinity of the persons named or described in clause (i) above and such relatives' spouses; (iii) the descendants of the persons named or described in clauses (i) and (ii) above; (iv) the estates or legal representatives of any person named or described in clauses (i) to (iii) above; (v) trusts or other analogous arrangements established for the benefit of any person named or described in clauses (i) to (iv) above or of which any such person is a trustee or holder of an analogous office; or (vi) any Person directly or indirectly controlled by any Person named or described in clauses (i) to (v) above. For purposes of this definition, "**control**", as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organisation or government or any agency or political subdivision thereof.

"**Voting Stock**" means, with respect to any person, equity share capital (or equivalent) of any class or kind ordinarily having the power to vote for the election of directors or other the governing body of such person.

7.5 Early Redemption Amounts

For the purpose of Conditions 7.2 and 7.3 above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

(a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof unless otherwise specified in the applicable Pricing Supplement;

(b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or

(c) in the case of a Zero Coupon Note, subject to the provisions of Condition 7.10, the "**Amortised Face Amount**" of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is specified in the applicable Pricing Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

7.6 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.5 above.

7.7 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

7.8 Purchases

Subject to applicable laws, each of the Issuer, the Parent Guarantor and their respective Subsidiaries may at any time and in any manner purchase Notes *(provided* that, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, Parent Guarantor or relevant Subsidiary surrendered to any Paying Agent and/or the Registrar for cancellation.

7.9 Cancellation

All Notes which are redeemed or purchased in accordance with Condition 7.8 above may be surrendered for cancellation (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 7.8 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent (which shall notify the Registrar of such cancelled Notes in the case of Registered Notes) and may not be reissued or resold and the obligations of the Issuer and the Parent Guarantor in respect of any such Notes shall be discharged.

7.10 Late Payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Conditions 7.1, 7.2 or 7.5 above or upon its becoming due and repayable as provided in Condition 10 is not paid when due, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Note has been received by the Trustee or the Principal Paying Agent and notice to that effect has been given to the Noteholders.

8 TAXATION

8.1 Payment without Withholding

All payments of principal, premium and interest by or on behalf of the Issuer (or the Parent Guarantor, as the case may be) in respect of the Notes, Receipts and Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of any Tax Jurisdiction, unless such withholding or deduction is required by law. In that event, the Issuer (or the Parent Guarantor, as the case may be) shall pay such additional amounts (the "**Additional Amounts**") as shall result in receipt by the holders of the Notes, Receipts or Coupons of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note, Receipt or Coupon:

(a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of such holder having some connection with a Tax Jurisdiction other than the mere holding of the Note, Receipt or Coupon; or

(b) **Presentation more than 30 days after the Relevant Date:** presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Amounts on presenting the relevant Note, Receipt or Coupon for payment on the last day of such period of 30 days assuming that day to have been a Payment Day.

Notwithstanding any other provision contained herein, any amounts to be paid by the Issuer (or the Parent Guarantor, as the case may be) on the Notes will be paid net of any deduction or withholding imposed or required pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code (or any law implementing such an intergovernmental agreement) (a "**FATCA Withholding Tax**"), and neither the Issuer nor the Parent Guarantor nor any other person will be required to pay Additional Amounts on account of any FATCA Withholding Tax.

8.2 Interpretation

In these Conditions:

"**Relevant Date**" in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if the full amount of the money payable has not been duly paid on or prior to such due date) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the relevant Note, Receipt or Coupon being made in accordance with these Conditions, such payment in full will be made, *provided* that payment is in fact made upon such presentation; and

"**Tax Jurisdiction**" means, in respect of the Issuer, Singapore or any political subdivision or any authority thereof or therein having power to tax or, in respect of the Parent Guarantor, the Republic of the Philippines or any political subdivision or any authority thereof or therein having power to tax, or in the event of any substitution or other corporate action resulting in either the Issuer or the Parent Guarantor (as the case may be) being incorporated in any other jurisdiction, that other jurisdiction or any political subdivision or any authority thereof or therein having power to tax.

9 PRESCRIPTION

Claims against the Issuer and/or the Parent Guarantor for payment in respect of the Notes (whether in bearer or registered form), Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 EVENTS OF DEFAULT AND ENFORCEMENT

10.1 Events of Default relating to the Notes

If any of the following events (each an "**Event of Default**") occurs and is continuing, the Trustee at its discretion may, and if so requested in writing by the holders of at least 25.0 per cent. in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice in writing to the Issuer and the Parent Guarantor that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

(a) **Non-Payment:** there is failure to pay the principal or interest on any of the Notes when due and, in the case of failure to pay interest, such failure continues for a period of 14 days; or

(b) **Breach of Other Obligations:** the Issuer or the Parent Guarantor defaults in the performance or observance of, or compliance with, any one or more of its other obligations under these Conditions or the Trust Deed, which default is in the opinion of the Trustee incapable of remedy or, if in the opinion of the Trustee is capable of remedy, is not remedied within 60 days after notice of such default shall have been given to the Issuer or the Parent Guarantor by the Trustee; or

(c) **Cross-Acceleration:** (i) any other present or future indebtedness for or in respect of moneys borrowed or raised ("**Indebtedness for Borrowed Money**") of the Issuer, the Parent Guarantor or any of the Principal Subsidiaries becomes due and payable prior to its stated maturity by reason of an event of default (howsoever described), or (ii) any such Indebtedness for Borrowed Money is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer, the Parent Guarantor or any of the Principal Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, Indebtedness for Borrowed Money, *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 subparagraph (c) have occurred equals or exceeds U.S.$50 million or its equivalent in any other currency (on the basis of the middle spot rate for the relevant currency against the U.S. Dollar as quoted by any leading bank on the day on which this paragraph operates); or

(d) **Judgment, Decree or Order:** a final judgment, decree or order has been entered against the Issuer, the Parent Guarantor or any of the Principal Subsidiaries by a court of competent jurisdiction from which no appeal may be made or is taken for the payment of money in excess of U.S.$50 million or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. Dollar as quoted by any leading bank on the day on which this paragraph operates) and any originally 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 any material part of the property, assets or revenues of the Issuer, the Parent Guarantor or any of the Principal Subsidiaries and is not discharged or stayed within 60 days of having been so levied, enforced or sued; or

(f) **Security Enforced:** any Security, present or future, created or assumed by the Issuer, the Parent Guarantor or any of the Principal Subsidiaries 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 Security is not discharged or such steps stayed within 60 days of such steps being so taken (or such longer period as the Issuer, the Parent Guarantor or the relevant Principal Subsidiary satisfies the Trustee is appropriate in relation to the jurisdiction concerned); or

(g) **Insolvency:** any of the Issuer or the Parent Guarantor or any of the Principal Subsidiaries (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 the Parent Guarantor or any of the Principal Subsidiaries; 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, the Parent Guarantor or any of the Principal Subsidiaries, or the Issuer or the Parent Guarantor or any of the Principal Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by (i) a reconstruction, amalgamation, reorganisation, merger or consolidation (x) on terms approved by an Extraordinary Resolution of the Noteholders, or (y) in the case of a Principal Subsidiary, whereby the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Parent Guarantor or another Principal Subsidiary pursuant to a merger of the Principal Subsidiary with the Parent Guarantor or such other Principal Subsidiary or by way of

a voluntary winding-up or dissolution where there are surplus assets in such Principal Subsidiary and such surplus assets attributable to the Parent Guarantor and/or any other Principal Subsidiary are distributed to the Parent Guarantor and/or any such other Principal Subsidiary or (ii) a merger or consolidation with respect to the Issuer (or the Parent Guarantor, as the case may be) which is not materially prejudicial to the interests of the Noteholders; or

(i) **Bankruptcy Proceedings:** proceedings shall have been initiated against the Issuer, the Parent Guarantor or any of the Principal Subsidiaries under any applicable bankruptcy, insolvency, reorganisation law and such proceedings shall not have been discharged or stayed within a period of 60 days; or

(j) **Repudiation:** the Issuer or the Parent Guarantor shall contest in writing the validity or enforceability of any of the Notes or shall deny generally in writing the liability of the Issuer or the Parent Guarantor, under any of the Notes; or

(k) **Guarantee:** the Guarantee (following the execution of the Deed of Guarantee) ceases to be in full force and effect; or

(l) **Ownership:** either (i) less than 100.0 per cent. of the Issuer's shares are held, either directly or indirectly, by the Parent Guarantor, or (ii) the Issuer ceases to be controlled by the Parent Guarantor; 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 paragraphs (g), (h) and (i) of this Condition 10.1.

The Issuer has undertaken in the Trust Deed that, so long as any Note remains outstanding, annually and also within 14 days after any request by the Trustee, it will send to the Trustee a certificate signed by one Authorised Signatory to the effect that as at a date not more than five days prior to the date of the certificate no Event of Default or event or circumstance that could with the giving of notice, lapse of time and/or issue of a certificate become an Event of Default has occurred.

10.2 Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Parent Guarantor as it may think fit to enforce the terms of the Trust Deed, the Notes, the Receipts and the Coupons, but it need not take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least 25.0 per cent. in nominal amount of the Notes outstanding, and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

No Noteholder, Receiptholder or Couponholder may proceed directly against the Issuer or the Parent Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and the failure is continuing.

10.3 Interpretation

In these Conditions:

"**Winding-up**" shall mean, with respect to the Issuer or the Parent Guarantor, a final, unappealable and executory order or resolution of any court or agency or supervisory authority in Singapore, the Philippines or any other jurisdiction to which the Issuer or the Parent Guarantor becomes subject, for the bankruptcy, suspension of payment, rehabilitation, winding-up, liquidation, receivership or similar proceeding in respect of the Issuer or the Parent Guarantor (except for the purposes of a consolidation, amalgamation, merger or reorganisation the terms of which have previously been approved by an Extraordinary Resolution of the Noteholders and except as otherwise provided in Condition 10.1(h) above).

11 REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

If a Note, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Principal Paying Agent (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Registered Notes) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Receipt, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

12 PAYING AGENTS, REGISTRAR AND TRANSFER AGENTS

The names of the initial Paying Agents, the initial Registrar and the other initial Transfer Agents and their initial specified offices are set out below.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of the Principal Paying Agent, Paying Agent, Registrar or Transfer Agents and/or appoint additional or other Paying Agents, Registrars or Transfer Agents and/or approve any change in the specified office through which any Agent acts, *provided* that:

(a) there will at all times be a Principal Paying Agent (including a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU) and a Registrar (which will maintain the Register outside the United Kingdom);

(b) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent, which may be the Principal Paying Agent, and Transfer Agent with a specified office in the place required by the rules and regulations of the relevant stock exchange or any other relevant authority; and

(c) so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, if the Notes are issued in definitive form, there will at all times be a Paying Agent in Singapore unless the Issuer obtains an exemption from the SGX-ST.

In addition, the Issuer shall, with the prior written approval of the Trustee, forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.5. Any variation, termination, appointment or change referred to in the preceding paragraph and/or any appointment referred to in this paragraph shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 calendar days' prior notice thereof shall have been given to the Noteholders.

In acting under the Agency Agreement, the Paying Agents, the Registrar and the Transfer Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders.

13 EXCHANGE OF TALONS

On or after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14 NOTICES

Notices to holders of Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an overseas address) by air mail to them at their respective addresses as recorded in the Register and will be deemed to have been validly given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of such mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading daily newspaper of general circulation in Asia or such other English language daily newspaper with general circulation in Asia. It is expected that such publication will be made in the Asian Wall Street Journal. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange (or any other relevant authority) on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

So long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream and/or CMU, such notice requirements for mailing and publication in such newspaper(s) may be substituted by the delivery of the relevant notice to Euroclear and/or Clearstream and/or CMU for communication by them to the holders of the Notes. In addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange (or any other relevant authority). Any such notice shall be deemed to have been given to the holders of the Notes on such day as specified in the applicable Pricing Supplement after the day on which the said notice was given to Euroclear and/or Clearstream and/or CMU.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relevant Note or Notes with the Principal Paying Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent through Euroclear and/or Clearstream and/or CMU, as the case may be, in such manner as the Principal Paying Agent and Euroclear and/or Clearstream and/or CMU, as the case may be, may approve for this purpose.

Receiptholders and Couponholders will be deemed for all purposes to have notice of the contents of any notice given to Noteholders.

15 MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

15.1 Meeting of Noteholders

The Trust Deed contains provisions for convening meetings (including by way of conference call using a videoconference platform) of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Parent Guarantor, the Trustee or by Noteholders holding not less than 10.0 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more persons holding or representing in the aggregate not less than 50.0 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*:

(a) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes;

(b) to reduce or cancel the nominal amount of, or any premium payable on redemption of, the Notes;

(c) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes;

(d) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is specified in the applicable Pricing Supplement, to reduce any such Minimum and/or Maximum;

(e) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount, the Optional Redemption Amount or the Change of Control Redemption Amount, including the method of calculating the Amortised Face Amount;

(f) to vary the currency or currencies of payment or denomination of the Notes;

(g) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution;

(h) to modify or cancel the Guarantee,

in which case the necessary quorum shall be two or more persons holding or representing in the aggregate not less than 66 2/3 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting two or more persons holding or representing in the aggregate not less than 25.0 per cent. in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on all the Noteholders, whether or not they were present at the meeting at which such resolution was passed, and on all Receiptholders and Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90.0 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

15.2 Modifications and Waivers

The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to (i) any modification of any of the provisions of the Notes, the Trust Deed, the Agency Agreement, the Deed of Guarantee or these Conditions that is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of applicable law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, the Agency Agreement, the Deed of Guarantee or these Conditions that is, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter.

In addition, the Trustee shall be obliged to concur with the Issuer in effecting any Benchmark Amendments in the circumstances set out in Condition 5 without the consent of the Noteholders or Couponholders.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) and the Trustee shall not be entitled to require on behalf of any Noteholder, Receiptholder or Couponholder, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Parent Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, Receiptholders or Couponholders.

Notwithstanding anything to the contrary in these Conditions, the Trust Deed or the Agency Agreement, whenever the Trustee is required or entitled by the terms of these Conditions, the Trust Deed or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction, to seek directions from the Noteholders by way of an Extraordinary Resolution and shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction where the Trustee is seeking such directions.

15.3 Substitution of Issuer

The Trustee may but shall not be obliged to, without the consent of the Noteholders, the Receiptholders or the Couponholders at any time, agree with the Issuer and the Parent Guarantor to the substitution in place of the Issuer (or of the previous substitute under this Condition) as the principal obligor under the Notes, the Receipts, the Coupons and the Trust Deed of any entity owned or controlled by the Parent Guarantor, subject to (a) the Notes being unconditionally and irrevocably guaranteed by the Parent Guarantor and (b) certain other conditions set out in the Trust Deed being complied with.

15.4 General

Any such modification, waiver, authorisation, determination or substitution shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee otherwise agrees, any such modification or substitution shall be promptly notified to Noteholders by the Issuer.

16 INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER OR THE PARENT GUARANTOR

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking any steps and/or actions and/or instituting proceedings unless first indemnified and/or secured and/or pre-funded to its satisfaction.

The Trustee may rely, without liability to Noteholders, Receiptholders or Couponholders, on a report, confirmation, opinion or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, opinion or certificate or advice and such report, confirmation, opinion or certificate or advice shall be binding on the Issuer, the Parent Guarantor, the Trustee and the Noteholders.

17 FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders, Receiptholders or Couponholders create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with an outstanding Series. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

18 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term or condition of the Notes, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19 GOVERNING LAW AND SUBMISSION TO JURISDICTION

19.1 Governing Law

The Trust Deed, the Agency Agreement, the Deed of Guarantee, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency Agreement, the Deed of Guarantee, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

19.2 Submission to Jurisdiction

Each of the Issuer and the Parent Guarantor has in the Trust Deed agreed, for the exclusive benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Deed of Guarantee, the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons) and that accordingly any suit, action or proceedings (together referred to as "**Proceedings**") arising out of or in connection with the Trust Deed, the Deed of Guarantee, the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons) may be brought in the English courts.

Each of the Issuer and the Parent Guarantor has in the Trust Deed irrevocably and unconditionally waived and agreed not to raise any objection which it may have now or hereafter to the laying of the venue of any Proceedings (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Deed of Guarantee, the Notes, the Receipts and the Coupons) arising out of or in connection with the Trust Deed, the Deed of Guarantee, the Notes, the Receipts and the Coupons in the courts of England and any claim that any such Proceedings have been brought in an inconvenient forum and has further irrevocably and unconditionally agreed in the Trust Deed that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

19.3 Appointment of Process Agent

Each of the Issuer and the Parent Guarantor has, in the Trust Deed, irrevocably and unconditionally appointed Law Debenture Corporate Services Limited at its specified office for the time being at 8th Floor, 100 Bishopsgate, London EC2N 4AG as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will promptly appoint such other person as its agent to accept service of process on its behalf and deliver to the Trustee a copy of the agent's acceptance of that appointment within 30 days of such cessation.

SM PRIME TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the relevant Issuer, the relevant Parent Guarantor and the relevant Dealer at the time of issue but, if not so permitted and not so agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to the "Form of the Pricing Supplement" section of the Offering Circular for a description of the content of the Pricing Supplement which will specify which of such terms are to apply in relation to the relevant Notes. Unless otherwise provided, capitalised terms have the meanings given to them in these Terms and Conditions.

This Note is one of a Series of Notes issued by SMPHI SG Holdings Pte. Ltd. (the "**Issuer**"), and guaranteed by SM Prime Holdings, Inc. (the "**Parent Guarantor**") pursuant to the deed of guarantee (such deed of guarantee as amended and/or supplemented and/or restated from time to time, the "**Deed of Guarantee**") to be entered into by the Parent Guarantor on or prior to the first issue of Notes by it under the Programme. The Notes are constituted by a trust deed dated 6 May 2024 (such trust deed as amended and/or supplemented and/or restated from time to time, the "**Trust Deed**") made between the Issuer, as one of the issuers therein, the Parent Guarantor, as one of the parent guarantors therein, and The Hongkong and Shanghai Banking Corporation Limited (the "**Trustee**", which expression shall include any successor trustee appointed in accordance with the Trust Deed) as trustee for the Noteholders.

References herein to the "**Notes**" shall be references to the Notes of this Series and shall mean:

(i) in relation to any Notes represented by a global Note (a "**Global Note**"), units of each Specified Denomination in the currency specified therein or, if none is specified, the currency in which the Notes are denominated (the "**Specified Currency**");

(ii) any Global Note in bearer form (a "**Bearer Global Note**");

(iii) any Global Note in registered form (a "**Registered Global Note**");

(iv) definitive Notes in bearer form (the "**Definitive Bearer Notes**", and together with the Bearer Global Notes, the "**Bearer Notes**") issued in exchange for a Bearer Global Note; and

(v) definitive Notes in registered form (the "**Definitive Registered Notes**", and together with the Registered Global Notes, the "**Registered Notes**"), whether or not issued in exchange for a Registered Global Note.

The Notes, the Receipts and the Coupons have the benefit of an agency agreement dated 6 May 2024 (such agency agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") and made between the Issuer, as one of the issuers therein, the Parent Guarantor, as one of the parent guarantors therein, the Trustee, The Hongkong and Shanghai Banking Corporation Limited as principal paying agent, The Hongkong and Shanghai Banking Corporation Limited as CMU lodging and paying agent for Notes to be held in the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the "**CMU**") and the other agents named in it. The principal paying agent, the CMU lodging and paying agent, the other paying agents, The Hongkong and Shanghai Banking Corporation Limited as registrar and as the transfer agent for each Series of Notes other than CMU Notes (as defined in the Agency Agreement), and The Hongkong and Shanghai Banking Corporation Limited as the registrar and as the transfer agent for CMU Notes and The Hongkong and Shanghai Banking Corporation Limited as the calculation agent for the time being (if any) under the Agency Agreement are referred to below, respectively, as the "**Principal Paying Agent**" (which expression shall include any additional or successor

principal paying agent), the "**CMU Lodging and Paying Agent**" (which expression shall include any additional or successor CMU lodging and paying agent), the "**Paying Agents**" (which expression shall include any additional or successor paying agent and shall include the Principal Paying Agent), the "**Registrar**" (which expression shall include any additional or successor registrar), the "**Transfer Agents**" (which expression shall include the Registrar and any additional or successor transfer agent), the "**CMU Registrar**" (which expression shall include any additional or successor CMU registrar), the "**CMU Transfer Agent**" (which expression shall include any additional or successor CMU transfer agent) and the "**Calculation Agent(s)**" (which expression shall include any additional or successor calculation agent) and collectively, the "**Agents**". For the purposes of these Terms and Conditions ("**Conditions**"), all references to the Principal Paying Agent, Registrar and Transfer Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent, CMU Registrar and CMU Transfer Agent, respectively, and all such references shall be construed accordingly.

Interest bearing Definitive Bearer Notes (unless otherwise indicated in the applicable Pricing Supplement) have interest coupons ("**Coupons**") and, if indicated in the applicable Pricing Supplement, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes repayable in instalments have receipts ("**Receipts**") for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of this Note. References to the "**applicable Pricing Supplement**" are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note relating to it or the person in whose name a Registered Note is registered (as the case may be) and "**holder**" (in relation to a Note, Coupon, Talon or Receipt) means the bearer of any Bearer Note, Coupon, Talon or Receipt or the person in whose name a Registered Note is registered (as the case may be) and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to "**Receiptholders**" shall mean the holders of the Receipts and any reference herein to "**Couponholders**" shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons. The Trustee acts for the benefit of the Noteholders, the Receiptholders and the Couponholders, in accordance with the provisions of the Trust Deed.

As used herein, "**Tranche**" means Notes which are identical in all respects (including as to listing) and "**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates (as specified in the applicable Pricing Supplement), (unless this is a Zero Coupon Note) Interest Commencement Dates (as specified in the applicable Pricing Supplement) and/or Issue Prices (as specified in the applicable Pricing Supplement).

Subject to prior written request and proof of holding and identity to the satisfaction of the Trustee, copies of the Trust Deed and the Agency Agreement are (i) available at all reasonable times during normal business hours (being between 10:00 a.m. to 3:00 p.m. (Hong Kong time)) at the principal office for the time being of the Trustee (presently at Level 26, HSBC Main Building, 1 Queen's Road Central, Hong Kong) and at the specified office of each of the Principal Paying Agent and the other Paying Agents, or (ii) available electronically via e-mail from the Trustee. Copies of the applicable Pricing Supplement are obtainable at all reasonable times during normal business hours (being between 10:00 a.m. to 3:00 p.m. (Hong Kong time)) at the specified office of each of the Paying Agents or electronically via e-mail save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the Paying Agents as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, are

entitled to the benefit of, and are bound by, all the provisions of the Trust Deed and the applicable Pricing Supplement which are applicable to them and are deemed to have notice of those provisions applicable to them of the Agency Agreement. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed.

Words and expressions defined in the Trust Deed and the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and *provided* that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between these Conditions, the Trust Deed or the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1 FORM, DENOMINATION AND TITLE

The Notes may be in bearer form and/or in registered form and, in the case of definitive Notes, will be serially numbered, in the currency (the "**Specified Currency**") and the denominations (the "**Specified Denomination(s)**") specified in the applicable Pricing Supplement. Save as provided in Condition 2, Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons and (if applicable) Receipts and Talons attached, unless they are Zero Coupon Notes in which case references to Coupons, Receipts, Couponholders and Receiptholders in these Conditions are not applicable.

Subject as set out below, title to the Bearer Notes and the Coupons, Talons and Receipts will pass by delivery. Title to Registered Notes will pass upon registration of transfers in the books of the Registrar in accordance with the provisions of the Agency Agreement. The Issuer, the Parent Guarantor, the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar and any Transfer Agent will (except as otherwise ordered by a court of competent jurisdiction or as required by law) deem and treat the bearer of any Bearer Note, Coupon, Talon or Receipt and any person in whose name a Registered Note is registered as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held by a common depositary on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream**"), each person (other than Euroclear or Clearstream) who is for the time being shown in the records of Euroclear or of Clearstream as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Parent Guarantor, the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar and any Transfer Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer or registered holder of the relevant Global Note shall be treated by the Issuer, the Parent Guarantor, the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar and any Transfer Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly.

If a Note (whether in global or definitive form) is held through the CMU, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time and such payments shall discharge the obligation of the Issuer and the Parent Guarantor in respect of that payment under such Note.

In determining whether a particular person is entitled to a particular nominal amount of Notes, as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and/or Clearstream and/or CMU, as the case may be. References to Euroclear and/or Clearstream and/or CMU shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Parent Guarantor, the Trustee and the Principal Paying Agent.

2 TRANSFERS OF REGISTERED NOTES

2.1 Transfers of Interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by Euroclear, Clearstream or CMU, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be exchangeable for Registered Notes in definitive form only in the authorised denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of Euroclear, Clearstream or CMU, as the case may be, and in accordance with the Global Note and the terms and conditions specified in the Trust Deed and the Agency Agreement.

2.2 Transfers of Registered Notes Generally

Registered Notes may not be exchanged for Bearer Notes and *vice versa*.

Upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Definitive Registered Note may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer: (i) the holder or holders must (a) surrender the Definitive Registered Note for registration of the transfer of the Definitive Registered Note (or the relevant part of the Definitive Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (b) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after being satisfied with the documents of title and the identity of the person making the request and subject to such reasonable regulations as the Issuer, the Parent Guarantor, the Trustee, the Registrar, or as the case may be, the relevant Transfer Agent may prescribe (such initial regulations being set out in Schedule 2 to the Agency Agreement), which may be changed by the Issuer and the Parent Guarantor with the prior written approval of the Registrar and the Trustee or by the Registrar with the prior written approval of the Trustee. A copy of the current regulations is available at the specified office of the Registrar for inspection by any Noteholder at all reasonable times during normal business hours (being between 10:00 a.m. and 3:00 p.m. (Hong Kong time), Monday to Friday (other than public holidays)) following prior written request and proof of holding and identity to the satisfaction of the Registrar. Subject as provided above, the Registrar or, as the case may be, the relevant Transfer

Agent will, as soon as reasonably practicable, authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by mail to such address as the transferee may request, a new Definitive Registered Note of a like aggregate nominal amount to the Definitive Registered Note (or the relevant part of the Definitive Registered Note) transferred. In the case of the transfer of part only of a Definitive Registered Note, a new Definitive Registered Note (which shall be in a Specified Denomination) in respect of the balance of the Definitive Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor. Each new Definitive Registered Note to be issued pursuant to this Condition 2.2 shall be available for delivery within seven business days of receipt of the form of transfer and surrender of the Definitive Registered Note for exchange.

2.3 Registration of Transfer upon Partial Redemption

In the event of a partial redemption of Notes under Condition 7.3, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, that is called for partial redemption.

2.4 Costs of Registration

Registration of transfers will be effected without charge by or on behalf of the Issuer (or the Parent Guarantor, as the case may be), the Registrar or the relevant Transfer Agent, but upon payment (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the relevant Transfer Agent may require) in respect of any tax or other governmental charges which may be imposed in relation to it, *provided* that neither the Issuer nor the Parent Guarantor shall be responsible for any documentary stamp tax payable on the transfer of Notes effected in the Republic of the Philippines (the "**Philippines**") unless the Issuer or the Parent Guarantor is the counterparty directly liable for such documentary stamp tax.

2.5 Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered during the period of:

(i) 15 days prior to (and including) any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 7.3;

(ii) 15 days ending on (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note; or

(iii) 15 days ending on (and including) any Record Date (as defined in Condition 6.4 below).

3 GUARANTEE AND STATUS

3.1 Guarantee

Subject to the execution of the Deed of Guarantee, the Parent Guarantor unconditionally and irrevocably guarantees the due and punctual payment (in accordance with the provisions in the Deed of Guarantee) of the principal of and premium (if any) and interest on the Notes and of any and all sums expressed to be payable by the Issuer under the Trust Deed and the Notes (the "**Guarantee**"). The Parent Guarantor's obligations under the Guarantee are contained in the Deed of Guarantee.

The Parent Guarantor undertakes that it will execute the Deed of Guarantee and any additional documents which may be reasonably necessary to reflect its status as Parent Guarantor under the Trust Deed and the Notes.

3.2 Status of the Notes and the Guarantee

The Notes and any related Receipts and Coupons constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (save for such obligations required to be preferred by applicable laws) will rank *pari passu*, without any preference or priority among themselves, with all other present and future unsecured and unsubordinated obligations of the Issuer, but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

The Guarantee is set out in the Deed of Guarantee and constitutes direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligation of the Parent Guarantor and (save for such obligations required to be preferred by applicable laws) will rank *pari passu*, without any preference or priority among themselves, with all other present and future unsecured and unsubordinated obligations of the Parent Guarantor, but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

Under Philippine law unsecured debt (including guarantees of debt) of a borrower in insolvency or liquidation that is documented by a public instrument, as provided in Article 2244(14) of the Civil Code of the Philippines, ranks ahead of unsecured debt that is not so documented. Debt is treated as documented by a public instrument if it is acknowledged before a notary or any person authorised to administer oaths in the Philippines. The Issuer's or the Parent Guarantor's debt which is documented by a public instrument will rank ahead of the Notes or the Guarantee, as the case may be (that are not documented by a public instrument) in the event the Issuer or the Parent Guarantor is unable to service its debt obligations.

4 NEGATIVE PLEDGE

So long as any of the Notes remains outstanding (as defined in the Trust Deed):

(i) each of the Issuer and the Parent Guarantor will not, and the Parent Guarantor will ensure that none of its Principal Subsidiaries will, create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("**Security**") upon the whole or any part of the assets or revenues, present or future, of the Issuer, the Parent Guarantor or any Principal Subsidiary of the Parent Guarantor, respectively, to secure any Relevant Debt, or to secure any guarantee of or indemnity in respect of any Relevant Debt, in each case, unless, at the same time or prior thereto, the Issuer's or the Parent Guarantor's obligations under the Notes, the Trust Deed and the Deed of Guarantee, as the case may be, (a) are secured by such Security equally and ratably therewith, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (which is defined in the Trust Deed as, *inter alia*, a resolution duly passed by a majority of at least 66 2/3 per cent. of the votes cast thereon) of the Notes; and

(ii) each of the Issuer and the Parent Guarantor will not create or permit to subsist any preference or priority in respect of any of its other Relevant Debt pursuant to Article 2244(14) of the Civil Code of the Philippines, or any successor Philippine law providing for preferences or priority in respect of notarised Relevant Debt, unless all amounts payable by it under the outstanding Notes or the Guarantee, as the case may be, are granted preference or priority equally and ratably therewith.

For the purposes of these Conditions:

"**Principal Subsidiary**" means, at any time, a Subsidiary of the Parent Guarantor:

(i) whose net income (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Parent Guarantor and its

Subsidiaries relate, are equal to) not less than 20.0 per cent. of the consolidated net income or, as the case may be, consolidated total assets of the Parent Guarantor and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Parent Guarantor and its Subsidiaries; or

(ii) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Parent Guarantor which immediately prior to such transfer is a Principal Subsidiary, *provided* that the transferor Subsidiary shall upon such transfer forthwith cease to be a Principal Subsidiary and the transferee Subsidiary shall become a Principal Subsidiary pursuant to this subparagraph (ii) on the date on which the consolidated accounts of the Parent Guarantor and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (i) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or

(iii) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Parent Guarantor and its Subsidiaries relate, generate net income equal to) not less than 20.0 per cent. of the consolidated net income, or represent (or, in the case aforesaid, are equal to) not less than 20.0 per cent. of the consolidated total assets of the Parent Guarantor and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (i) above, *provided* that the transferor Subsidiary (if a Principal Subsidiary) shall upon such transfer forthwith cease to be a Principal Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate net income equal to) not less than 20.0 per cent. of the consolidated net income, or its assets represent (or, in the case aforesaid, are equal to) not less than 20.0 per cent. of the consolidated total assets of the Parent Guarantor and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (i) above, and the transferee Subsidiary shall become a Principal Subsidiary pursuant to this subparagraph (iii) on the date on which the consolidated accounts of the Parent Guarantor and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (i) above or, prior to or after such date, by virtue of any other applicable provision of this definition.

A certificate signed by an Authorised Signatory of the Parent Guarantor (whether or not addressed to the Trustee) delivered by the Parent Guarantor to the Trustee that in its opinion a Subsidiary of such Guarantor is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary, may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall be conclusive and binding on all parties and the Trustee shall not be liable in any way for relying on such certificate.

"**Relevant Debt**" means any present or future indebtedness in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities ("**Indebtedness**") which are for the time being are intended to be or capable of being quoted, listed or ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market, in each case, having an original maturity of more than one year from the date of issue, and *provided* that, Relevant Debt shall exclude Indebtedness denominated, payable or optionally payable in Philippine Pesos.

"**Subsidiary**" means in relation to any person (the "**first person**") at any particular time, any other person (the "**second person**") whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person.

5 INTEREST

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note), the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest (as specified in the applicable Pricing Supplement). Interest will be payable in arrear on the Interest Payment Date(s) (as specified in the applicable Pricing Supplement) in each year up to (and including) the Maturity Date (as specified in the applicable Pricing Supplement).

If the Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount (as specified in the applicable Pricing Supplement) so specified.

As used in these Conditions, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest (as specified in the applicable Pricing Supplement) to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount (as specified in the applicable Pricing Supplement);

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 5.1:

(a) if "**Actual/Actual (ICMA)**" is specified in the applicable Pricing Supplement:

(i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

(ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;

(b) if "**30/360**" is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360; or

(c) if "**Actual/365 (Fixed)**" is specified in the applicable Pricing Supplement, the actual number of days in the Accrual Period divided by 365.

In these Conditions:

"**Determination Period**" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

"**sub-unit**" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

5.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest will be payable in arrear on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an Interest Payment Date) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each "**Interest Period**" (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as specified in the applicable Pricing Supplement) the Margin (as specified in the applicable Pricing Supplement) (if any). For the purposes of this subparagraph (i), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under an interest rate swap transaction for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as of the Issue Date of the first Tranche of the Notes (the "**ISDA Definitions**") and under which:

(A) the Floating Rate Option is as specified in the applicable Pricing Supplement;

(B) the Designated Maturity is a period specified in the applicable Pricing Supplement; and

(C) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the Euro-zone inter-bank offered rate (EURIBOR) or on the Secured Overnight Financing Rate (SOFR), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this subparagraph (i), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity" and "Reset Date" have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Notes (other than Floating Rate Notes which specify the Reference Rate as SOFR)

Where Screen Rate Determination is specified as the manner in which the Rate of Interest is to be determined and the Reference Rate is specified as either EURIBOR or the Hong Kong Interbank Offered Rate (HIBOR) in the applicable Pricing Supplement, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page (as specified in the applicable Pricing Supplement) as of 11.00 a.m. (Brussels time, in the case of EURIBOR, Hong Kong time, in the case of HIBOR) on the Interest Determination Date in question plus or minus (as specified in the applicable Pricing Supplement) the Margin (if any), all as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

(iii) Screen Rate Determination for Floating Rate Notes where the Reference Rate is specified as being SOFR Benchmark

Where Screen Rate Determination is specified as the manner in which the Rate of Interest is to be determined and the Reference Rate is specified as SOFR Benchmark in the applicable Pricing Supplement, the Rate of Interest for each Interest Period will, subject as provided below, be equal to the relevant SOFR Benchmark plus or minus the Margin (if any), all as determined by the Calculation Agent on the relevant Interest Determination Date.

The "SOFR Benchmark" will be determined based on Compounded Daily SOFR or Compounded SOFR Index, as follows (subject in each case to Condition 5.2(i) as further specified hereon):

(A) If "Compounded Daily SOFR" is specified in the applicable Pricing Supplement as the manner in which the SOFR Benchmark will be determined, the SOFR Benchmark for each Interest Period shall be calculated by the Calculation Agent in accordance with one of the formulas referenced below depending upon which is specified as applicable in the applicable Pricing Supplement:

(1) SOFR Lag:

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_{i-\times USBD}\times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**$SOFR_{i\text{-}xUSBD}$**" for any U.S. Government Securities Business Day "i" in the relevant Interest Period, is equal to the SOFR reference rate for the U.S. Government Securities Business Day falling the number of Lookback Days prior to that U.S. Government Securities Business Day "i";

"**Lookback Days**" means such number of U.S. Government Securities Business Days as specified in the applicable Pricing Supplement;

"**d**" means the number of calendar days in the relevant Interest Period;

"**d_o**" means the number of U.S. Government Securities Business Days in the relevant Interest Period;

"**i**" means a series of whole numbers ascending from one to d_o, representing each relevant U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant Interest Period (each a "U.S. Government Securities Business Day (i)"); and

"**n_i**", for any U.S. Government Securities Business Day (i) means the number of calendar days from (and including) such U.S. Government Securities Business Day (i) up to (but excluding) the following U.S. Government Securities Business Day.

(2) SOFR Observation Shift:

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**$SOFR_i$**" for any U.S. Government Securities Business Day (i) in the relevant SOFR Observation Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day (i);

"**SOFR Observation Period**" means, in respect of an Interest Period, the period from (and including) the date falling the number of SOFR Observation Shift Days prior to the first day of such Interest Period to (but excluding) the date falling the number of SOFR Observation Shift Days prior to the Interest Period Date for such Interest Period;

"**SOFR Observation Shift Days**" means the number of U.S. Government Securities Business Days as specified in the applicable Pricing Supplement;

"**d**" means the number of calendar days in the relevant SOFR Observation Period;

"**d_o**" means the number of U.S. Government Securities Business Days in the relevant SOFR Observation Period;

"**i**" means a series of whole numbers ascending from one to d_o, representing each U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant SOFR Observation Period (each a "U.S. Government Securities Business Day (i)"); and

"**n_i**", for any U.S. Government Securities Business Day (i), means the number of calendar days from (and including) such U.S. Government Securities Business Day (i) up to (but excluding) the following U.S. Government Securities Business Day.

The following defined terms shall have the meanings set out below for the purpose of Condition 5.2(b)(iii)(A):

"**Bloomberg Screen SOFRRATE Page**" means the Bloomberg screen designated "SOFRRATE" or any successor page or service;

"**Reuters Page USDSOFR=**" means the Reuters page designated "USDSOFR=" or any successor page or service;

"**SOFR**" means, in respect of a U.S. Government Securities Business Day, the reference rate determined by the Calculation Agent in accordance with the following provision:

(1) the Secured Overnight Financing Rate published at the SOFR Determination Time as such reference rate is reported on the Bloomberg Screen SOFRRATE Page; the Secured Overnight Financing Rate published at the SOFR Determination Time as such reference rate is reported on the Reuters Page USDSOFR=; or the Secured Overnight Financing Rate published at the SOFR Determination Time on the SOFR Administrator's Website;

(2) if the reference rate specified in (1) above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have not occurred, the SOFR reference rate shall be the reference rate published on the SOFR Administrator's Website for the first preceding U.S. Government Securities Business Day for which SOFR was published on the SOFR Administrator's Website; or

(3) if the reference rate specified in (1) above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 5.2(i) shall apply as specified in the applicable Pricing Supplement; and

"**SOFR Determination Time**" means approximately 3:00 p.m. (New York City time) on the immediately following U.S. Government Securities Business Day.

(B) If "Compounded SOFR Index" is specified as applicable in the applicable Pricing Supplement, the SOFR Benchmark for each Interest Period shall be equal to the compounded average of daily SOFR reference rates for each day during the relevant SOFR Observation Period as calculated by the Calculation Agent as follows:

$$\left(\frac{SOFR\ Index_{End}}{SOFR\ Index_{Start}} - 1\right) \times \left(\frac{360}{d_c}\right)$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

"**SOFR Index**" means, in respect of a U.S. Government Securities Business Day, the SOFR Index value as published on the SOFR Administrator's Website at the SOFR Index Determination Time on such U.S. Government Securities Business Day, *provided* that:

(1) if the value specified above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have not occurred, the "SOFR Index" shall be calculated on any Interest Determination Date with respect to an Interest Period, in accordance with the Compounded Daily SOFR formula described above in Condition 5.2(b)(iii)(A)(2) ("**SOFR Observation Shift**"), and the term "**SOFR Observation Shift Days**" shall mean five U.S. Government Securities Business Days; or

(2) if the value specified above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 5.2(i) shall apply as specified in the applicable Pricing Supplement;

"**SOFR Index$_{End}$**" means, in respect of an Interest Period, the SOFR Index value on the date that is the number of U.S. Government Securities Business Days specified in the applicable Pricing Supplement prior to the Interest Period Date for such Interest Period (or in the final Interest Period, the Maturity Date);

"**SOFR Index$_{Start}$**" means, in respect of an Interest Period, the SOFR Index value on the date that is the number of U.S. Government Securities Business Days specified in the applicable Pricing Supplement prior to the first day of such Interest Period;

"**SOFR Index Determination Time**" means, in respect of a U.S. Government Securities Business Day, approximately 3:00 p.m. (New York City time) on such U.S. Government Securities Business Day;

"**SOFR Observation Period**" means, in respect of an Interest Period, the period from (and including) the date falling the number of SOFR Observation Shift Days prior to the first day of such Interest Period to (but excluding) the date falling the number of SOFR Observation Shift Days prior to the Interest Period Date for such Interest Period;

"**SOFR Observation Shift Days**" means the number of U.S. Government Securities Business Days as specified in the applicable Pricing Supplement; and

"**d_c**" means the number of calendar days in the applicable SOFR Observation Period.

The following defined terms shall have the meanings set out below for the purpose of this Condition 5.2(b)(iii)(B):

"**SOFR Administrator's Website**" means the website of the Federal Reserve Bank of New York (currently being, https://www.newyorkfed.org/markets/reference-rates/sofr-averages-and-index), or any successor source;

"**SOFR Benchmark Replacement Date**" means the Benchmark Replacement Date with respect to the then-current Benchmark;

"**SOFR Benchmark Transition Event**" means the occurrence of a Benchmark Event with respect to the then-current Benchmark; and

"**U.S. Government Securities Business Day**" means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(iv) If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than EURIBOR, HIBOR or SOFR, the Rate of Interest in such Notes will be determined as provided in the applicable Pricing Supplement.

(c) Minimum and/or Maximum Rate of Interest

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

Unless otherwise stated in the applicable Pricing Supplement, the Minimum Rate of Interest shall be deemed to be zero.

(d) Determination of Rate of Interest and Calculation of Interest Amounts

The Calculation Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period and notify the Issuer, the Trustee, and the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Calculation Agent will calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

(A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2(d):

(i) if "**Actual/Actual (ISDA)**" or "**Actual/Actual**" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;

(iii) if "**Actual/365 (Sterling)**" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2\text{-}Y_1)] + [30 \times (M_2\text{-}M_1)] + (D_2\text{-}D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2\text{-}Y_1)] + [30 \times (M_2\text{-}M_1)] + (D_2\text{-}D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30; and

(vii) if "**30E/360 (ISDA)**" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2\text{-}Y_1)] + [30 \times (M_2\text{-}M_1)] + (D_2\text{-}D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

(e) Notification of Rate of Interest and Interest Amounts

The Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and the Principal Paying Agent as soon as practicable after their determination but in no event later than the fourth Business Day thereafter. Notice thereof shall promptly be given by the Issuer to the Noteholders and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have been admitted to listing, trading and/or quotation. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified by the Issuer to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders. For the purposes of this paragraph, the expression "**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(f) Determination or Calculation

If for any reason at any relevant time the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Calculation Agent defaults in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i), subparagraph (b)(ii), or subparagraph (b)(iii) above or as otherwise specified in the applicable Pricing Supplement, as the case may be, and in each case in accordance with paragraph (d) above, the Issuer shall at its own expense, appoint an independent investment bank of international repute (an "**Independent Investment Bank**") to determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest

specified in the applicable Pricing Supplement), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Independent Investment Bank shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances. In the event there are provisions in the Notes or the ISDA Definitions that require the Calculation Agent to exercise discretion, such references will be deemed to be the references to the Calculation Agent acting upon instruction of the Issuer or the Issuer will appoint an Independent Investment Bank to make the relevant determination, or the Issuer shall appoint another entity to act as Calculation Agent as soon as reasonably practicable after being notified by the Calculation Agent of its inability to exercise such discretion and the existing Calculation Agent shall be released of its obligations in respect of that particular series of Notes without liability.

(g) Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5, whether by the Principal Paying Agent or, if applicable, the Calculation Agent or the Independent Investment Bank, shall (in the absence of wilful default, fraud or manifest error) be binding on the Issuer, the Parent Guarantor, the Trustee, the Principal Paying Agent, the Registrar, the Calculation Agent (if applicable), the other Paying Agents, the Transfer Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of gross negligence, wilful default or fraud) no liability to the Issuer, the Parent Guarantor, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent, the Registrar, the other Paying Agents, the Transfer Agents, the Independent Investment Bank or the Trustee in connection with the exercise or non-exercise by any of them of their powers, duties and discretions pursuant to such provisions.

(h) Benchmark Discontinuation (General)

Where the Original Reference Rate is not SOFR, in addition and notwithstanding the terms set forth elsewhere in these Conditions, this Condition 5.2(h) shall apply.

(i) Independent Adviser

If a Benchmark Transition Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 5.2(h)(iv)). In making such determination, the Independent Adviser appointed pursuant to this Condition 5.2(h)(i) shall act in good faith and in a commercially reasonable manner as an expert. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Parent Guarantor, the Principal Paying Agent, the Paying Agents, or the Noteholders for any determination made by it, pursuant to this Condition 5.2(h)(i).

If (1) the Issuer is unable to appoint an Independent Adviser; or (2) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 5.2(h)(i) prior to the date which is ten business days prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest determined using the Original Reference Rate last displayed on

the relevant Screen Page prior to the relevant Interest Determination Date. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in this Condition 5.2(h).

(ii) Successor Rate or Alternative Rate

If the Independent Adviser determines that:

(A) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5.2(h)); or

(B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5.2(h)).

(iii) Adjustment Spread

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be). If the Independent Adviser is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Rate (as applicable) will apply without an Adjustment Spread.

(iv) Benchmark Amendments

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 5.2(h) and the Independent Adviser, determines (i) that amendments to these Conditions and/or the Trust Deed/the Agency Agreement are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5.2(h)(v), without any requirement for the consent or approval of Noteholders, vary these Conditions and/or the Trust Deed/Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by one Authorised Signatory of the Issuer pursuant to Condition 5.2(h)(v), the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed, *provided* that the Trustee shall not be obliged so to concur if, in the opinion of the Trustee, doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

None of the Trustee, the Calculation Agent or the Principal Paying Agent shall be responsible or liable for any determinations or certifications made by the Issuer or the Independent Adviser with respect to any Successor Rate or Alternative Rate (as applicable) or any other changes and shall be entitled to rely conclusively on certifications provided to it.

Notwithstanding any other provision of this Condition 5.2(h), the Calculation Agent or any Paying Agent is not obliged to concur with the Issuer or the Independent Adviser in respect of any changes or amendments as contemplated under this Condition 5.2(h) to which, in the sole opinion of the Calculation Agent or the relevant Paying Agent, as the case may be, would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Calculation Agent or the relevant Paying Agent (as applicable) in the Calculation Agency Agreement, the Agency Agreement and/or these Conditions.

In connection with any such variation in accordance with this Condition 5.2(h)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(v) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 5.2(h) will be notified at least ten business days prior to the relevant Interest Determination Date by the Issuer to the Trustee, the Calculation Agent and the Paying Agents. Notice shall be provided by the Issuer to the Noteholders promptly thereafter. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Noteholders of the same, the Issuer shall deliver to the Trustee, the Calculation Agent and the Paying Agents a certificate signed by one Authorised Signatory of the Issuer:

(A) confirming (1) that a Benchmark Transition Event has occurred, (2) the Successor Rate or, as the case may be, the Alternative Rate, (3) the applicable Adjustment Spread and (4) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 5.2(h); and

(B) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

Each of the Trustee, the Calculation Agent and the Paying Agents shall be entitled to rely conclusively on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Trustee's, or the Calculation Agent's or the Paying Agents' ability to rely on such certificate as aforesaid) be binding on the Issuer, the Parent Guarantor, the Trustee, the Calculation Agent, the Paying Agents and the Noteholders.

Notwithstanding any other provision of this Condition 5.2(h), if following the determination of any Successor Rate, Alternative Rate, Adjustment Spread or Benchmark Amendments (if any), in the Calculation Agent's opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 5.2(h), the Calculation Agent shall notify the Issuer thereof and the Issuer shall direct the Calculation Agent in writing as to which alternative course of action to adopt. If the Calculation Agent is not promptly provided with such direction, or is otherwise unable (other than due to its own gross negligence, wilful default or fraud) to make such calculation or determination for any reason, it shall notify the Issuer thereof and the Calculation Agent shall be under no obligation to make such calculation or determination and (in the absence of such gross negligence, wilful default or fraud) shall not incur any liability for not doing so.

(vi) Survival of Original Reference Rate:

Without prejudice to the obligations of the Issuer under Conditions 5.2(h)(i) to 5.2(h)(iv), the Original Reference Rate and the fallback provisions provided for in Condition 5.2(b)(ii) will continue to apply unless and until a Benchmark Transition Event has occurred.

(vii) Definitions:

As used in this Condition 5.2(h):

"**Adjustment Spread**" means either (1) a spread (which may be positive, negative or zero) or (2) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(A) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);

(B) the Independent Adviser determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if the Independent Adviser determines that no such spread is customarily applied);

(C) the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 5.2(h)(ii) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes.

"**Benchmark Amendments**" has the meaning given to it in Condition 5.2(h)(iv).

"**Benchmark Transition Event**" means:

(A) the Original Reference Rate ceasing to be published for a period of at least five business days or ceasing to exist; or

(B) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

(C) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or

(D) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes; or

(E) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate is or will be (or is or will be deemed by such supervisor to be) no longer representative of its relevant underlying market; or

(F) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder using the Original Reference Rate;

provided that the Benchmark Transition Event shall be deemed to occur (1) in the case of subparagraphs (A) and (C) above, on the date of the cessation of publication of the Original Reference Rate or the discontinuation of the Original Reference Rate, as the case may be, (2) in the case of subparagraph (D) above, on the date of the prohibition of use of the Original Reference Rate and (3) in the case of subparagraph (E) above, on the date with effect from which the Original Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

The occurrence of a Benchmark Transition Event shall be determined by the Issuer and promptly notified to the Trustee, the Calculation Agent and the Paying Agents. For the avoidance of doubt, neither the Trustee, the Calculation Agent nor the Paying Agents shall have any responsibility for making such determination.

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer at its own expense.

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes.

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(B) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (1) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (2) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (3) a group of the aforementioned central banks or other supervisory authorities or (4) the Financial Stability Board or any part thereof.

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(i) Benchmark Replacement (SOFR)

Where the Original Reference Rate is SOFR, in addition and notwithstanding the terms set forth elsewhere in these Conditions, this Condition 5.2(i) shall apply.

(i) Benchmark Replacement

If the Issuer or its designee determines on or prior to the relevant Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the-then current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates.

(ii) Benchmark Replacement Conforming Changes

In connection with the implementation of a Benchmark Replacement, the Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes from time to time. For the avoidance of doubt, the Trustee shall, at the direction and expense of the Issuer, effect such consequential amendments to the Trust Deed, the Agency Agreement and/or these Conditions as may be required to give effect to Condition 5.2(i). Noteholders' consent shall not be required in connection with effecting any such changes, including the execution of any documents or any steps to be taken by the Trustee and the Agents (if required). Further, none of the Trustee, the Calculation Agent, the Paying Agents, the Registrars or the Transfer Agents shall be responsible or liable for any determinations, decisions or elections made by the Issuer or its designee with respect to any Benchmark Replacement or any other changes and shall be entitled to rely conclusively on any certifications provided to each of them in this regard. Neither the Trustee nor the Agents shall be obliged to concur with the Issuer in respect of any changes or amendments as contemplated under this Condition 5.2(i) to which, in the sole opinion of the Trustee or the Agents, as the case may be, would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee or the Agents in the Trust Deed or the Agency Agreement, as the case may be.

(iii) Decisions and Determinations

Any determination, decision or election that may be made by the Issuer or its designee pursuant to this Condition 5.2(i), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection will be conclusive and binding absent manifest error, will be made in the sole discretion of the Issuer or its designee, as applicable, and notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the holders of the Notes or any other party.

(iv) Certain Defined Terms:

As used in this Condition 5.2(i):

"**Benchmark**" means, initially, the relevant SOFR Benchmark specified in the applicable Pricing Supplement; *provided* that if the Issuer or its designee determines on or prior to the Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the relevant SOFR Benchmark (including any daily published component used in the calculation thereof) or the then-current Benchmark, then "Benchmark" means the applicable Benchmark Replacement;

"**Benchmark Replacement**" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(A) the sum of:

(i) the alternate reference rate that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof); and

(ii) the Benchmark Replacement Adjustment;

(B) the sum of:

(i) the ISDA Fallback Rate; and

(ii) the Benchmark Replacement Adjustment; or

(C) the sum of:

(i) the alternate reference rate that has been selected by the Issuer or its designee as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) giving due consideration to any industry-accepted reference rate as a replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) for U.S. dollar-denominated floating rate notes at such time; and

(ii) the Benchmark Replacement Adjustment;

"**Benchmark Replacement Adjustment**" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(A) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

(B) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or

(C) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark (including any daily published component used in the calculation thereof) with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated floating rate notes at such time;

"**Benchmark Replacement Conforming Changes**" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) that the Issuer or its designee decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer or its designee decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer or its designee determine that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer or its designee determines is reasonably necessary);

"**Benchmark Replacement Date**" means the earliest to occur of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

(A) in the case of subparagraph (A) or (B) of the definition of "Benchmark Transition Event," the later of:

  (i) the date of the public statement or publication of information referenced therein; and

  (ii) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or

(B) in the case of subparagraph (C) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event that gives rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

"**Benchmark Transition Event**" means the occurrence of one or more of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

(A) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component), permanently or indefinitely, *provided* that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(B) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, *provided* that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(C) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

"**designee**" means a designee as selected and separately appointed by the Issuer in writing;

"**ISDA Definitions**" means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time, including the 2021 ISDA Interest Rate Derivatives Definitions (as amended or supplemented from time to time);

"**ISDA Fallback Adjustment**" means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

"**ISDA Fallback Rate**" means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark (including any daily published component used in the calculation thereof) for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

"**Reference Time**" with respect to any determination of the Benchmark means (1) if the Benchmark is the SOFR Benchmark, the SOFR Determination Time (where Compounded Daily SOFR is specified as applicable in the applicable Pricing Supplement) or SOFR Index Determination Time (where Compounded SOFR Index is specified as applicable in the applicable Pricing Supplement), or (2) if the Benchmark is not the SOFR Benchmark, the time determined by the Issuer or its designee after giving effect to the Benchmark Replacement Conforming Changes;

"**Relevant Governmental Body**" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto; and

"**Unadjusted Benchmark Replacement**" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

5.3 Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

5.4 Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

5.5 Accrual of Interest

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment of a court of competent jurisdiction) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date.

5.6 Definitions

"**Business Day**" means:

(a) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(b) in the case of euro, any day on which T2 is open for the settlement of payments in euro (a "**TARGET Business Day**") and/or

(c) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"**Business Day Convention**": If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is:

(a) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment;

(b) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day;

(c) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or

(d) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Period, the date specified as such in the applicable Pricing Supplement or, if none is so specified:

(a) the day falling two TARGET Business Days prior to the first day of such Interest Period if the Specified Currency is euro; or

(b) (where SOFR Benchmark is specified in the applicable Pricing Supplement as the Reference Rate and where SOFR Lag or SOFR Observation Shift is specified as applicable in the applicable Pricing Supplement to determine Compounded Daily SOFR or where Compounded SOFR Index is specified as applicable in the applicable Pricing Supplement) the fifth U.S. Government Securities Business Day prior to the last day of each Interest Period.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified in the applicable Pricing Supplement.

"**Reference Rate**" means the rate specified in the applicable Pricing Supplement.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the applicable Pricing Supplement or such successor or replacement page, section, caption, column or other part as may replace it on that information service.

6 PAYMENTS

6.1 Method of Payment

Subject as provided below:

(a) payments in a Specified Currency other than euro will be made by transfer to an account in the relevant Specified Currency maintained by the payee with a Bank. In these Conditions, "**Bank**" means a bank in the principal financial centre of the country of such Specified Currency or, in the case of euro, in a city in which banks have access to T2; and

(b) payments in euro will be made by transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto.

In these Conditions, "**T2**" means the real time gross settlement system operated by the Eurosystem, or any successor system.

6.2 Presentation of Bearer Notes, Receipts and Coupons

Payments of principal in respect of Definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Definitive Bearer Notes, and payments of interest in respect of Definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of Definitive Bearer Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 6.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Bearer Note to which it appertains. Receipts presented without the Definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9).

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "**Long Maturity Note**" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon, *provided* that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

6.3 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Bearer Notes represented by any Bearer Global Note will (subject as provided below) be made in the manner specified above in relation to Definitive Bearer Notes or otherwise in the manner specified in the relevant Bearer Global Note against presentation and surrender of such Bearer Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation and surrender of any Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

Payments of principal and interest in respect of Bearer Notes held in the CMU will be made to the CMU for its distribution to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU in accordance with the CMU Rules at the relevant time, and payment made to the CMU in accordance thereof shall discharge the obligations of the Issuer and the Parent Guarantor in respect of that payment.

6.4 Payments in respect of Registered Notes

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to an account denominated in such currency with, a Bank of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the "**Register**") (i) where in global form, at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note (whether or not in global form) will be made by transfer to an account denominated in such currency with, a Bank of the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a Business Day) before the relevant due date (the "**Record Date**") at the holder's address shown in the Register on the Record Date and at its risk. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Payments of principal and interest in respect of Registered Notes held in the CMU will be made to the CMU for its distribution to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU on the Clearing System Business Day in accordance with the CMU Rules at the relevant time, and payment made to the CMU in accordance thereof shall discharge the obligations of the Issuer and the Parent Guarantor in respect of that payment.

No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

None of the Issuer, the Parent Guarantor, the Trustee, the Registrar, any Transfer Agent or any Paying Agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

In these Conditions:

"**Clearing System Business Day**" means (in respect of Euroclear or Clearstream) a weekday (Monday to Friday, inclusive) except 25 December and 1 January, and (in respect of CMU) a day on which CMU is open for business.

6.5 General Provisions Applicable to Payments

(a) The holder of a Global Note (or as provided in the Trust Deed, the Trustee) shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer (or the Parent Guarantor, as the case may be) will be discharged by payment to, or to the order of, the holder of such Global Note (or the Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream or CMU as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream or CMU, as the case may be, for his share of each payment so made by the Issuer (or the Parent Guarantor, as the case may be) in respect of such Global Note to, or to the order of, the holder of such Global Note.

(b) Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of the Bearer Notes is payable in U.S. Dollars, such U.S. Dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in New York City in the same manner as aforesaid if:

(i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. Dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. Dollars; and

(iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer (or the Parent Guarantor, as the case may be), adverse tax consequences to the Issuer (or the Parent Guarantor, as the case may be).

(c) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender, if appropriate) of the relevant Bearer Note or Registered Note, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Bearer Note or Registered Note, as the case may be.

6.6 Payment Day

If any date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such postponed payment. For these purposes, "**Payment Day**" means (subject to Condition 9):

(a) a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

(i) in the case of Notes in definitive form only, the relevant place of presentation; and

(ii) each Additional Financial Centre specified in the applicable Pricing Supplement; and

(iii) the specified office of the relevant Paying Agent; and

(b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency; or (B) in relation to any sum payable in euro, a day on which T2 is open for the settlement of payments in euro.

6.7 Interpretation of Principal and Interest

Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(a) any Additional Amounts which may be payable with respect to principal under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;

(b) the Final Redemption Amount of the Notes;

(c) the Early Redemption Amount of the Notes;

(d) the Optional Redemption Amount(s) (if any) of the Notes;

(e) in relation to Notes redeemable in instalments, the Instalment Amounts;

(f) in relation to Zero Coupon Notes, the Amortised Face Amount; and

(g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any Additional Amounts which may be payable with respect to interest under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

7 REDEMPTION AND PURCHASE

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

7.2 Redemption for Tax Reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note), on giving not less than 30 nor more than 60 calendar days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 7.5) (together with interest accrued to the date fixed for redemption), if:

(a) the Issuer (or the Parent Guarantor, as the case may be) satisfies the Trustee immediately before the giving of such notice that it has or will on the occasion of the next payment due under the Notes become obliged to pay Additional Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or treaties (or any rules or regulations thereunder) of a Tax Jurisdiction, or any change in the official application or official interpretation of such laws, treaties, rules or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes for such Series; and

(b) such obligation is continuing and cannot be avoided by the Issuer (or the Parent Guarantor, as the case may be) taking reasonable measures available to it, *provided* that no such notice of redemption shall be given earlier than 90 calendar days prior to the earliest date on which the Issuer (or the Parent Guarantor, as the case may be) would be obliged to pay such Additional Amounts were a payment in respect of the Notes (or the Guarantee, as the case may be) then due.

Prior to the publication of any notice of redemption pursuant to this Condition 7.2, the Issuer shall deliver to the Trustee (1) a certificate signed by one Authorised Signatory of the Issuer (or the Parent Guarantor, as the case may be) stating that the obligation referred to in (a) above cannot be avoided by the Issuer (or the Parent Guarantor, as the case may be) taking reasonable measures available to it. The Issuer (or the Parent Guarantor, as the case may be) is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer (or the Parent Guarantor, as the case may be) has or will become obliged to pay such Additional Amounts as a result of such change or amendment. The Trustee shall be entitled without liability to any person and without further enquiry to accept and rely on the certificate(s) and the opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

Notes redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.5 below together (if any) with interest accrued to (but excluding) the date of redemption.

7.3 Redemption at the Option of the Issuer (Issuer Call)

If Issuer Call is specified as being applicable in the applicable Pricing Supplement, the Issuer may, on giving not less than 15 nor more than 30 calendar days' notice to the Noteholders (or such other notice period as may be specified in the applicable Pricing Supplement) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and/or not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement.

In the case of a partial redemption of Notes (or, as the case may be, parts of Registered Notes), the Notes to be redeemed ("**Redeemed Notes**") will be selected in such place as the Trustee may approve and in such manner as it deems fit, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream and/or CMU (as appropriate), in the case of Redeemed Notes represented by a Global Note, not more than 30 calendar days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, the Issuer will ensure that a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes or represented by a Global Note shall in each case bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding and Notes outstanding represented by such Global Note, respectively, bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, *provided* that, if necessary, appropriate adjustments shall be made to such nominal amounts to ensure that each represents an integral multiple of the Specified Denomination. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the Issuer to the Noteholders at least five calendar days prior to the Selection Date.

7.4 Redemption upon Change of Control

Upon the occurrence of a Change of Control, each Noteholder shall have the right, at its option, to require the Issuer to repurchase all (but not some only) of its Notes, at a redemption price equal to 101.0% of the principal amount thereof plus accrued interest (the "**Change of Control Redemption Amount**") on the Change of Control Put Date. Within 14 days following a Change of Control, the Issuer shall notify the Trustee and cause the Principal Paying Agent to notify each Noteholder, which notice shall state (i) that a Change of Control has occurred and that such Noteholder has the right to require the Issuer to redeem its Notes at the Change of Control Redemption Amount; (ii) the date set by the Issuer for such repurchase (which shall be no earlier than 30 days and no later than 60 days from the date such notice is given) (the "**Change of Control Put Date**"); and (iii) the procedures determined by the Issuer, consistent with the Trust Deed, that a Noteholder must follow in order to have its Notes redeemed. The Trustee shall not be required to take any steps to ascertain whether a Change of Control or any event which could lead to the occurrence of a Change of Control has occurred nor be liable to any person for any failure to do so.

In these Conditions:

"**Change of Control**" means the occurrence of any event that would result in either (i) the Permitted Holders collectively ceasing to control or hold beneficial ownership of at least 35 per cent. of the outstanding voting capital stock of the Parent Guarantor, (ii) the Permitted Holders in aggregate ceasing to be the largest beneficial owners of the outstanding voting capital stock of the Parent Guarantor, or (iii) the Parent Guarantor consolidates with or merges into or sells or transfers substantially all of its assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring control over the Parent Guarantor.

"**Permitted Holders**" means any or all of the following: (i) SM Investments Corporation (ii) Felicidad T. Sy and her children Teresita T. Sy, Elizabeth T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy, Harley T. Sy and their legal heirs; (iii) the relatives until the fourth degree of consanguinity or affinity of the persons named or described in clause (ii) above and such relatives' spouses; (iv) the descendants of the persons named or described in clauses (ii) and (iii) above; (v) the estates or legal representatives of any person named or described in clauses (ii) to (iv) above; (vi) trusts or other analogous arrangements established for the benefit of any person named or described in clauses (ii) to (v) above or of which any such person is a trustee or holder of an analogous office; or (vii) any Person directly or indirectly controlled by any Person named or described in clauses (ii) to (vi) above. For purposes of this definition, "**control**", as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organisation or government or any agency or political subdivision thereof.

"**Voting Stock**" means, with respect to any person, equity share capital (or equivalent) of any class or kind ordinarily having the power to vote for the election of directors or other the governing body of such person.

7.5 Early Redemption Amounts

For the purpose of Conditions 7.2 and 7.3 above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

(a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof unless otherwise specified in the applicable Pricing Supplement;

(b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or

(c) in the case of a Zero Coupon Note, subject to the provisions of Condition 7.10, the "**Amortised Face Amount**" of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is specified in the applicable Pricing Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

7.6 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.5 above.

7.7 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

7.8 Purchases

Subject to applicable laws, each of the Issuer, the Parent Guarantor and their respective Subsidiaries may at any time and in any manner purchase Notes (*provided* that, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, Parent Guarantor or relevant Subsidiary surrendered to any Paying Agent and/or the Registrar for cancellation.

7.9 Cancellation

All Notes which are redeemed or purchased in accordance with Condition 7.8 above may be surrendered for cancellation (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 7.8 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent (which shall notify the Registrar of such cancelled Notes in the case of Registered Notes) and may not be reissued or resold and the obligations of the Issuer and the Parent Guarantor in respect of any such Notes shall be discharged.

7.10 Late Payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Conditions 7.1, 7.2 or 7.5 above or upon its becoming due and repayable as provided in Condition 10 is not paid when due, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Note has been received by the Trustee or the Principal Paying Agent and notice to that effect has been given to the Noteholders.

8 TAXATION

8.1 Payment without Withholding

All payments of principal, premium and interest by or on behalf of the Issuer (or the Parent Guarantor, as the case may be) in respect of the Notes, Receipts and Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of any Tax Jurisdiction, unless such withholding or deduction is required by law. In that event, the Issuer (or the Parent Guarantor, as the case may be) shall pay such additional amounts (the "**Additional Amounts**") as shall result in receipt by the holders of the Notes, Receipts or Coupons of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note, Receipt or Coupon:

(a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of such holder having some connection with a Tax Jurisdiction other than the mere holding of the Note, Receipt or Coupon; or

(b) **Presentation more than 30 days after the Relevant Date:** presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Amounts on presenting the relevant Note, Receipt or Coupon for payment on the last day of such period of 30 days assuming that day to have been a Payment Day.

Notwithstanding any other provision contained herein, any amounts to be paid by the Issuer (or the Parent Guarantor, as the case may be) on the Notes will be paid net of any deduction or withholding imposed or required pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code (or any law implementing such an intergovernmental agreement) (a "**FATCA Withholding Tax**"), and neither the Issuer nor the Parent Guarantor nor any other person will be required to pay Additional Amounts on account of any FATCA Withholding Tax.

8.2 Interpretation

In these Conditions:

"**Relevant Date**" in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if the full amount of the money payable has not been duly paid on or prior to such due date) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the relevant Note, Receipt or Coupon being made in accordance with these Conditions, such payment in full will be made, *provided* that payment is in fact made upon such presentation; and

"**Tax Jurisdiction**" means, in respect of the Issuer, Singapore or any political subdivision or any authority thereof or therein having power to tax or, in respect of the Parent Guarantor, the Republic of the Philippines or any political subdivision or any authority thereof or therein having power to tax, or in the event of any substitution or other corporate action resulting in either the Issuer or the Parent Guarantor (as the case may be) being incorporated in any other jurisdiction, that other jurisdiction or any political subdivision or any authority thereof or therein having power to tax.

9 PRESCRIPTION

Claims against the Issuer and/or the Parent Guarantor for payment in respect of the Notes (whether in bearer or registered form), Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 EVENTS OF DEFAULT AND ENFORCEMENT

10.1 Events of Default relating to the Notes

If any of the following events (each an "**Event of Default**") occurs and is continuing, the Trustee at its discretion may, and if so requested in writing by the holders of at least 25.0 per cent. in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice in writing to the Issuer and the Parent Guarantor that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

(a) **Non-Payment:** there is failure to pay the principal or interest on any of the Notes when due and, in the case of failure to pay interest, such failure continues for a period of 14 days; or

(b) **Breach of Other Obligations:** the Issuer or the Parent Guarantor defaults in the performance or observance of, or compliance with, any one or more of its other obligations under these Conditions or the Trust Deed, which default is in the opinion of the Trustee incapable of remedy or, if in the opinion of the Trustee is capable of remedy, is not remedied within 60 days after notice of such default shall have been given to the Issuer or the Parent Guarantor by the Trustee; or

(c) **Cross-Acceleration:** (i) any other present or future indebtedness for or in respect of moneys borrowed or raised ("**Indebtedness for Borrowed Money**") of the Issuer, the Parent Guarantor or any of the Principal Subsidiaries becomes due and payable prior to its stated maturity by reason of an event of default (howsoever described), or (ii) any such Indebtedness for Borrowed Money is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer, the Parent Guarantor or any of the Principal Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, Indebtedness for Borrowed Money, *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 subparagraph (c) have occurred equals or exceeds U.S.$50 million or its equivalent in any other currency (on the basis of the middle spot rate for the relevant currency against the U.S. Dollar as quoted by any leading bank on the day on which this paragraph operates); or

(d) **Judgment, Decree or Order:** a final judgment, decree or order has been entered against the Issuer, the Parent Guarantor or any of the Principal Subsidiaries by a court of competent jurisdiction from which no appeal may be made or is taken for the payment of money in excess of U.S.$50 million or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. Dollar as quoted by any leading bank on the day on which this paragraph operates) and any originally 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 any material part of the property, assets or revenues of the Issuer, the Parent Guarantor or any of the Principal Subsidiaries and is not discharged or stayed within 60 days of having been so levied, enforced or sued; or

(f) **Security Enforced:** any Security, present or future, created or assumed by the Issuer, the Parent Guarantor or any of the Principal Subsidiaries 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 Security is not discharged or such steps stayed within 60 days of such steps being so taken (or such longer period as the Issuer, the Parent Guarantor or the relevant Principal Subsidiary satisfies the Trustee is appropriate in relation to the jurisdiction concerned); or

(g) **Insolvency:** any of the Issuer or the Parent Guarantor or any of the Principal Subsidiaries (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 the Parent Guarantor or any of the Principal Subsidiaries; 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, the Parent Guarantor or any of the Principal Subsidiaries, or the Issuer or the Parent Guarantor or any of the Principal Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by (i) a reconstruction, amalgamation, reorganisation, merger or consolidation (x) on terms approved by an Extraordinary Resolution of the Noteholders, or (y) in the case of a Principal Subsidiary, whereby the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Parent Guarantor or another Principal Subsidiary pursuant to a merger of the Principal Subsidiary with the Parent Guarantor or such other Principal Subsidiary or by way of

a voluntary winding-up or dissolution where there are surplus assets in such Principal Subsidiary and such surplus assets attributable to the Parent Guarantor and/or any other Principal Subsidiary are distributed to the Parent Guarantor and/or any such other Principal Subsidiary or (ii) a merger or consolidation with respect to the Issuer (or the Parent Guarantor, as the case may be) which is not materially prejudicial to the interests of the Noteholders; or

(i) **Bankruptcy Proceedings:** proceedings shall have been initiated against the Issuer, the Parent Guarantor or any of the Principal Subsidiaries under any applicable bankruptcy, insolvency, reorganisation law and such proceedings shall not have been discharged or stayed within a period of 60 days; or

(j) **Repudiation:** the Issuer or the Parent Guarantor shall contest in writing the validity or enforceability of any of the Notes or shall deny generally in writing the liability of the Issuer or the Parent Guarantor, under any of the Notes; or

(k) **Guarantee:** the Guarantee (following the execution of the Deed of Guarantee) ceases to be in full force and effect; or

(l) **Ownership:** either (i) less than 100.0 per cent. of the Issuer's shares are held, either directly or indirectly, by the Parent Guarantor, or (ii) the Issuer ceases to be controlled by the Parent Guarantor; 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 paragraphs (g), (h) and (i) of this Condition 10.1.

The Issuer has undertaken in the Trust Deed that, so long as any Note remains outstanding, annually and also within 14 days after any request by the Trustee, it will send to the Trustee a certificate signed by one Authorised Signatory to the effect that as at a date not more than five days prior to the date of the certificate no Event of Default or event or circumstance that could with the giving of notice, lapse of time and/or issue of a certificate become an Event of Default has occurred.

10.2 Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Parent Guarantor as it may think fit to enforce the terms of the Trust Deed, the Notes, the Receipts and the Coupons, but it need not take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least 25.0 per cent. in nominal amount of the Notes outstanding, and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

No Noteholder, Receiptholder or Couponholder may proceed directly against the Issuer or the Parent Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and the failure is continuing.

10.3 Interpretation

In these Conditions:

"**Winding-up**" shall mean, with respect to the Issuer or the Parent Guarantor, a final, unappealable and executory order or resolution of any court or agency or supervisory authority in Singapore, the Philippines or any other jurisdiction to which the Issuer or the Parent Guarantor becomes subject, for the bankruptcy, suspension of payment, rehabilitation, winding-up, liquidation, receivership or similar proceeding in respect of the Issuer or the Parent Guarantor (except for the purposes of a consolidation, amalgamation, merger or reorganisation the terms of which have previously been approved by an Extraordinary Resolution of the Noteholders and except as otherwise provided in Condition 10.1(h) above).

11 REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

If a Note, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Principal Paying Agent (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Registered Notes) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Receipt, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

12 PAYING AGENTS, REGISTRAR AND TRANSFER AGENTS

The names of the initial Paying Agents, the initial Registrar and the other initial Transfer Agents and their initial specified offices are set out below.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of the Principal Paying Agent, Paying Agent, Registrar or Transfer Agents and/or appoint additional or other Paying Agents, Registrars or Transfer Agents and/or approve any change in the specified office through which any Agent acts, *provided* that:

(a) there will at all times be a Principal Paying Agent (including a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU) and a Registrar (which will maintain the Register outside the United Kingdom);

(b) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent, which may be the Principal Paying Agent, and Transfer Agent with a specified office in the place required by the rules and regulations of the relevant stock exchange or any other relevant authority; and

(c) so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, if the Notes are issued in definitive form, there will at all times be a Paying Agent in Singapore unless the Issuer obtains an exemption from the SGX-ST.

In addition, the Issuer shall, with the prior written approval of the Trustee, forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.5. Any variation, termination, appointment or change referred to in the preceding paragraph and/or any appointment referred to in this paragraph shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 calendar days' prior notice thereof shall have been given to the Noteholders.

In acting under the Agency Agreement, the Paying Agents, the Registrar and the Transfer Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders.

13 EXCHANGE OF TALONS

On or after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14 NOTICES

Notices to holders of Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an overseas address) by air mail to them at their respective addresses as recorded in the Register and will be deemed to have been validly given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of such mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading daily newspaper of general circulation in Asia or such other English language daily newspaper with general circulation in Asia. It is expected that such publication will be made in the Asian Wall Street Journal. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange (or any other relevant authority) on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

So long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream and/or CMU, such notice requirements for mailing and publication in such newspaper(s) may be substituted by the delivery of the relevant notice to Euroclear and/or Clearstream and/or CMU for communication by them to the holders of the Notes. In addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange (or any other relevant authority). Any such notice shall be deemed to have been given to the holders of the Notes on such day as specified in the applicable Pricing Supplement after the day on which the said notice was given to Euroclear and/or Clearstream and/or CMU.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relevant Note or Notes with the Principal Paying Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent through Euroclear and/or Clearstream and/or CMU, as the case may be, in such manner as the Principal Paying Agent and Euroclear and/or Clearstream and/or CMU, as the case may be, may approve for this purpose.

Receiptholders and Couponholders will be deemed for all purposes to have notice of the contents of any notice given to Noteholders.

15 MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

15.1 Meeting of Noteholders

The Trust Deed contains provisions for convening meetings (including by way of conference call using a videoconference platform) of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Parent Guarantor, the Trustee or by Noteholders holding not less than 10.0 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more persons holding or representing in the aggregate not less than 50.0 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*:

(a) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes;

(b) to reduce or cancel the nominal amount of, or any premium payable on redemption of, the Notes;

(c) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes;

(d) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is specified in the applicable Pricing Supplement, to reduce any such Minimum and/or Maximum;

(e) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount, the Optional Redemption Amount or the Change of Control Redemption Amount, including the method of calculating the Amortised Face Amount;

(f) to vary the currency or currencies of payment or denomination of the Notes;

(g) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution;

(h) to modify or cancel the Guarantee,

in which case the necessary quorum shall be two or more persons holding or representing in the aggregate not less than 66 2/3 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting two or more persons holding or representing in the aggregate not less than 25.0 per cent. in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on all the Noteholders, whether or not they were present at the meeting at which such resolution was passed, and on all Receiptholders and Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90.0 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

15.2 Modifications and Waivers

The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to (i) any modification of any of the provisions of the Notes, the Trust Deed, the Agency Agreement, the Deed of Guarantee or these Conditions that is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of applicable law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, the Agency Agreement, the Deed of Guarantee or these Conditions that is, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter.

In addition, the Trustee shall be obliged to concur with the Issuer in effecting any Benchmark Amendments in the circumstances set out in Condition 5 without the consent of the Noteholders or Couponholders.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) and the Trustee shall not be entitled to require on behalf of any Noteholder, Receiptholder or Couponholder, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Parent Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, Receiptholders or Couponholders.

Notwithstanding anything to the contrary in these Conditions, the Trust Deed or the Agency Agreement, whenever the Trustee is required or entitled by the terms of these Conditions, the Trust Deed or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction, to seek directions from the Noteholders by way of an Extraordinary Resolution and shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction where the Trustee is seeking such directions.

15.3 Substitution of Issuer

The Trustee may but shall not be obliged to, without the consent of the Noteholders, the Receiptholders or the Couponholders at any time, agree with the Issuer and the Parent Guarantor to the substitution in place of the Issuer (or of the previous substitute under this Condition) as the principal obligor under the Notes, the Receipts, the Coupons and the Trust Deed of any entity owned or controlled by the Parent Guarantor, subject to (a) the Notes being unconditionally and irrevocably guaranteed by the Parent Guarantor and (b) certain other conditions set out in the Trust Deed being complied with.

15.4 General

Any such modification, waiver, authorisation, determination or substitution shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee otherwise agrees, any such modification or substitution shall be promptly notified to Noteholders by the Issuer.

16 INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER OR THE PARENT GUARANTOR

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking any steps and/or actions and/or instituting proceedings unless first indemnified and/or secured and/or pre-funded to its satisfaction.

The Trustee may rely, without liability to Noteholders, Receiptholders or Couponholders, on a report, confirmation, opinion or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, opinion or certificate or advice and such report, confirmation, opinion or certificate or advice shall be binding on the Issuer, the Parent Guarantor, the Trustee and the Noteholders.

17 FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders, Receiptholders or Couponholders create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with an outstanding Series. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

18 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term or condition of the Notes, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19 GOVERNING LAW AND SUBMISSION TO JURISDICTION

19.1 Governing Law

The Trust Deed, the Agency Agreement, the Deed of Guarantee, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency Agreement, the Deed of Guarantee, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

19.2 Submission to Jurisdiction

Each of the Issuer and the Parent Guarantor has in the Trust Deed agreed, for the exclusive benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Deed of Guarantee, the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons) and that accordingly any suit, action or proceedings (together referred to as "**Proceedings**") arising out of or in connection with the Trust Deed, the Deed of Guarantee, the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons) may be brought in the English courts.

Each of the Issuer and the Parent Guarantor has in the Trust Deed irrevocably and unconditionally waived and agreed not to raise any objection which it may have now or hereafter to the laying of the venue of any Proceedings (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Deed of Guarantee, the Notes, the Receipts and the Coupons) arising out of or in connection with the Trust Deed, the Deed of Guarantee, the Notes, the Receipts and the Coupons in the courts of England and any claim that any such Proceedings have been brought in an inconvenient forum and has further irrevocably and unconditionally agreed in the Trust Deed that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

19.3 Appointment of Process Agent

Each of the Issuer and the Parent Guarantor has, in the Trust Deed, irrevocably and unconditionally appointed Law Debenture Corporate Services Limited at its specified office for the time being at 8th Floor, 100 Bishopsgate, London EC2N 4AG as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will promptly appoint such other person as its agent to accept service of process on its behalf and deliver to the Trustee a copy of the agent's acceptance of that appointment within 30 days of such cessation.

USE OF PROCEEDS

Unless otherwise specified in the applicable Pricing Supplement, the net proceeds from each issue of each Tranche of Notes will be used by the SM Group for general corporate purposes.

RISK FACTORS

Prior to making any investment decision, prospective investors should carefully consider, among other things, the risks described below, as well as the other information contained in this Offering Circular. Any of the following risks could materially adversely affect the business, financial condition or results of operations of the SM Group and, as a result, investors could lose all or part of their investment. The risks below are not the only risks the SM Group faces. Additional risks and uncertainties not currently known to the SM Group, or that it currently deems to be immaterial may also materially adversely affect the business, financial condition or results of operations of the SM Group. Words and expressions defined elsewhere in this Offering Circular shall have the same meanings in this section.

Each of SMIC and SM Prime believes that the factors described below represent the principal risks inherent in investing in the Notes issued under the Programme, but the inability to pay any amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks herein based on information currently available to the Issuers and Parent Guarantors or which they may not currently be able to anticipate, and they do not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular (including any document incorporated by reference) and reach their own views prior to making any investment decision. In making an investment decision, each investor must rely on its own examination of the relevant Issuer, the relevant Parent Guarantor and the terms of the offering of the Notes.

In the case of an issuance of Notes by SM Prime SG Holdings, investors should only consider (i) those factors discussed in this section that relate to SM Prime and (ii) those factors discussed in this section relating to the SM Group only to the extent that such factors pertain to SM Prime as a member of the SM Group (and not any factors that relate solely to SMIC, the Retail Group and/or the Banking Group). SM Prime is the only Parent Guarantor with respect to any issuance of Notes by SM Prime SG Holdings and SMIC will not provide any guarantee or credit support for Notes issued by SM Prime SG Holdings. Investors should therefore not consider nor rely on any disclosure relating to SMIC SG Holdings, SMIC or the SM Group with respect to any issuance of Notes by SM Prime SG Holdings. For the avoidance of doubt, SMIC is the only Parent Guarantor with respect of any issuance of Notes by SMIC SG Holdings and SM Prime will not provide any guarantee or credit support for Notes issued by SMIC SG Holdings.

RISKS RELATING TO SMIC AND THE SM GROUP

SMIC 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, SMIC has conducted and continues to carry out acquisitions of varying sizes, some of which are significant at the SM 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) SMIC may not integrate acquired businesses, technologies, products, personnel and operations effectively; (iii) SMIC may fail to retain key employees, customers and suppliers of the companies acquired; (iv) SMIC may be required or wish to terminate pre-existing contractual relationships, which could be costly and/or on unfavorable terms; and (v) SMIC 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 SMIC's financial condition. While SMIC conducts an evaluation and due diligence process prior to pursuing its acquisition opportunities, there can be no assurance that such acquisitions would have a favorable impact on SMIC or the SM Group's business, financial condition, results of operation and prospects.

Moreover, depending on the circumstances of the transaction, such merger and/or acquisition may require the submission of a written notification with the 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".

SMIC and the SM Group are controlled by the Sy Family, whose interests may not be the same as those of other shareholders.

As of 31 December 2023, the Sy Family, directly or indirectly, controls approximately 52.4% of the outstanding shares of SMIC. 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 as of the date of this Offering Circular. Accordingly, the Sy Family exercises control over major policy decisions of SMIC, 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 SMIC to take action in a manner which might differ from the interests of other shareholders.

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

A significant part of the business undertaken by members of the SM Group is conducted with other members of the SM Group, as well as other affiliated companies owned by the Sy Family which are not within the SM Group. The operations of a number of members of the SM Group are interdependent. See "*Related Party Transactions*" and the notes to SMIC's audited consolidated financial statements. In the future, SMIC expects that the SM 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 SM Group. Conflicts of interest may also arise between the Sy Family and the SM Group in a number of other areas relating to their businesses, including:

- major business combinations involving the SM Group, including transfers of affiliated companies into the SM Group;
- plans to develop the respective businesses of the SM Group and of other entities within the SM Group; and
- business opportunities that may be attractive to both the Sy Family and members of the SM Group.

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

In addition, certain members of the SM Group, such as SM Prime, have contractual arrangements with companies controlled by the Sy Family. While the SM Group's policy is that transactions between SM Group companies and companies which are controlled by the Sy Family are undertaken on an arm's length commercial basis, there can be no assurance that such transactions will not be detrimental to SMIC or the SM Group.

SMIC may not always have a good relationship with its partners in associated companies and joint ventures, which could have a material adverse effect on the SM Group's financial condition and results of operations.

SMIC derives a substantial portion of its income from its subsidiaries, associated companies, and joint ventures. Since SMIC shares control over its joint venture companies and associated companies with its partners, cooperation among the joint venture partners on business decisions is crucial to the sound operation and financial success of these associated companies and joint ventures. While SMIC generally has good working relationships with its business partners, there is no assurance that these relationships will be sustained or that disagreements will not develop in the future, the occurrence of which could have a material adverse effect on the SMIC's and the SM Group's financial condition and results of operations.

The failure to obtain financing on reasonable terms or at all could adversely impact the execution of the SM Group's expansion and growth plans.

The expansion and growth plans of the SM Group are expected to be funded through a combination of internally generated funds and external fund raising activities, including debt and equity financing. The continued access of the SM Group to debt and equity financing as a source of funding for new projects and acquisitions and for refinancing maturing debt is subject to many factors including: (i) Philippine regulations limiting bank exposure to a single borrower or related group of borrowers; (ii) the compliance of the SM Group with existing debt covenants, which include debt to equity ratio and interest coverage ratio covenants; (iii) the ability of the SM Group to service new debt; and (iv) perceptions in the capital markets regarding the SM Group and the industries in which it operates, and other factors, including general conditions in the debt and equity capital markets, which are outside of its control. Political instability, an economic downturn, social unrest, or changes in the Philippine regulatory environment could increase the cost of borrowing for the SM Group or restrict its ability to obtain debt financing. There is no assurance that the SM Group will be able to arrange financing on acceptable terms or at all. Any inability of the SM Group to obtain financing from banks and other financial institutions or from the capital markets would adversely affect the ability of the SM Group to execute its expansion and growth strategies as well as its financial condition and prospects.

As of 31 December 2023, the noncurrent liabilities of SMIC included long-term debt (net of current portion) of ₱374.8 billion (U.S.$6.7 billion), tenants' deposits and others of ₱58.0 billion (U.S.$1.0 billion), lease liabilities (net of current portion) of ₱32.3 billion (U.S.$0.6 billion), and deferred tax liabilities of ₱18.1 billion (U.S.$0.3 billion). As of 31 December 2023, the current liabilities of SMIC included loans payable of ₱13.4 billion (U.S.$0.2 billion), accounts payable and other current liabilities of ₱200.2 billion (U.S.$3.6 billion), current portion of long-term debt of ₱113.5 billion (U.S.$2.0 billion), and income tax payable of ₱3.6 billion (U.S.$0.1 billion).

The SM Group is subject to restrictive covenants in existing debt agreements.

The existing debt agreements of the SM Group contain various covenants and cross-default clauses in relation to indebtedness of a material subsidiary of SMIC or SM Prime. Under a cross-default clause, if a default by such material subsidiary under its debt agreement is not cured or waived, the default could result in the default by SMIC or SM Prime under their respective existing debt agreements. Moreover, the ability of SMIC, SM Prime and their respective subsidiaries to comply with covenants contained in their respective debt agreements may be affected by events beyond the control of SMIC, SM Prime or their respective subsidiaries, including but not limited to, prevailing economic, financial, and industry conditions.

Even if SMIC is able to comply with all of the applicable covenants and potential defaults by it or its subsidiaries may be cured or waived, any default by SMIC or SM Prime on their respective existing debt agreements or an occurrence of a cross-default could adversely affect the business of SMIC or SM Prime by, among other things, limiting its ability to take advantage of financing and investment opportunities that may be beneficial to SMIC, SM Prime and to the SM Group.

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

SMIC is a holding company that conducts all of its operations through its subsidiaries and associates. As a holding company, SMIC's revenues are derived from, among other sources, dividends and royalty fees paid to SMIC by its subsidiaries and associates. SMIC is reliant on such sources of funds with respect to its obligations and in order to finance its subsidiaries. The ability of SMIC's direct and indirect subsidiaries and associates to pay dividends to their shareholders (including SMIC) 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 Chinabank to SMIC.

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

The SM Group's businesses operate in an increasingly competitive environment and its failure to successfully compete with its competitors to maintain its market share or to respond to new challenges could affect its business, financial condition, results of operation and prospects.

The businesses of the SM Group operate in an increasingly competitive environment, as discussed further elsewhere in this Offering Circular.

Republic Act No. 10667 or the Philippine Competition Act was enacted to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities, prevent economic concentration which will manipulate or constrict the discipline of free markets, and penalize all forms of anti-competitive agreements, abuse of dominant position, and anti-competitive mergers and acquisitions, with the Objective of protecting consumer welfare and advancing domestic and international trade and economic development. The move towards a more competitive environment could result in the emergence of new and numerous competitors. These competitors may have greater financial resources or have more extensive experience than the SM Group and its businesses, giving them the ability to respond to operational, technological, financial, and other challenges more quickly than the SM Group. In addition, consolidation among competitors, the entry of new, larger competitors or other actions by competitors, such as unanticipated pricing of products at below-market prices or unconventional promotional activities, could exert downward pressure on prices of the SM Group's products or cause market share to decline. Finally, the review by the Philippine Competition Commission of mergers and acquisitions meeting certain criteria and thresholds can delay or result in revisions to planned mergers and acquisitions, which could impact the SM Group's plans.

Any failure to successfully compete with competitors, maintain its customer base and market share or respond to new challenges could have a material adverse effect on the SM Group's business, financial condition, results of operations, and prospects.

The SM Group is active in many regulated sectors and failure to adequately anticipate and/or address regulatory changes may adversely affect the SM Group.

The businesses and operations of the SM Group are subject to a number of national and local laws, rules and regulations governing several different industries both in the Philippines and in other countries where it conducts its businesses. While each industry where the SM Group operates has specific regulatory risks, the one common factor among these is that the political and regulatory landscape is continually evolving, and the SM Group is required to continuously assess and ensure it is up to date with the demands of regulatory compliance. These laws and regulations require the SM Group to obtain and maintain several approvals, licenses, and permits from various entities such as the Philippine Department of Trade and Industry ("**DTI**"), the Philippine Department of Environment and Natural Resources ("**DENR**"), the Philippine the Housing and Land Use Regulatory Board ("**HLURB**," now the Department of Human Settlements and Urban Development or "**DHSUD**") and the BSP, among others. Additionally, the SM Group may need to apply for more approvals, licenses, and permits and renew such approvals, licenses, and permits that may expire from time to time. In addition, there is no assurance that the SM Group will not be subject to new licensing requirements in the future or that it will be able to obtain and/or maintain such approvals, licenses or permits in a timely manner, or at all, or that it will not become subject to any regulatory action on account of not having obtained or renewed such approvals, licenses, and permits.

For example, the Banking Group is subject to extensive regulation and supervision in the Philippines. The enactment and implementation of any such bills or amendments to the relevant banking laws or other changes to Philippine laws and regulations relevant to the banking industry, could have a material adverse effect on the business, financial condition and results of operations of the Banking Group. There can be no assurance that future laws, regulations and/or standards will not have a material adverse effect on the

SM Group. Moreover, the enactment and implementation of any such bills or amendments to the National Internal Revenue Code of 1997, as amended (the "**Philippine Tax Code**"), or other changes to Philippine laws and regulations relevant to the retail, real estate development, and banking, could increase the SM Group's costs and have a material adverse effect on its business, financial condition and results of operations. In addition, the Philippine government may periodically implement measures aimed at protecting consumers from rising prices, which may constrain the ability of the SM Group to pass on price increases to distributors who sell its products, as well as its customers. Implementation of any such measures could have a material adverse effect on the business, financial condition and results of operations of the SM Group.

The SM Group may fail to fulfill the terms and conditions of licenses, permits and other authorizations, or fail to renew them on expiration.

The SM Group is required to maintain licenses, permits and other authorizations for the operations of its businesses, including business permits and permits concerning, for example, health and safety, and environmental standards. These licenses, permits and other authorizations contain various requirements that must be complied with to keep such licenses, permits and other authorizations valid. If the SM Group fails to meet the terms and conditions of any of its licenses, permits or other authorizations necessary for operations, these operations may be suspended or terminated.

While the SM Group believes, to the best of its knowledge, that it has, at all relevant times, materially complied with all applicable laws, rules and regulations and has established a strong compliance culture to ensure that all requirements, permits, and approvals are obtained in a timely manner, there is no assurance that changes in laws, rules or regulations or the interpretation thereof by relevant government agencies, will not result in the SM Group having to incur substantial additional costs or capital expenditures to upgrade or supplement its existing facilities, or being subject to an fines and penalties. The measures implemented by the SM Group to comply with laws and regulations may also be deemed insufficient by governmental authorities. If the SM Group fails to comply, or is deemed to be non-compliant with any applicable laws or regulations, the SM Group may be subject to penalties, which could disrupt its operations and have a material adverse effect on its business and results of operations. Potential liabilities for such non-compliance with the legal requirements or violations of prescribed standards and limits under these laws include administrative, civil, and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, that could limit or affect its operations such as orders for the suspension and/or revocation of permits or licenses or suspension and/or closure of operations. There can be no assurance that the SM Group will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings, the costs of which could be material. In the event that the SM Group becomes involved in any future litigation or other proceedings or is subject to any adverse rulings or decisions, such events may materially and adversely affect its business, financial condition, and results of operations.

There can be no assurance that the SM Group will continue to be able to renew the necessary licenses, permits, and other authorizations as necessary or that such licenses, permits, and other authorizations will not be revoked. If the SM Group is unable to obtain or renew them or are only able to do so on unfavorable terms, this could have an adverse effect on the SM Group's business, financial condition, and results of operations.

The SM Group may be exposed to safety, health and environmental costs and liabilities which could materially and adversely affect its cash flow, results of operations and financial condition.

The businesses of the SM Group span several industries and are subject to numerous laws, rules and regulations that impose limitations, prohibitions, and standards with respect to health and safety, as well as the use, discharge, emission, treatment, release, disposal, and management of regulated materials and waste, and hazardous substances. Safety, health and environmental laws and regulations in the Philippines have become increasingly stringent and it is possible that these laws and regulations will become significantly stricter in the future. The adoption of new safety, health and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental

laws or other developments in the future may require additional capital expenditures or the incurrence of additional operating expenses in order to comply with such laws and to maintain current operations as well as any costs related to fines and penalties.

Furthermore, if the measures implemented by the SM Group to comply with these laws and regulations are not deemed sufficient by governmental authorities, compliance costs may significantly exceed estimates. If the SM Group fails to meet safety, health and environmental requirements, it may be subject to administrative, civil, and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against the SM Group, as well as orders that could limit or halt its operations. There is no assurance that the SM Group will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings relating to safety, health and environmental matters in the future, the costs of which could be material. Environmental compliance and remediation costs at sites on which its facilities are located and related litigation and other proceedings could materially and adversely affect the cash flow, results of operations, and financial condition of the SM Group.

Infringement of the "SM" intellectual property rights could have a material adverse effect on the SM Group's businesses.

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

While the SM Group registers its brands with the relevant regulator and actively monitors and maintains the validity of these registrations, as well as takes brand enforcement action, there can be no assurance that there will be no infringement committed against these brands, including the tradename *SM*. 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 the SM Group. The SM Group 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, the SM Group'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 the SM Group is restricted from using such marks.

The reputation of the SM Group as a whole may be affected by the operations of other members of the SM Group and their respective affiliates.

Actions taken that adversely impact the reputation of a given entity in the SM Group may also have an adverse impact on the SM Group as a whole. Several of the SM Group companies cross-sell products and coordinate marketing campaigns that associate them with other affiliated entities. If the reputation or corporate image of any of the companies in the SM Group were to suffer, the business, financial condition and results of operations of other SM Group companies could be materially and adversely affected.

In addition, SM Group companies conduct business across varied industries, such as food and other retail merchandising, real property development and sales and banking. Certain of these SM Group companies are also leaders in their respective markets. If any of such SM Group companies encounters difficulties (financial or otherwise), negative publicity or other issues, the business reputation and financial condition of SMIC and other members of the SM Group may also be adversely affected.

The SM Group's long term success is dependent upon its ability to attract and retain key personnel.

Any loss of key personnel, inability to replace such personnel and failure to train and retain replacement personnel could materially and adversely affect the ability of the SM Group to provide products and services to its customers. Continued resignation of trained personnel could also result in the SM Group incurring additional expenses in hiring and training replacement personnel in a competitive job market, and it may take time for these new personnel to reach the level of technical skill and expertise of the

personnel being replaced. In addition, the SM Group has relied and will continue to rely significantly on the continued individual and collective contributions of its senior management team. If any key personnel are unable or unwilling to continue in their present positions, the SM Group may not be able to replace them easily, and its business may be significantly disrupted. Any of the foregoing could have a material adverse effect on the businesses of the SM Group.

Labor disputes, including failure to maintain satisfactory labor relations, or changes in employment laws may disrupt the SM Group's operations and could adversely affect it business, prospects, financial condition and results of operations.

Various labor laws govern the SM Group's relationship with its employees and affect operating costs. These laws include minimum wage requirements, mandatory health benefits, overtime compensation, and other terms and conditions of employment. These and significant changes in labor regulations, for example, in respect of outsourcing services to independent third party contractors, could materially affect the SM Group's business, financial condition, operating results or cash flow. Engagement of third party service providers carries with it certain inherent risks including potential actions from employees of its third-party service providers who may claim an employee-employer relationship with it and the risk that third party contracting arrangements in place may be found by the Philippine Department of Labor and Employment to be "labor-only contracting", which could have a significant impact on its labor costs. In addition, a labor dispute involving a substantial number or all of the SM Group's employees may harm its reputation, disrupt its operations and reduce its revenues, and resolution of disputes may increase its costs.

The SM Group is also exposed to litigation risk from employees of its various third party contractors, who may implead it as party to their labor cases and labor disputes against these third party contractors.

Failure to manage risks associated with the SM Group's information and technology systems could adversely affect its business.

The SM Group is subject to risks relating to its information and technology systems and processes as well as the increasingly complex challenges of digital transformations, particularly in its Banking Group. The efficient operation of the SM Group's businesses depend on its information technology systems. The SM Group relies on its information technology systems to effectively manage its business data, financial data, communications, supply chain, order entry and fulfilment, and other business processes. The failure of its information technology systems to perform as anticipated could disrupt its business and could result in transaction errors, processing inefficiencies, breaches of applicable data privacy laws, and the loss of sales and customers, affecting its business and results of operations.

The SM Group's information technology systems may be vulnerable to damage or interruption from circumstances beyond its control, including fire, natural disasters, power outages, systems failures, security breaches, cyber-security attacks and viruses. While the SM Group seeks to protect its computer systems and network infrastructure from physical break-ins, security breaches, and other disruptive problems through the implementation of security systems, including firewalls, password encryptions and operational procedures, it may still be subject to cyber-security attacks and other such break-ins. Any such damage or interruption could have a material adverse effect on its business.

The SM Group may be involved in legal proceedings from time to time.

The SM Group may, from time to time, be involved in disputes with various parties in the operations of its businesses, including those relating to commercial or contractual matters, and may be subject to investigations by regulatory and administrative bodies. Regardless of the outcome, these disputes and investigations may lead to legal or other proceedings and may result in substantial costs and the diversion of resources and management's attention. In addition, SMIC and its subsidiaries may also have disagreements with regulatory bodies in the course of operations, which may subject the SM Group to administrative proceedings and decisions that may result in penalties or other liabilities. Any of these outcomes could materially and adversely affect the SM Group's business, financial condition, and results of operations. See "*Description of SMIC – Legal Proceedings.*"

The SM Group's business, financial condition, and results of operations face risks from future public health epidemics or outbreaks of disease that could have an adverse effect on economic activity in the Philippines.

On 21 July 2023, Presidential Proclamation No. 297 was issued, lifting the State of Public Health Emergency throughout the Philippines due to COVID-19 pandemic.

The continuing effects of COVID-19 and the emergence of other adverse public health developments, such as the outbreak of avian influenza, severe acute respiratory syndrome, or SARS, Zika virus and Ebola virus could materially and adversely affect the SM Group's business, financial condition and results of operations. The extent of any such future impact on the SM Group's business, financial condition and results of operations, however, is highly uncertain and cannot be accurately predicted.

RISKS RELATING TO SM PRIME AND THE PROPERTY GROUP

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 Overseas Filipino Workers ("**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 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. As of 31 December 2023, the contribution of SM Prime's China operations to its consolidated revenue and net income was at 5% and 1%, respectively.

SM Prime may face challenges of title to land.

While the Philippines has adopted a system of land registration which is intended to conclusively confirm land ownership, and which is binding on all persons (including the Government), it is not uncommon for third parties to claim ownership of land that has already been registered and over which a title has been issued. There have also been cases where third parties have produced false or forged title certificates over land. In particular, Quezon City, Metro Manila and the province of Cavite, have been known to experience problems with syndicates of squatters and forged or false title holders. Although SM Prime generally conducts extensive title searches before it acquires any parcel of land, from time to time it has defended itself against third parties who claim to be the rightful owners of land which has been either titled in the name of the persons selling the land to those companies or which has already been titled in those companies' names. In the event a greater number of similar third-party claims are brought against SM Prime in the future or any such claims involve land that is material to SM Prime's malls, residential developments and other real estate assets, SM Prime's management may be required to devote significant time and incur significant costs in defending against such claims. If any such claims are successful, SM Prime may have to either incur additional costs to settle such third party claims or surrender title to land that may be material in the context of SM Prime's operations. In addition, title claims made by third parties against SM Prime may have an adverse effect on its reputation.

Furthermore, transfer of title in the Philippines in connection with real estate sales involves a series of registrations and filings, which can require several months to complete. There can be no assurance that third parties will not in the future challenge SM Prime's rights to properties in similar circumstances where title has not yet been perfected.

SM Prime's rights and title to reclaimed land may be challenged.

In 2002, the Supreme Court of the Philippines promulgated a decision in the case of Francisco I. Chavez vs. Public Estates Authority and Amari Coastal Bay Development Corporation (G.R. No. 133250) and ruled that Government-reclaimed lands form part of the public domain and consequently, cannot be acquired by private corporations without violating the Philippine Constitution. SM Prime (formerly SM Land/Shoemart) owns 60 hectares of reclaimed land along the coast of Manila Bay at the MOA complex, the acquisition of which was upheld in 1995 by the Court of Appeals, whose decision has long become final and has been executed. Title to a great majority of lots comprising the reclaimed land has since been registered under the name of SM Prime (formerly SM Land/Shoemart). SM Prime believes Shoemart acquired its reclaimed land in good faith and for value. The MOA complex is a 60 hectare master-planned bayside development in Pasay City with a total estimated land value of ₱209 billion as of 31 December 2021 based on the most recent fair value. The MOA Complex also houses some of SM Prime's residential developments such as the Sea Residences, Shell Residences, Shore 1 to 3 Residences, S Residences, Sail Residences and Ice Residences.

SM Prime's mixed-use development project in Cebu City, the SM Seaside City, also stands on reclaimed land of approximately 30 hectares with an acquisition cost of approximately ₱3,000 million. The mall in SM Seaside City is Cebu City's largest mall, with a GFA of over 400,000 sq.m. It consists of a four-storey complex featuring a Cineplex, IMAX Theater, bowling center and ice-skating rink.

There is, however, no assurance that the title to the land where the MOA complex and the SM Seaside City is located will not be challenged and have an adverse impact on SM Prime's right and title to the reclaimed lands. Any such challenge, whether successful or not, may adversely affect its business, financial condition and results of operations.

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 the market for its projects correctly. Important factors that could affect SM Prime's ability to compete effectively include a project's relative location compared to 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 its investment properties successfully 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 more experience, financial resources, and 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.

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 18 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.

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

SM 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, Philippine 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 experience 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 ("**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.

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 ("**PEZA**"), which entitles them to certain benefits for the tenants that are located there, including tax advantages. If such properties were to lose their favorable PEZA 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.

SM Prime is effectively controlled by the Sy Family and their interests may differ significantly from the interests of other shareholders.

The Sy Family holds voting power over 15.44% of the outstanding share capital of SM Prime as of 31 December 2023. In addition, members of the Sy Family currently hold three seats on the Board of Directors. As a result, the Sy Family effectively controls SM Prime, including in relation to major policy decisions such as its overall strategic and investment decisions, dividend plans, capital raisings and other financings, mergers and disposals, amendments to its Articles of Incorporation and By-laws, election of members of its Board of Directors, appointment of its senior managers and other significant corporate actions.

The Sy Family owns a variety of commercial interests aside from the controlling interest in SM Prime. Conflicts of interest may therefore arise between the Sy Family, on the one hand, and SM Prime, on the other, in a number of areas, including:

- major business combinations involving SM Prime;
- plans to develop the businesses of SM Prime; and
- business opportunities that may be attractive to both the Sy Family's other interests and to SM Prime.

There can be no assurance that the Sy Family will not cause SM Prime to take actions which might differ from the interests of other shareholders of SM Prime.

SM Prime may enter into and expects to enter into material agreements and other arrangements with the Sy Family and its affiliated companies and persons.

SM Prime may enter into and expects to enter into a number of material agreements and other arrangements with companies controlled by members of the Sy Family and affiliated companies and persons. Transactions with related parties pose the risk of SM Prime entering into transactions on terms less favorable than could be obtained in arm's-length transactions with unrelated parties. In particular, Sy Family-controlled companies operating in the retail and banking sectors account for a significant portion of the total rental revenue from SM Prime's malls and other commercial properties. Moreover, the Sy Family could cause SM Prime to enter into transactions with SM Prime's affiliates on terms less favorable than could be obtained in arm's-length transactions with unrelated parties. Any such transactions could materially adversely affect SM Prime's business, financial condition and results of operations. For more information concerning related party transactions, see "*Related Party Transactions*" and Note 19 to the audited consolidated financial statements of SM Prime.

SM Prime's leasing operations depend on key tenants, which are affiliates of the SM Group.

SM Prime derives a substantial portion of its rental income from affiliated tenants controlled by the Sy Family. SM Prime also relies on 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.

SM Prime depends on retaining the services of its senior management team and its ability to attract and retain talented personnel.

SM Prime's senior management team, whose details are set out in "*Management – SM Prime*" section of this Offering Circular, is critical to its success, and the loss of the services of any key member of the team could have an adverse effect on SM Prime's strategy and operations.

SM Prime depends on its senior management team for the successful integration of its operations and execution of its business strategy. In the event one or more members of the team terminates his or her relationship with SM Prime, SM Prime may not be able to replace them within a reasonable period of time or with a person of equivalent expertise and experience, which could materially and adversely affect SM Prime's business, financial condition and results of operations.

Malls and other commercial properties owned by SM Prime may be subject to an increase in operating and other expenses.

SM Prime's financial condition and results of operations could be adversely affected if operating and other expenses relating to malls and other commercial properties increase without a corresponding increase in revenues or tenant reimbursements (where applicable) of operating and other expenses. Factors which could increase operating and other expenses include:

- increases in utility expenses;
- increases in payroll expenses;
- increases in property taxes and other statutory charges;
- increases in the rate of inflation;
- changes in the rate and expense of depreciation and amortization;
- changes in statutory laws, regulations or Government policies that increase the cost of compliance with such laws, regulations or policies;
- increases in management fees or sub-contracted service costs, such as maintenance and security;
- increases in insurance premiums; and
- defects affecting the malls which need to be rectified, leading to unforeseen capital expenditure.

Increased expenses resulting from the foregoing or other factors, to the extent not compensated by corresponding increases in revenues, could have a material adverse effect on SM Prime's businesses, financial condition and results of operations.

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 could have a material adverse effect on SM Prime's business, financial condition and results of operations.

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. See "*Regulation – Regulations relating to the Real Estate Business.*" The Maceda Law governs the sale of property on installment but it does not apply when payments are made through bank financing as the transaction is considered as a loan rather than a sale of property on installment.

The DHSUD, which was created through the consolidation of Housing and Urban Development Coordinating Council ("**HUDCC**") and HLURB, is the administrative agency of the Government which enforces these statutes. The functions of the HUDCC and the planning and regulatory functions of HLURB were transferred to and consolidated in the DHSUD.

- 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 (now DHSUD) 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 or the Urban Development and Housing Act of 1992, 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 (now DHSUD) 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 DHSUD 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.

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 with the relevant LGUs. 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 SM Group.

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.

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

Under Philippine law, the Government may exercise its power of expropriation thereby acquiring any land in the Philippines, upon payment of just compensation, 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 SM Group.

Fluctuations in interest rates, changes in Government borrowing patterns and Government regulations could have a material adverse effect on SM Prime's and its customers' ability to obtain financing.

Interest rates, and factors that affect interest rates, such as the Government's fiscal policy, could have a material adverse effect on SM Prime and the demand for its products. For example:

1. In connection with SM Prime's property development business generally, higher interest rates make it more expensive to borrow funds to finance ongoing projects or to obtain financing for new projects.

2. In connection with SM Prime's core residential development business, a substantial portion of SM Prime's customers procure financing to fund their property purchases, thus higher interest rates make financing, and therefore purchases of real estate, more expensive, which could adversely affect the demand for SM Prime's residential projects.

3. If the Government significantly increases its borrowing levels in the domestic currency market, this could increase the interest rates charged by banks and other financial institutions and also effectively reduce the amount of bank financing available to both prospective property purchasers and real estate developers, including SM Prime.

4. SM Prime's access to capital and its cost of financing are also affected by restrictions, such as single borrower limits, imposed by the BSP on bank lending. If SM Prime were to reach the single borrower limit with respect to any of its primary lenders, it may have difficulty obtaining financing with reasonable rates of interest from other banks. SM Prime is approaching the single borrower limit with certain of the banks from which it obtains financing, and as a result, SM Prime expects to make more use of alternative sources of financing in the future, which may have a higher cost of funding or be on terms less favorable than its existing financing arrangements.

The occurrence of any of the foregoing events, or any combination of them, or of any similar events, could materially and adversely affect SM Prime's business, financial condition and results of operations.

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.

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 against hidden defects 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.

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.

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.

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.

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 instalment payments paid to the developer, including residential condominium units (but excluding industrial and commercial lots). The Maceda Law does not apply when payments are made through bank financing.

Under the Maceda Law, buyers who have paid at least two years of instalments are granted a grace period of one month for every year of paid instalments 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 the cash surrender value which is equivalent to at least 50% of the total payments made by the buyer, provided the buyer has paid at least two years of instalments, with an additional 5% per annum in cases where at least five years of instalments have been paid; but in no case shall the total amount of refund exceed 90% of the total payments. Buyers who have paid less than two years of instalments and who default on instalment payments are given a 60-day grace period to pay all unpaid instalments 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.

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.

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 houses and lots with a gross selling price of ₱3,600,000 and below from the value-added tax ("**VAT**") of 12.0%. Since 1 January 2021, the sale of residential lot alone is no longer VAT exempt. Further, 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, and sale of house and lot and other residential dwellings with selling price of not more than ₱3,600,000, and subject to readjustment every three 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. However, the above exemption does not apply to the sale of parking lots in a condominium, which is considered a separate and distinct transaction. Accordingly, sale of parking lots is not covered by the rules on the threshold amount, not being a residential house and lot or a residential dwelling, and thus, will be subject to VAT regardless of the selling price.

In the event that above VAT-exempt 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 SM Group.

A domestic asset price bubble could adversely affect SM Prime's business.

One of the risks inherent in any real estate property market is the possibility of an asset price bubble. This occurs when there is a gross imbalance between the supply and demand in the property market, causing an unusual increase in asset prices, followed by a drastic drop in prices when the bubble bursts. In the Philippines, the growth of the real estate sector is mainly driven by low interest rates, robust remittances from OFWs, and the continued growth of the BPO sector.

SM Prime believes that the Philippine property sector is adequately protected against a domestic asset price bubble burst. The country has a very young demographic profile benefitting from rising disposable income. It likewise remains to be one of the fastest growing emerging economies in the Asia Pacific region, registering gross domestic product ("**GDP**") growth rates of 6.2% in 2018 and 5.9% in 2019 and the growth in the property sector is largely supported by infrastructure investments from both the public and private sectors and strong macroeconomic fundamentals. Due to business disruptions brought about by the COVID-19 pandemic, the Philippine GDP contracted by 9.5% in 2020. However, it should be noted that the gradual reopening of the country's economy resulted to a 5.6% growth in 2021, 7.6% growth in 2022, and 5.6% growth in 2023. For 2024, the target GDP growth range of the Government is 6.5% to 7.5%.

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

RISKS RELATING TO SM RETAIL AND THE RETAIL GROUP

The success of SM Retail partially depends 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 and the Retail Group generally.

While the Retail 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 SM Group'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. While SM Retail seeks to source its outright merchandise from a broad range of suppliers at competitive prices, and SMIC continues to source merchandise from new suppliers to cover larger areas within its department stores and to respond to changes in consumer preference, there can be no assurance that SM Retail and SM Group will be successful in sourcing suppliers which could have a material adverse effect on SM Retail and the SM Group's business, financial condition and results of operation. A significant adverse change in the relationships and contract arrangements between SM Retail and suppliers could also have a material adverse impact on the SM Group's financial condition and results of operations.

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

The majority of the Retail Group's retail facilities are located in SM Group malls. However, some of the retail space in which the retail stores are located are leased from independent third parties. While these retail stores are located in properties not owned by the SM Group have renewable long-term lease contracts, there is no assurance that each of these leases will be renewed upon expiry or on terms and conditions that are acceptable to the SM Group. If such leases cannot be extended or renewed, the SM Group will have to find other appropriate premises which may have a material adverse effect on its business, financial condition and results of operations if the new premises are not as favorable as the existing leased premises. Alternatively, if the existing leases can only be renewed on less favorable terms, this may increase the SM Group's operating expenses and thus its business, financial condition and results of operations may be materially and adversely affected.

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

The expansion strategy of SM Retail and the Retail Group involves opening new stores as well as renovating and expanding existing stores. The successful implementation of such expansion plans depends upon many factors, including their 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 SM Group's expansion strategy involves the identification of strategic locations for SM Retail. In addition, the SM 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. However, the SM Group 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 SM Group's financial condition and results of operations.

SM Retail may be subject to increasing competitive pressures.

SM Retail believes that it 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. The SM 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. However, 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 SM Group'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 "*Regulation – Regulations Relating to the Retail Business – Retail Trade Liberalization Act*" and "*Description of SMIC – The Retail Group (Retailing and Merchandising) – The SM Store and Specialty Stores – Competition.*"

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

The operations of the Retail Group 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 the Retail Group. The SM Group's existing insurance coverage is sufficient to cover for any possible losses in SM Retail and is annually reviewed to ensure adequacy of coverage. However, in line with industry practice in the Philippines, the current insurance coverage does not cover any loss of revenues that the Retail Group may suffer as a result of any disruption to their business. Although SM Retail seeks to maintain 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 Retail Group's business activities are subject to seasonality.

The Retail Group'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. 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 SM Group's financial and operating performance. Any seasonal fluctuations reported in the future may not match the expectations of investors.

If the Retail Group's businesses are 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 SM Group'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 food retailing industry is highly competitive and characterized by narrow profit margins.

The supermarket and hypermarket industry are highly competitive and characterized by narrow profit margins. The SM Group'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. SM Supermarket and SM Hypermarket and Savemore stores generally compete on the basis of location, quality of products, service, price, product variety and store condition. The SM Group 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 SM Group can maintain its current market share. The SM Group's profitability could be impacted by the pricing, purchasing, financing, advertising or promotional decisions made by competitors.

As a result of selling food products, the SM 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 SM Group or that the SM Group will not be obliged to perform such a recall in the future. Product liability insurance is covered by the relevant product manufacturers. If the SM Group is not able to obtain contractual indemnification or other recourse from the responsible manufacturers or suppliers, product liability claims relating to defective products could have a material adverse effect on the SM Group's ability to successfully market its products and on the SM 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 SM Group's products caused illness or injury could have a material adverse effect on the SM Group's reputation with existing and potential customers and on the SM Group's business, financial condition and results of operations.

RISKS RELATING TO THE BANKING GROUP

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

BDO and Chinabank 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, the merger between the Bank of the Philippine Islands ("**BPI**") and Robinsons Bank Corporation, with BPI as the surviving bank, was completed on 1 January 2024. There has also 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 of 21 March 2024, according to data from the BSP, there were a total of 45 universal and commercial banks, domestic and foreign, operating in the Philippines.

In the future, BDO and Chinabank 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 or "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 Chinabank 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 SM Group.

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.

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%. In 2020, at the onset of the pandemic, the BSP pivoted towards an accommodative policy stance. On 20 March 2020, the Monetary Board further reduced the BSP's overnight reverse repurchase facility by 50 basis points to 3.25%. The interest rates on the overnight lending and deposit facilities were reduced as well to 3.25% and 2.25%, respectively. For the rest of 2020, the BSP adopted a number of measures to support the economy during the COVID-19 pandemic. It decreased its benchmark interest rate to 2.00% as of 31 December 2020 and interest rates on overnight deposit and lending facilities to 1.50% and 2.50%, respectively. The Monetary Board maintained the foregoing interest rates through the end of 2021. On 24 March 2022, the Monetary Board decided to maintain the interest rate on the BSP's overnight reverse repurchase facility at 2.00%. The interest rates on the overnight deposit and lending facilities were likewise kept at 1.50% and 2.50%, respectively. On 18 August 2022, the Monetary Board increased the interest rate on RRP to 3.75%, overnight deposit to 3.25%, and lending rates to 4.25%, effective 19 August 2022. On 22 September 2022, the Monetary Board decided to raise the interest rate on the BSP's overnight reverse repurchase facility by 50 basis points to 4.25%, effective on 23 September 2022. Accordingly, the interest rates on the overnight deposit and lending facilities were raised to 3.75% and 4.75%, respectively. The Monetary Board on 17 November 2022 again raised interest rates on the BSP's overnight reverse repurchase facility by 75 basis points to 5.0%, effective 18 November 2022. Accordingly, the interest rates on the overnight deposit and lending facilities will be set to 4.5% and 5.5%, respectively. In December 2022, the Monetary Board set another increase on interest rates to combat inflation. On 16 February 2023, the interest rate of the BSP's overnight reverse repurchase facility was raised by 50 basis points to 6.0%, effective 17 February 2023. Thus, interest rates on the overnight deposit and lending facilities were set to 5.5% and 6.5%, respectively. On 23 March 2023, the Monetary Board decided to further raise the interest rate of the BSP's overnight reverse repurchase facility by 25 basis points to 6.25%, effective 24 March 2023. Accordingly, the interest rates on the overnight deposit and lending facilities will be set to 5.75% and 6.75%, respectively. On 27 October 2023, the BSP further raised its reverse repurchase facility rate to 6.50%. As such the overnight deposit and lending rates were increased to 6.00% and 7.00% respectively. 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 banks' portfolio and the banks' ability to earn trading gains as revenue. A sustained increase in interest rates will also raise the banks' 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 minimize 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 banks' 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.

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 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 Chinabank, 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 Chinabank's financial condition, liquidity and results of operations. According to data from the BSP, the gross non-performing loan ("**NPL**") ratios exclusive of interbank loans in the Philippine banking system were 4.10%, 3.25% and 3.32% as of the years ended 31 December 2021, 2022 and 2023.

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 Chinabank 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.

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 Chinabank, may be incomplete or obsolete. BDO and Chinabank 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 may not meet the standards of their counterparts in more developed countries. If BDO and Chinabank 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 SM Group.

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 1 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. Beginning 1 January 2019, covered institutions are required to maintain an NSFR of 100.0% on both solo and consolidated bases. Although these measures are aimed at strengthening the ability of banks to withstand liquidity stress and promote resilience of the banking sector, compliance with these ratios may also further increase competition among banks for deposits as well as high quality liquid assets.

In December 2018, the Monetary Board approved the Philippine adoption of the Basel III counter-cyclical 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 be effective 12 months after its announcement. Meanwhile, reductions in the buffer take effect immediately.

On 4 May 2020, the BSP issued Memorandum No. M-2020-039 which provides for the utilization of Basel III capital and liquidity buffers in light of the COVID-19 situation. A covered bank or quasi-bank ("**QB**") which has built up its CCyB and LCR buffer is allowed to utilize the same during the state of COVID-19 health emergency, but is expected to integrate regulatory flexibilities into its internal policies and processes to ensure that these buffers are efficiently utilized. *First*, in relation to the CCyB, the covered bank/QB which draws down 2.5% minimum CCyB will not be considered in breach of the Basel III risk-based capital adequacy framework. When the CCyB is utilized, the covered bank/QB is 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. *Second*, for the LCR, the covered bank/QB may draw on its stock of liquid assets to meet liquidity demands even if this may cause the bank to maintain an LCR below the 100% minimum requirement. However, a bank that has recorded a shortfall in the stock of its HQLA for three banking days within any two-week rolling calendar period, thereby causing the LCR to fall below 100%, must notify the BSP of such breach on the banking day immediately following the occurrence of the third liquidity shortfall. After the COVID-19 crisis, covered banks/QB are to be given a reasonable time period to restore their Basel III CCB and LCR. The Memorandum also provides that the non-compliance by a covered bank/QB with the minimum risk-based capital adequacy ratios and the minimum 100% Net Stable Funding Ratio as a result of the COVID-19 situation will be handled on a case-by-case basis by the BSP.

As a result of these directives, the banks are 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 banks' ability to grow its business and may even require the banks to withdraw from or curtail some of its business operations. There can also be no assurance that the banks 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 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 transactions with directors, officers, stockholders and related interests ("**DOSRI**") 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 banks or cause the banks to alter its credit risk management systems, which may adversely affect the banks' business, financial condition and results of operations. Further, through its compliance with these regulations, the banks' business, financial position and results of operations may be adversely affected.

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

The banks are 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.

On 26 March 2021, the second package of the CTRP, Republic Act No. 11534, otherwise known as the CREATE Act, was signed into law, amending provisions of the Tax Code, as amended, relating to, among others, corporate income tax, lowering corporate income taxes and modernizing fiscal incentives in a bid to complement the expected incremental revenues from the first package.

The salient provisions of the CREATE Act include:

(i) effective 1 July 2020, a reduction in CIT from the current 30.0 per cent to 20.0 per cent. for domestic corporations with a net taxable income not exceeding ₱5 million and with total assets not exceeding ₱100 million, excluding the land on which the particular business entity's office, plant and equipment are situated during the taxable year for which the tax is imposed and to 25.0 per cent for other corporate taxpayers;

(ii) effective 1 July 2020 until 30 June 2023, a reduction in the minimum CIT rate to 1.0 per cent;

(iii) effective 1 July 2020, a period of four to seven years during which export enterprises may enjoy the 5.0 per cent special CIT based on the gross income earned in lieu of all national and local taxes;

(iv) extension of the applicability of the net operating loss carryover for losses incurred during the first three years from the start of commercial operations by registered projects or activities, from the current three to five consecutive taxable years immediately following the year of such loss;

(v) net capital gains derived by resident foreign corporations on the sale of shares of stock of domestic corporations not traded on the Philippine stock exchange will be subject to a final tax of 15.0 per cent, increased from the current rate of 5.0 per cent on the first ~US$2,000 and 10.0 per cent on the excess thereof;

(vi) effective 1 January 2022, Regional Operating Headquarters will be subject to regular CIT rates, increased from the current 10.0 per cent rate on taxable income;

(vii) qualified registered business enterprises ("**RBE**") will be granted an income tax holiday for four to seven years, depending on the assigned RBE category level (based on location and industry). After the income tax holiday period and beginning 1 July 2020, a special CIT rate of 5.0 per cent will be imposed on gross income earned in lieu of all national and local taxes. The duration of the special CIT is five to ten years depending on the assigned RBE tier level;

(viii) Improperly accumulated earnings tax shall no longer be imposed on corporations; and

(ix) in lieu of the special CIT, enhanced deductions may be granted for a period of five to ten years depending on the assigned RBE category level.

The other tax reform packages that the government has implemented include Republic Act No. 11213 or the Tax Amnesty Act of 2018, Republic Act No. 11346 and Republic Act No. 11467.

The fourth package under the CTRP or the Passive Income and Financial Intermediary Taxation Act ("**PIFITA**"), relating to passive income and financial intermediaries proposes the following, among other things: (i) a single final withholding tax rate of 20% on interest income regardless of currency, maturity, issuer and other differentiating factors, (ii) a harmonized and decreased rate of 15% for royalties in 2028, (iii) a uniform rate of 10% on dividend income in 2028, (iv) a stock transaction tax that will be gradually reduced annually by 0.1% from 0.6% to 0.1% in 2028, (v) taxes on policies of insurance upon property, fidelity bonds, and other insurance policies will gradually be decreased annually by 1%, from 12.5% to 7.5% in 2028, and (vii) taxes on mortgages, pledges, and deeds of trust will be lowered to a 0.3% rate in 2028.

During the State of the Nation Address on 24 July 2023, President Marcos, Jr. called on Congress to support the following priority legislations on essential tax measures under the Medium-Term Fiscal Framework: (1) Excise tax on single-use plastics; (2) VAT on digital services; (3) Rationalization of the mining fiscal regime; (4) Motor vehicle user's charge/road users tax; and (5) Military and Uniformed Personnel Pension.

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 Chinabank. 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 Chinabank 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 SM Group.

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 U.S.$780 million in fines for their role in assisting U.S. citizens in evading income taxes.

FATCA impacts a number of organizations 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**").

Specific to the BDO's compliance with FATCA, the BDO and its subsidiaries registered on 25 April 2014, as a PFFI and then amended its FATCA status on 27 March 2015 to Registered Deemed Compliant Foreign Financial Institution under a Model 1 Intergovernmental Agreement ("**IGA**"). The BDO's FATCA ID and Global Intermediary Identification Number is URSOGI.00000.LE.608. Meanwhile Chinabank and its subsidiaries registered on 2 May 2014, as a PFFI and then amended its FATCA status on 17 June 2015, to Registered Deemed – Compliant Financial Institution under a Model 1 IGA. The Chinabank's FATCA ID and Global Intermediary Identification Number (GIIN) No. is P7S61P.00000.LE.608.

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 tax identification number 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.

Philippine banks also face the threat of being assessed for documentary stamp tax upon their issue of passbooks for higher interest rate deposits. The Court of Tax Appeals has, in several cases against other Philippine banks, affirmed the BIR's position that passbooks for higher interest rate deposits having the essential features of a certificate of deposit are subject to the documentary stamp tax imposed on certificates of deposit. It has been ruled by the Supreme Court that a passbook representing an interest earning deposit account issued by a bank qualifies as a certificate of deposit drawing interest. The Supreme Court also held that to claim that that time deposits evidenced by passbooks should not be subject to documentary stamp tax is a clear evasion of the rule on equality and uniformity in taxation that requires the imposition of documentary stamp tax on documents evidencing transactions of the same kind i.e., on all certificates of deposits drawing interest. These Supreme Court rulings could result in the SM Group's taxation charge being increased.

In addition, new taxation regulations issued by the BIR may have an adverse effect on the SM Group. If the SM Group is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties and its business reputation may suffer, which could have a material adverse effect on its business, financial position and results of operations.

RISKS RELATING TO THE PHILIPPINES

Substantially all of the SM 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 SM 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;
- public health epidemics or outbreaks of diseases;
- 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 SM Group's business, financial condition and results of operations.

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

The Philippines has from time to time experienced political and military instability, including acts of political violence. In the last decade, there has been political instability in the Philippines, including extra-judicial killings, alleged electoral fraud, impeachment proceedings against two former presidents, two chief justices of the Supreme Court of the Philippines, hearings on graft and corruption issues against various government officials, and public and military protests arising from alleged misconduct by previous administrations.

In addition, a number of officials of the Philippine government are currently under investigation or have been indicted on corruption charges stemming from allegations of misuse of public funds, extortion, bribery, or usurpation of authority. There can be no assurance that acts of political violence will not occur in the future and any such events could negatively impact the Philippine economy.

Similarly, the SM Group may be affected by political and social developments in the country as well as changes in the political leadership and government policies. On 9 May 2022, the Philippine general elections for national, provincial and local officials, with Ferdinand R. Marcos, Jr. and Sara Z. Duterte garnering the majority votes for the Presidential and Vice-Presidential positions, respectively. The incumbency of President Marcos, Jr. may lead to political or regulatory changes or may bring about or inconsistent or sudden changes in regulations and policies which could have a material adverse impact on SM Group's business operations.

No assurance can be given that any changes in regulations or policies imposed by the government from time to time, or the future political or social environment in the Philippines will be stable or that current and future governments will adopt economic policies conducive for sustaining economic growth. Political or social instability in the Philippines could negatively affect the general economic conditions and business environment in the Philippines, which could have a material impact on SM Group's business, results of operations, and financial position.

The 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 of a number of terrorist attacks and the Armed Forces of the Philippines has been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. In May 2017, the city of Marawi in Lanao del Sur, Mindanao was assaulted by the Maute Group, terrorists which were inspired by pledged allegiance to the Islamic State of Iraq and Syria ("**ISIS**"). Due to the clash between the government forces and the terrorists and the risk of conflict spilling over to other parts of Mindanao, martial law was declared in the whole of Mindanao, Philippines. Despite the city of Marawi being liberated from the terrorists in October 2017, the Philippine Congress extended the imposition of martial law in Mindanao until the end of 2019, citing persistent threats of terrorism and rebellion and to ensure the total eradication of ISIS-inspired terrorists in the country. In 1 January 2020, the martial law in Mindanao was lifted, yet certain areas in Mindanao remain under a state of emergency and law enforcement groups are in heightened security as a measure against potential terror threats. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy. These armed conflict and terror attacks could lead to further injuries or deaths by civilians and members of the military, which could destabilize parts of the country and adversely affect the country's economy.

The Philippine legislature passed the Anti-Terrorism Act of 2020 (Republic Act No. 11479), which has drawn criticism from, and sparked protests by, various sectors because of its controversial provisions on warrantless arrests and its broad definition of terrorist acts, which may be used to target government critics. The Supreme Court, nevertheless, upheld the constitutionality of the said law, save for two provisions which exclude mass actions and similar exercise of civil and political rights from the definition of terrorism and requests by foreign agencies or bodies to designate persons as terrorists and terrorist organizations.

An increase in the frequency, severity or geographic reach of these terrorist acts, violent crimes, bombings and similar events could have a material adverse effect on investment and confidence in, and the performance of, the Philippine economy and consequently, could cause interruption to the SM Group's businesses.

The Philippines has also experienced a number of major natural disasters over the years, including typhoons, droughts, floods, volcanic eruptions and earthquakes. There can be no assurance that the occurrence of such natural disasters, which are not within the SM Group's control, will not materially disrupt the SM Group's businesses. Significant calamities that hit the country in the recent years include the Taal Volcano eruption, Typhoon Odette in 2021, 7.0-magnitude earthquake in Abra in July 2022 and 7.4-magnitude offshore earthquake near Surigao del Sur in December 2023, Typhoon Paeng in 2022 and Typhoon Egay in 2023. Natural disaster will continue to affect the Philippines and the SM Group may incur losses for such catastrophic events, which could materially and adversely affect the Group's business, financial condition and results of operations.

Similarly, the SM Group's businesses, results of operations and financial position have been and could continuously be adversely affected by public health epidemics or outbreaks of diseases such as the COVID-19 pandemic.

With the continuing effects of COVID-19, it is believed that the extent of the future impact of an outbreak of COVID-19 or any public health epidemic or pandemic on the SM Group will depend on certain developments, including the emergence of new COVID-19 variants and contagious diseases, duration and spread of the outbreak, the actions taken to contain COVID-19 or any other and contagious diseases, and the impact on the SM Group's businesses, all of which are highly uncertain and cannot be predicted. There is no assurance that COVID-19 or any public health epidemic or pandemic will not have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the SM Group's business, financial condition and results of operations.

Volatility in the value of the Peso against the US dollar and other currencies could adversely affect the SM 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 ₱49.25 in 2021, ₱54.48 in 2022 and ₱55.63 in 2023. As of 31 December 2023, according to BSP data, the Peso has appreciated by 0.99% to ₱55.57 per U.S.$1.00 from ₱56.12 per U.S.$1.00 as of 31 December 2022.

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 SM Group are predominantly denominated in Pesos, while certain expenses, including fixed debt obligations, are denominated in currencies other than Pesos. Certain of the SM Group's borrowings are denominated in US dollars and China renminbi and accordingly, the SM 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 SM 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, could have a material adverse effect on the SM Group's financial condition, liquidity and results of operations.

Tensions with China and other neighboring countries may adversely affect the Philippine economy and business environment.

Competing and overlapping territorial claims by the Philippines, China and several Southeast Asian nations (such as Vietnam, Brunei and Malaysia) over certain islands and features in the West Philippine Sea (South China Sea) have for decades been a source of tension and conflicts. China claims historic rights to nearly all of the West Philippine Sea based on its so-called "nine-dash line" and in recent years dramatically expanded its military presence in the sea which has raised tensions in the region among the claimant countries. In 2013, the Philippines became the first claimant country to file a case before the Permanent Court of Arbitration, the international arbitration tribunal based at the Hague, Netherlands to

legally challenge claims of China in the West Philippine Sea and to resolve the dispute under the principles of international law as provided for under the United Nations Convention on the Law of the Sea ("**UNCLOS**"). In July 2016, the tribunal rendered a decision stating that the Philippines has exclusive sovereign rights over the West Philippine Sea (in the South China Sea) and that the "nine-dash line" claim of China is invalid. The Philippine government, under the Duterte administration, has taken action to de-escalate tensions concerning the territorial dispute with China. Since March 2021, however, increasing tension in the West Philippine Sea has been triggered by the continued presence of Chinese vessels in the Philippines' exclusive economic zone. The Philippines has filed and continues to file diplomatic protests against China and has called on China to recall its ships in Philippine waters. The Philippine Navy has also deployed additional naval vessels to augment Philippine Coast Guard vessels protect the maritime territories of the Philippines.

In early August 2023, a Chinese coast guard ship used a water cannon against Philippine supply boats to prevent it from approaching Second Thomas Shoal in the Spratly Islands, where Filipino military personnel are stationed. The move, which was caught on video, outraged President Marcos, Jr. and prompted the Department of Foreign Affairs in Manila to summon the Chinese ambassador to convey a strongly worded protest. On September 2023, the Philippine coastguard removed a floating barrier at a disputed reef that was deployed by China to block Filipinos from the traditional fishing ground within the exclusive economic zone of the Philippines. In November 2023, a Chinese ship fired water cannons at M/L Kalayaan while the latter was on a resupply mission to troops stationed at BRP Sierra Madre in the Second Thomas Shoal. The Philippines also claimed that ships belonging to a Chinese maritime militia were involved in the harassment and that inflatable boats belonging to the Chinese coast guard were similarly involved. BRP Sierra Madre, a former US Navy ship, has been grounded in the contested Second Thomas Shoal (Ayugin Shoal to the Philippines and Ren'ai Reef to China) since 1999. The Philippine Embassy in Beijing has protested to the Chinese Foreign Ministry over the latest incident. There is no guarantee that the territorial dispute between the Philippines and other countries, including China, would end or that any existing tension will not escalate further, as China has taken steps to exercise control over the disputed territory. In such event, the Philippine economy may be disrupted and its business and financial standing may be adversely affected.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and the SM Group's operations could be adversely affected as a result.

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 SMIC and SM Prime, 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 Parent Guarantors comply 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 Parent Guarantors 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. As of the date of this Offering Circular, SMIC has four independent directors and SM Prime has three independent directors. Many other jurisdictions require significantly more independent directors.

As a policy, the SM Group adheres to international standards of corporate governance and disclosure. The SM Group has created a Corporate Governance Committee, composed entirely of independent directors, to assist the Board in its corporate governance related responsibilities. The SM Group has received numerous awards for good corporate governance from international publications. Examples of corporate

governance awards received by SM Prime include the Five Golden Arrow Award, the highest corporate governance distinction in the Golden Arrow Recognition organized by the Institute of Corporate Directors, in partnership with the SEC, held in 2023. Further, SM Prime bagged the Best Diversity, Equity and Inclusion (DEI) in the Philippines (Gold) and Best ESG Company in the Philippines (Silver) at the 2023 FinanceAsia Best Managed Companies Awards and the Best Environment Responsibility and Best Investor Relations Company at the 13th Asian Excellence Award of Corporate Governance Asia.

RISKS RELATING TO AN INVESTMENT IN THE NOTES

The entry into the relevant Deed of Guarantee by SM Prime is subject to the Philippine SEC's approval of the amendment of SM Prime's Articles of Incorporation to expressly include the power to guarantee among its corporate powers. See "Form of the Guarantees."

Until such time as SM Prime enters into the relevant Deed of Guarantee, SM Prime will not issue Notes under the Programme. The obligations of the relevant Parent Guarantor under the applicable Guarantee are solely with respect to the relevant Issuer. The risk factors relating to such Guarantee as described in this section should be read on the assumption that the relevant Deed of Guarantee has been duly authorized and executed.

Risks Relating to the Notes and the Guarantees

The Issuers are special purpose companies with no substantial business activities and have limited financial resources.

The Issuers are offshore subsidiaries of the Parent Guarantors and have limited assets as recourse for Noteholders. As a result, the ability of the relevant Issuer to make payments under the Notes will depend on its receipt of timely remittance of funds from the relevant Parent Guarantor and/or the relevant Parent Guarantor's subsidiaries. There is no assurance that the Issuers could receive timely and sufficient funds from the Parent Guarantors and/or the relevant Parent Guarantors' subsidiaries to meet its payment obligations under the Notes. In addition, the entry into the relevant Deed of Guarantee by SM Prime is subject to the amendment of SM Prime's Articles of Incorporation to expressly include the power to guarantee among its corporate powers.

The Notes and the Guarantees are unsecured obligations.

The Notes are unsecured obligations of the Issuers, and the Guarantees will be unsecured obligations of the Parent Guarantors upon entry into relevant the Deed of Guarantee on or prior to the first issue by the relevant Issuer of the Notes under the Programme. The repayment of the Notes and payment under the Guarantee may be adversely affected if:

- the relevant Issuer or relevant Parent Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;

- there is a default in payment under the relevant Issuer's or relevant Parent Guarantor's future secured indebtedness or other unsecured indebtedness; or

- there is an acceleration of any of the relevant Issuer's or relevant Parent Guarantor's indebtedness.

If any of these events were to occur, the relevant Issuer's or relevant Parent Guarantor's assets may not be sufficient to pay amounts due on the Notes.

If any of the Issuers or Parent Guarantors are unable to comply with the restrictions and covenants in their respective debt agreements (if any), the Notes or the Guarantees, there could be a default under the terms of these agreements or the Notes, which could cause repayment of the relevant Issuer's or relevant Parent Guarantor's debt to be accelerated.

The Issuers and the Parent Guarantors incur indebtedness from time to time and have entered into and will enter into various debt and other agreements in respect thereof. If any of the Issuers or Parent Guarantors are unable to comply with the restrictions and covenants in the Notes, the Guarantees (if executed) or current or future debt obligations and other agreements (if any), there could be a default under the terms of these agreements.

In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuers or Parent Guarantors, accelerate repayment of the debt, declare all amounts borrowed due and payable or terminate the agreements. Furthermore, some of the debt agreements of the Issuers and the Parent Guarantors may contain cross-acceleration or cross-default provisions. As a result, any default by any of the Issuers or the Parent Guarantors under one debt agreement may cause the acceleration of repayment of debt, including the Notes, or result in a default under its other debt agreements, including the Notes. If any of these events occur, there can be no assurance that SM Group's assets and cash flows would be sufficient to repay in full all of the relevant Issuer's or relevant Parent Guarantor's indebtedness, or that it would be able to find alternative financing. Even if the relevant Issuer or relevant Parent Guarantor could obtain alternative financing, there can be no assurance that it would be on terms that are favourable or acceptable to such Issuer or Parent Guarantor.

The Issuers may not be able to repurchase the Notes upon the exercise by Noteholders of a redemption option in the event of a Change of Control.

Upon the occurrence of a Change of Control as described in "*Terms and Conditions of the Notes*," Noteholders may require the relevant Issuer to redeem their Notes. The source of funds for any such redemption would be the relevant Issuer's available cash and third-party financing. The relevant Issuer, however, may not have sufficient available funds at the time of the occurrence of any such event to redeem the tendered outstanding Notes. The relevant Issuer's failure to redeem the tendered Notes would constitute an Event of Default (as defined in "*Terms and Conditions of the Notes*"). This Event of Default may, in turn, constitute an event of default under other indebtedness, which could cause the related debt to be accelerated after any applicable notice or grace periods.

Developments in other markets may adversely affect the market price of the Notes.

The market price of the Notes may be adversely affected by declines in the international financial markets and world economic conditions. The market for the Notes is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries.

A trading market for the Notes may not develop.

Each Tranche of Notes are a new issue of securities for which there is currently no trading market. There can be no assurance as to the liquidity of the Notes or that an active trading market will develop. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, SM Group's operations and the market for similar securities. The relevant Dealers in relation to any Tranche of Notes are not obligated to make a market in the Notes and any such market making, if commenced, may be discontinued at any time at the sole discretion of the relevant Dealers in relation to any Tranche of Notes.

The ratings of the Notes may be downgraded or withdrawn.

Tranches of Notes to be issued under the Programme may be rated or unrated. The ratings represent the opinions of the rating agencies and their assessment of the ability of the Issuers and the Parent Guarantors to perform their respective obligations under the relevant Notes and the Guarantees and credit risks in determining the likelihood that payments will be made when due under the relevant Notes. A rating is not a recommendation to buy, sell or hold the relevant Notes and may be subject to suspension, reduction or withdrawn at any time. A reduction or withdrawal of the ratings may adversely affect the market price of the relevant Notes and the Issuers' or Parent Guarantors' ability to access the debt capital markets.

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of investing in the Notes in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments and investors may purchase such instruments as a way to manage risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The priority of debt evidenced by a public instrument.

Under Philippine law, in the event of liquidation of a company, an unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244(14) 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 authorised 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.

Some of the Parent Guarantors' financial indebtedness are covered by agreements which are embodied in public instruments. However, these agreements contain a waiver by each of the respective lenders of the benefit of preference or priority accorded to public instruments under Article 2244(14) of the Civil Code of the Philippines. The waivers are generally subject to the condition that all present and future creditors of the Parent Guarantors are pari passu and no creditor shall be conferred a superior right on the basis that its credit appears in a public instrument.

Commencement of proceedings under applicable Singapore insolvency or related laws may result in a material adverse effect on the Noteholders.

There can be no assurance that the relevant Issuer will not become bankrupt or insolvent, or the subject of judicial management, schemes of arrangement, winding-up or liquidation orders or other insolvency related proceedings or procedures. In the event of an insolvency or near insolvency of the relevant Issuer, the application of certain provisions of Singapore insolvency and related laws may have a material adverse effect on the Noteholders. Without being exhaustive, below are some matters that could have a material adverse effect on the Noteholders.

Where the relevant Issuer is insolvent or close to insolvent and the relevant Issuer undergoes certain insolvency procedures, there may be a moratorium against actions and proceedings which may apply in the case of judicial management, schemes of arrangement and/or winding-up in relation to the relevant Issuer. It may also be possible that if a company related to the relevant Issuer proposes a creditor scheme of arrangement and obtains an order for a moratorium, the relevant Issuer may also seek a moratorium even if the relevant Issuer is not in itself proposing a scheme of arrangement. These moratoriums can be lifted with court permission and in the case of judicial management, additionally with the permission of the judicial manager. Accordingly, if for instance there is any need for the Trustee to bring an action against the relevant Issuer, the need to obtain court permission may result in delays in being able to bring or continue legal proceedings that may be necessary in the process of recovery.

Further, Noteholders may be made subject to a binding scheme of arrangement where the majority in number representing 75% in value of creditors and the court approve such scheme. In respect of company-initiated creditor schemes of arrangement, there are cram-down provisions that may apply to a dissenting class of creditors. The court may notwithstanding a single class of dissenting creditors approve a scheme provided an overall majority in number representing 75% in value of the creditors meant to be bound by the scheme have agreed to it and provided that the scheme does not unfairly discriminate and is fair and equitable to each dissenting class and the court is of the view that it is appropriate to approve the scheme. In such scenarios, Noteholders may be bound by a scheme of arrangement to which they may have dissented.

The Insolvency, Restructuring and Dissolution Act 2018 of Singapore (the "**IRD Act**") was passed in the Parliament of Singapore on 1 October 2018 and came into force on 30 July 2020. The IRD Act includes a prohibition against terminating, amending or claiming an accelerated payment or forfeiture of the term under, any agreement (including a security agreement) with a company that commences certain insolvency or rescue proceedings (and before the conclusion of such proceedings), by reason only that the proceedings are commenced or that the company is insolvent. This prohibition is not expected to apply to any contract or agreement that is, or that is directly connected with, a debenture. However, it may apply to other related contracts that are not found to be directly connected to the Notes.

If an investor holds Notes which are not denominated in the investor's home currency, the investor will be exposed to movements in exchange rates adversely affecting the value of the investor's holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.

The Issuers will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes; (2) the Investor's Currency equivalent value of the principal payable on the Notes; and (3) the Investor's Currency equivalent market value of the Notes.

The Government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency denominated obligations. The Monetary Board of the BSP, with the approval of the President of the Philippines, has statutory authority, during a foreign exchange crisis or in times of national emergency, to suspend temporarily or restrict sales of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee. The Issuers are not aware of any pending proposals by the Government relating to such restrictions. Although the Government has from time to time made public pronouncements of a policy not to impose restrictions on foreign exchange, there can be no assurance that the Government will maintain such policy or will not impose economic or regulatory controls that may restrict free access to foreign currency. Any such restriction imposed in the future could adversely affect the ability of investors to repatriate foreign currency upon sale of the Notes or receipt of any dividends.

Investors who hold an amount of Notes less than the minimum Specified Denomination may not receive a definitive Notes for such amount.

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination (as specified in the applicable Pricing Supplement) plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

The Notes may be represented by Global Notes and holders of a beneficial interest in a Global Note must rely on the procedures of the relevant Clearing System(s).

Notes issued under the Programme may be represented by one or more Global Notes. Such Global Notes will be deposited with a common depositary for Euroclear and Clearstream or lodged with the CMU. Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests in Global Notes only through the Clearing Systems.

While the Notes are represented by one or more Global Notes, the Issuers will discharge their payment obligations under the Notes by making payments to the relevant Clearing System for distribution to their account holders or, in the case of the CMU, to the persons for whose account(s) interests in such Global Note are credited as being held in the CMU in accordance with the CMU Rules.

A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuers have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

The Guarantees may or may not be registered with the BSP.

The Guarantees may or may not be registered by the relevant Parent Guarantor with the BSP. In the event that the relevant Parent Guarantor decides not to register the relevant Guarantee, then such Parent Guarantor will not be able to purchase U.S. dollars from the Philippine banking system (specifically, Authorized Agent Banks (i.e., all categories of banks (except offshore banking units ("**OBUs**") duly licensed by the BSP) and subsidiaries/affiliate foreign exchange corporations of AABs ("**AABs/AAB forex corps**") for the purpose of funding payments under the relevant Guarantee. Accordingly, such Parent Guarantor will need to source U.S. dollars to meet its obligations under the Guarantees from sources outside the Philippine banking system. If the relevant Parent Guarantor is unable to do so, it may be unable to fund payments under the relevant Guarantee.

The Trustee may request that the Noteholders provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances (including, without limitation, the giving of notice to the Issuer pursuant to Condition 10 (Events of Default and Enforcement Events) of the Notes and the taking of steps and/or actions and/or instituting proceedings pursuant to Condition 15 (Meeting of Noteholders and Modifications) of the Notes, the Trustee may, at its sole discretion, request the Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes steps and/or actions and/or institutes proceedings on behalf of the Noteholders. The Trustee shall not be obliged to take any such steps and/or actions and/or institute any such proceedings if not first indemnified and/or secured and/or prefunded to its satisfaction.

Negotiating and agreeing to any indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such steps and/or actions can be taken and/or such proceedings can be instituted. The Trustee may not be able to take such steps and/or actions and/or institute any such proceedings notwithstanding the provision of an indemnity and/or security and/or prefunding to it, in breach of the terms of the Trust Deed constituting the Notes or the Conditions, and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations, to the extent permitted by the agreements and the applicable law, it will be for the Noteholders to take such steps and/or actions and/or institute such proceedings directly.

Investors should pay attention to any modification and waivers.

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. There is a risk that the decision of the majority of the Noteholders may be adverse to the interest of the individual Noteholders.

The Conditions also provide that the Trustee may (but shall not be obliged to) agree, without the consent of Noteholders, Receiptholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed, the Agency Agreement, the Deeds of Guarantee or the Conditions which, in its opinion, is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of applicable law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, the Agency Agreement, the Deeds of Guarantee or the Conditions that is, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders.

Singapore taxation risk.

The Notes to be issued from time to time under the Programme, during the period from the date of this Offering Circular to 31 December 2028 are, pursuant to the Income Tax Act 1947 of Singapore (the "**Income Tax Act**") and the MAS Circular FDD Cir 08/2023 entitled "Qualifying Debt Securities and Primary Dealer Schemes – Extension and Refinements" issued by the Monetary Authority of Singapore ("**MAS**") on 31 May 2023, intended to be "qualifying debt securities" for the purposes of the Income Tax Act, subject to the fulfilment of certain conditions more particularly described in the section "Taxation – Singapore Taxation". However, there is no assurance that such Notes will continue to enjoy the tax concessions in connection therewith should the relevant tax laws or MAS circulars be amended or revoked at any time.

Risks Relating to the Structure of a Particular Issue of Notes

A wide range of Notes may be issued under the Programme and these Notes may have features which contain particular risks for investors.

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for investors. Set out below is a description of certain such features and associated risks:

Notes subject to optional redemption by the Issuers

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuers may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuers may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

The Issuers may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuers may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected;
- they may lose all or a substantial portion of their principal;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index or other Relevant Factor should not be viewed as an indication of the future performance of such Relevant Factor during the term of any Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Notes linked to such a Relevant Factor and the suitability of such Notes in light of its particular circumstances.

Partly paid Notes

The Issuers may issue Notes where the issue price is payable in more than one instalment. Any failure by an investor to pay any subsequent instalment of the issue price in respect of the Notes could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuers have the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuers may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuers convert from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuers convert from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

CAPITALIZATION AND INDEBTEDNESS

In the case of an issuance of Notes by SM Prime SG Holdings, investors should only consider and rely on the disclosure in relation to SM Prime in this Offering Circular (and not any disclosure in relation to SMIC SG Holdings, SMIC or the SM Group). SM Prime is the only Parent Guarantor with respect to any issuance of Notes by SM Prime SG Holdings and SMIC will not provide any guarantee or credit support for Notes issued by SM Prime SG Holdings. Investors should therefore not consider nor rely on any disclosure relating to SMIC SG Holdings, SMIC or the SM Group with respect to any issuance of Notes by SM Prime SG Holdings. For the avoidance of doubt, SMIC is the only Parent Guarantor with respect of any issuance of Notes by SMIC SG Holdings and SM Prime will not provide any guarantee or credit support for Notes issued by SMIC SG Holdings.

CAPITALIZATION AND INDEBTEDNESS OF SMIC

The following table sets forth the indebtedness and capitalization of SMIC as of 31 December 2023. This table should be read in conjunction with SMIC's audited consolidated financial statements as of and for the year ended 31 December 2023 and the notes presented elsewhere herein.

	As of 31 December 2023	
	(Audited)	**(Unaudited)**
	(in millions)	
	₱	U.S.$
Short-term indebtedness		
Bank loans	13,414.2	241.4
Current portion of long-term debt	113,528.8	2,043.1
	126,943.0	2,284.5
Long-term indebtedness		
Long-term debt – net of current portion	374,758.9	6,744.3
Equity		
Equity attributable to Owners of the Parent		
Capital stock	12,261.1	220.7
Additional paid-in capital	71,837.4	1,292.8
Treasury stock	(40.9)	(0.7)
Equity adjustments from common control transactions	(6,660.5)	(119.9)
Cost of Parent common shares held by subsidiaries	(25.4)	(0.5)
Cumulative translation adjustment	1,587.2	28.5
Fair value changes on cashflow hedges	809.1	14.5
Unrealized gain on financial assets at FVOCI	11,075.4	199.3
Remeasurement loss on defined benefit/asset obligation	(3,150.9)	(56.7)
Share in other comprehensive loss of associate companies and joint ventures – net	(11,376.6)	(204.7)
Retained earnings		
Appropriated	37,000.0	665.9
Unappropriated	443,288.8	7,977.6
	556,604.7	10,016.8
Non-controlling interests	215,595.5	3,879.9
Total equity	772,200.2	13,896.7
Total capitalization(1)	1,273,902.1	22,925.5

(1) Total capitalization, computed as the sum of bank loans, long-term debt (current and noncurrent portion) and total shareholders' equity.

There has been no material change in SMIC's long-term indebtedness and equity since 31 December 2023.

CAPITALIZATION AND INDEBTEDNESS OF SM PRIME

The following table sets forth the indebtedness and capitalization of SM Prime as of 31 December 2023. This table should be read in conjunction with SM Prime's audited consolidated financial statements as of and for the year ended 31 December 2023 and the notes presented elsewhere herein.

	As of 31 December 2023	
	(Audited)	**(Unaudited)**
	(in millions)	
	₱	U.S.$
Short-term indebtedness		
Loans payable	4,289.0	77.2
Current portion of long-term debt	67,746.4	1,219.2
	72,035.4	1,296.4
Long-term indebtedness		
Long-term debt – net of current portion	294,622.3	5,302.1
Equity		
Equity attributable to Equity Holders of the Parent		
Capital stock	33,166.3	596.9
Additional paid-in capital – net	38,159.9	686.7
Cumulative translation adjustment	2,556.1	46.0
Net fair value changes of equity instruments at FVOCI	16,938.5	304.8
Net fair value changes on cash flow hedges	1,079.1	19.4
Remeasurement loss on defined benefit obligation	(1,062.4)	(19.1)
Retained earnings		
Appropriated	42,200.0	759.4
Unappropriated	266,143.8	4,789.6
Treasury stock	(2,984.7)	(53.7)
Total equity	396,196.6	7,130.0
Total capitalization(1)	762,854.3	13,728.5

(1) Total capitalization, computed as the sum of loans payable, long-term debt and equity attributable to equity holders of Parent.

There has been no material change in SM Prime's long term indebtedness and equity since 31 December 2023.

SELECTED FINANCIAL INFORMATION AND OTHER DATA

In the case of an issuance of Notes by SM Prime SG Holdings, investors should only consider and rely on the disclosure in relation to SM Prime in this Offering Circular (and not any disclosure in relation to SMIC SG Holdings, SMIC or the SM Group). SM Prime is the only Parent Guarantor with respect to any issuance of Notes by SM Prime SG Holdings and SMIC will not provide any guarantee or credit support for Notes issued by SM Prime SG Holdings. Investors should therefore not consider nor rely on any disclosure relating to SMIC SG Holdings, SMIC or the SM Group with respect to any issuance of Notes by SM Prime SG Holdings. For the avoidance of doubt, SMIC is the only Parent Guarantor with respect of any issuance of Notes by SMIC SG Holdings and SM Prime will not provide any guarantee or credit support for Notes issued by SMIC SG Holdings.

The summary historical consolidated balance sheets data as of 31 December 2021, 31 December 2022 and 31 December 2023, and summary historical consolidated statements of income and cash flow data for the years ended 31 December 2022 and 31 December 2023 set forth below, have been derived from, and should be read in conjunction with, the audited consolidated financial statements of each of SMIC and SM Prime, including the notes thereto, included elsewhere in this Offering Circular.

The consolidated financial statements of each of SMIC and SM Prime as of and for the years ended 31 December 2021, 2022 and 2023 were audited by SGV & Co.

Unless otherwise stated, each of SMIC and SM Prime have presented their consolidated financial results under PFRS.

Potential investors should read the following data together with the more detailed information contained in the consolidated financial statements and related notes included elsewhere in this Offering Circular. The following data is qualified in its entirety by reference to the information therein.

Translations from Philippine Pesos to U.S. dollars for the convenience of the reader have been made at the BSP rate on 29 December 2023 of ₱55.567 to U.S.$1.00.

SMIC CONSOLIDATED STATEMENTS OF INCOME

	For the years ended December 31,			
	2021	2022	2023	
	(Audited)			(Unaudited)
	(in millions, except per share data)			
	₱	₱	₱	U.S.$
Revenues				
Sales				
Merchandise	294,694.3	367,318.6	401,725.5	7,229.6
Real Estate	45,116.6	39,046.5	42,124.1	758.1
Rent	29,642.2	49,167.6	61,784.8	1,111.9
Equity in net earnings of associate companies and joint ventures	26,768.8	35,825.7	44,945.1	808.8
Others	35,511.6	61,640.2	65,672.4	1,181.8
	431,733.5	552,998.6	616,251.9	11,090.2
Costs and Expenses	352,812.9	435,430.9	474,083.9	8,531.8
Other income (charges)				
Interest expense	(19,138.8)	(21,547.1)	(24,084.8)	(433.4)
Interest income	2,203.4	3,042.4	4,048.3	72.9
Investment impairment reversal (provision)	–	(787.2)	320.2	5.8
Gain (loss) from fair value changes on derivatives – net	317.7	866.5	(30.7)	(0.6)
Foreign exchange gain (loss) – net and others	1,347.4	(2.1)	396.2	7.1
	(15,270.3)	(18,427.5)	(19,350.8)	(348.2)
Income before income tax	63,650.3	99,140.2	122,817.2	2,210.2
Provision for income tax				
Current	7,224.5	14,248.2	16,209.0	291.7
Deferred	1,782.1	546.6	423.1	7.6
	9,006.6	14,794.8	16,632.1	299.3
Net Income	54,643.7	84,345.4	106,185.1	1,910.9
Attributable to:				
Owners of the Parent	40,411.9	61,653.7	76,989.1	1,385.5
Non-controlling interests	14,231.8	22,691.7	29,196.0	525.4
	54,643.7	84,345.4	106,185.1	1,910.9
Basic/Diluted Earnings Per Common Share Attributable to Owners of the Parent	33.55	50.88	63.00	1.1

SMIC CONSOLIDATED BALANCE SHEETS

	As of December 31,			
	2021*	2022	2023	
		(Audited)		(Unaudited)
		(in millions)		
	₱	₱	₱	U.S.$
ASSETS				
Current Assets				
Cash and cash equivalents	89,352.6	106,561.1	103,745.6	1,867.0
Time deposits	311.2	8,788.8	602.5	10.8
Financial assets at fair value through other comprehensive income (FVOCI)	547.0	534.9	747.8	13.5
Receivables and contract assets	76,092.7	84,320.6	79,209.5	1,425.5
Inventories	86,767.2	106,368.0	117,475.0	2,114.1
Other current assets	53,296.8	54,976.0	57,690.9	1,038.2
Total Current Assets	306,367.5	361,549.4	359,471.3	6,469.1
Noncurrent Assets				
Financial assets at FVOCI – net of current portion	27,130.0	25,369.9	26,317.8	473.6
Investments in associate companies and joint ventures	305,072.0	328,271.5	361,324.8	6,502.5
Time deposits – net of current portion	3,905.6	24,130.6	22,324.7	401.8
Property and equipment	45,411.5	47,881.0	52,851.6	951.1
Investment properties	463,765.4	485,982.3	537,067.2	9,665.2
Right-of-use assets	44,839.7	44,138.8	48,540.4	873.6
Intangibles	40,759.9	40,277.3	40,275.6	724.8
Other noncurrent assets	123,230.1	121,824.8	138,045.1	2,484.3
Total Noncurrent Assets	1,054,114.2	1,117,876.2	1,226,747.2	22,076.9
Total Assets	1,360,481.7	1,479,425.6	1,586,218.5	28,546.0
LIABILITIES AND EQUITY				
Current Liabilities				
Bank loans	27,167.1	20,811.5	13,414.2	241.4
Accounts payable and other current liabilities	168,444.1	181,961.7	200,169.0	3,602.3
Income tax payable	2,310.9	3,204.7	3,649.9	65.7
Current portion of long-term debt	63,706.6	87,047.2	113,528.8	2,043.1
Total Current Liabilities	261,628.7	293,025.1	330,761.9	5,952.5

	As of December 31,			
	2021*	2022	2023	
		(Audited)		(Unaudited)
		(in millions)		
	₱	₱	₱	U.S.$
Noncurrent Liabilities				
Long-term debt – net of current portion	381,618.9	397,849.7	374,758.9	6,744.3
Lease liabilities – net of current portion	31,101.0	32,236.6	32,342.3	582.0
Deferred tax liabilities	15,675.7	16,797.9	18,129.3	326.3
Tenants' deposits and others	46,849.2	47,326.3	58,025.9	1,044.2
Total Noncurrent Liabilities	475,244.8	494,210.5	483,256.4	8,696.8
Total Liabilities	736,873.5	787,235.6	814,018.3	14,649.3
Equity				
Equity Attributable to Owners of the Parent				
Capital stock	12,045.8	12.261.1	12,261.1	220.7
Additional paid-in capital	75,827.2	75,839.2	71,837.4	1,292.8
Treasury stock	–	(40.9)	(40.9)	(0.7)
Equity adjustments from common control transactions	(6,298.5)	(6,660.5)	(6,660.5)	(119.9)
Cost of Parent common shares held by subsidiaries	(25.4)	(25.4)	(25.4)	(0.5)
Cumulative translation adjustment	2,253.5	2,102.8	1,587.2	28.5
Fair value changes on cash flow hedges and others	(1,201.4)	1,610.4	809.1	14.5
Unrealized gain on financial assets at FVOCI	14,289.3	11,823.4	11,075.4	199.3
Remeasurement loss on defined benefit asset/obligation	(1,026.6)	(1,721.8)	(3,150.9)	(56.7)
Share in other comprehensive loss of associate companies and joint ventures – net	(6,597.2)	(10,763.2)	(11,376.6)	(204.7)
Retained earnings				
Appropriated	37,000.0	37,000.0	37,000.0	665.9
Unappropriated	321,337.9	375,463.8	443,288.8	7,977.6
Total Equity Attributable to Owners of the Parent	447,604.6	496,888.9	556,604.7	10,016.8
Non-controlling Interests	176,003.6	195,301.1	215,595.5	3,879.9
Total Equity	623,608.2	692,190.0	772,200.2	13,896.7
	1,360,481.7	1,479,425.6	1,586,218.5	28,546.0

* The consolidated balance sheet of SMIC as of December 31, 2021 reflects the application of the pooling of interest method for the acquisition of Allfirst Equity Holdings, Inc. (Allfirst) and Philippine Geothermal Production Company, Inc. (PGPC).

SMIC CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,			
	2021	2022	2023	
	(Audited)			(Unaudited)
	(in millions)			
	₱	₱	₱	U.S.$
Net cash provided by operating activities	47,735.4	84,684.5	90,879.6	1,635.4
Net cash used in investing activities	(40,893.8)	(51,194.4)	(41,354.4)	(744.2)
Net cash provided by (used in) financing activities	3,932.6	(16,237.3)	(52,323.4)	(941.6)
Net increase (decrease) in cash and cash equivalents	10,774.2	17,252.8	(2,798.2)	(50.4)
Effect of exchange rate changes on cash and cash equivalents	(82.1)	(44.3)	(17.3)	(0.3)
Cash and cash equivalents at beginning of year	78,660.5	89,352.6	106,561.1	1,917.7
Cash and cash equivalents at end of year	89,352.6	106,561.1	103,745.6	1,867.0

SM PRIME CONSOLIDATED STATEMENTS OF INCOME

	For the years ended December 31,			
	2021	2022	2023	
		(Audited)		(Unaudited)
	(in millions, except per share data)			
	₱	₱	₱	U.S.$
Revenues				
Rent	34,694.2	58,243.9	72,114.0	1,297.8
Real estate sales	45,116.1	39,046.5	42,040.4	756.6
Others	2,505.2	8,495.2	13,943.2	250.9
	82,315.5	105,785.6	128,097.6	2,305.3
Cost and Expenses	49,900.9	56,542.3	66,818.3	1,202.5
Income from Operations	32,414.6	49,243.3	61,279.3	1,102.8
Other income (charges)				
Interest expense	(9,357.6)	(11,465.8)	(13,963.3)	(251.3)
Interest and dividend income	1,025.1	1,775.7	2,185.2	39.3
Others – net	3,651.5	(839.3)	338.7	6.1
	(4,681.0)	(10,529.4)	(11,439.4)	(205.9)
Income before income tax	27,733.6	38,713.9	49,839.9	896.9
Provision for income tax				
Current	2,816.7	6,783.9	8,211.3	147.8
Deferred	3,005.4	1,187.0	764.7	13.8
	5,822.1	7,970.9	8,976.0	161.6
Net Income	21,911.5	30,743.0	40,863.9	735.3
Attributable to:				
Equity holders of the Parent	21,786.6	30,099.7	40,010.6	720.0
Non-controlling interests	124.9	643.3	853.3	15.3
	21,911.5	30,743.0	40,863.9	735.3
Basic/Diluted Earnings Per Common Share Attributable to Owners of the Parent	0.755	1.043	1.387	0.0
Dividend per share	0.082	0.097	0.237	0.0

SM PRIME CONSOLIDATED BALANCE SHEETS

	As of December 31,			
	2021	2022	2023	
	(Audited)			(Unaudited)
	(in millions)			
	₱	₱	₱	U.S.$
ASSETS				
Current Assets				
Cash and cash equivalents	39,775.9	42,060.1	31,816.8	572.6
Receivables and contract assets	73,020.0	82,560.4	76,952.2	1,384.9
Real estate inventories	56,575.0	70,500.0	77,886.8	1,401.6
Equity instruments at fair value through other comprehensive income (FVOCI)	547.0	534.9	747.8	13.4
Derivative assets	753.5	585.6	2,247.1	40.4
Prepaid expenses and other current assets	24,993.4	25,767.3	27,804.9	500.3
Total Current Assets	195,664.8	222,008.3	217,455.6	3,913.2
Noncurrent Assets				
Equity instruments at FVOCI – net of current portion	17,400.4	17,077.2	19,570.2	352.2
Investment properties	467,392.0	489,266.0	545,074.7	9,809.3
Investments in associates and joint ventures	29,187.4	30,578.3	32,431.2	583.6
Property and equipment	1,372.3	1,399.8	1,555.0	28.0
Deferred tax assets – net	735.0	931.4	1,492.4	26.9
Derivative assets – net of current portion	1,043.7	6,752.7	3,277.0	59.0
Other noncurrent assets	91,607.8	106,200.9	122,471.5	2,204.0
Total Noncurrent Assets	608,738.6	652,206.3	725,872.0	13,063.0
Total Assets	804,403.4	874,214.6	943,327.6	16,976.2
LIABILITIES AND EQUITY				
Current Liabilities				
Loans payable	6,487.4	5,422.5	4,289.0	77.2
Accounts payable and other current liabilities	91,377.7	88,122.6	99,077.4	1,783.0
Current portion of long-term debt	42,261.6	50,839.8	67,746.4	1,219.2
Derivative liabilities	335.4	19.5	7.4	0.1
Income tax payable	563.4	765.9	1,295.8	23.3
Total Current Liabilities	141,025.5	145,170.3	172,416.0	3,102.8

	As of December 31,			
	2021	2022	2023	
		(Audited)		(Unaudited)
		(in millions)		
	₱	₱	₱	U.S.$
Noncurrent Liabilities				
Long-term debt – net of current portion	264,969.2	296,134.8	294,622.3	5,302.1
Tenants' and customers' deposits – net of current portion	21,458.2	23,799.2	25,301.5	455.3
Liability for purchased land – net of current portion	2,540.1	1,129.7	540.0	9.7
Deferred tax liabilities – net	9,688.6	11,140.0	12,458.1	224.2
Derivative liabilities – net of current portion	1,748.2	294.4	265.0	4.8
Other noncurrent liabilities	28,612.7	31,394.6	38,837.7	698.9
Total Noncurrent Liabilities	329,017.0	363,892.7	372,024.6	6,695.0
Total Liabilities	470,042.5	509,063.0	544,440.6	9,797.8
Equity				
Equity Attributable to Owners of the Parent				
Capital stock	33,166.3	33,166.3	33,166.3	596.9
Additional paid-in capital – net	38,056.0	38,124.2	38,159.9	686.7
Cumulative translation adjustment	3,083.2	3,435.2	2,556.1	46.0
Net fair value changes of equity instruments at FVOCI	14,708.4	14,232.5	16,938.5	304.8
Net fair value changes on cash flow hedges	(432.9)	2,984.6	1,079.1	19.4
Remeasurement loss on defined benefit obligation	(548.6)	(928.9)	(1,062.4)	(19.1)
Retained earnings				
Appropriated	42,200.0	42,200.0	42,200.0	759.4
Unappropriated	205,671.6	232,972.3	266,143.8	4,789.6
Treasury stock	(2,984.7)	(2,984.7)	(2,984.7)	(53.7)
Total Equity Attributable to Equity Holders of the Parent	332,919.3	363,201.5	396,196.6	7,130.0
Non-controlling Interests	1,441.6	1,950.1	2,690.4	48.4
Total Equity	334,360.9	365,151.6	398,887.0	7,178.4
Total Liabilities and Equity	804,403.4	874,214.6	943,327.6	16,976.2

SM PRIME CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,			
	2021	2022	2023	
	(Audited)			(Unaudited)
	(in millions)			
	₱	₱	₱	U.S.$
Net cash flows provided by operating activities	30,667.3	34,933.2	61,941.4	1,114.7
Net cash flows used in investing activities	(44,113.7)	(52,244.3)	(66,714.5)	(1,200.6)
Net cash flows provided by (used in) financing activities	22,623.5	19,685.7	(5,513.2)	(99.2)
Effect of exchange rate changes on cash and cash equivalents	(62.8)	(90.4)	43.0	0.8
Net increase (decrease) in cash and cash equivalents	9,114.3	2,284.2	(10,243.3)	(184.3)
Cash and cash equivalents at beginning of year	30,661.6	39,775.9	42,060.1	756.9
Cash and cash equivalents at end of year	39,775.9	42,060.1	31,816.8	572.6

SMIC OTHER FINANCIAL DATA

	As of and for the years ended 31 December			
	2021	2022	2023	
	(Audited)			(Unaudited)
	(in billions, except for ratios and percentages)			
EBITDA[(1)]	₱ 99.9	₱ 141.2	₱ 166.9	U.S.$3.0
EBITDA margin[(2)]	23.1%	25.5%	27.1%	N/A
Net income	₱ 54.6	₱ 84.3	₱ 106.2	U.S.$1.9
Net income margin[(3)]	12.7%	15.3%	17.2%	N/A
Total debt[(4)]	₱ 472.5	₱ 505.7	₱ 501.7	U.S.$9.0
Net debt[(5)]	₱ 380.7	₱ 368.2	₱ 377.1	U.S.$6.8
Cash[(6)]	₱ 91.8	₱ 137.5	₱ 124.6	U.S.$2.2
Capital expenditure[(7)]	₱ 55.4	₱ 43.7	₱ 80.6	U.S.$1.4
Interest rate coverage ratio[(8)]	5.2	6.5	6.9	N/A
Debt-to-EBITDA ratio[(9)]	4.7	3.6	3.0	N/A
Net debt to EBITDA ratio[(10)]	3.8	2.6	2.3	N/A
Debt-to-Equity ratio[(11)]	0.8	0.7	0.6	N/A
Net debt to Equity ratio[(12)]	0.6	0.5	0.5	N/A

Notes:

(1) EBITDA is calculated as the sum of income from operations (revenues less costs and expenses) and depreciation and amortization. The following table sets forth further information with respect to the computation of EBITDA:

	For the years ended 31 December			
	2021	2022	2023	
	(in billions)			
	₱	₱	₱	U.S.$
EBITDA				
Income from operations	78.9	117.6	142.2	2.6
Depreciation and amortization	21.0	23.6	24.7	0.4
	99.9	141.2	166.9	3.0

(2) EBITDA margin is computed as EBITDA divided by total revenue.

(3) Net income margin is computed as net income divided by total revenue.

(4) Total debt reflects total interest-bearing debt and is calculated as bank loans and long-term debt (current and noncurrent portions).

(5) Net debt is calculated as total debt less cash.

(6) Cash is cash and cash equivalents excluding cash on hand and includes time deposits.

(7) Capital expenditure is calculated as additions to investment properties and additions to property and equipment.

(8) Interest rate coverage ratio is calculated as EBITDA divided by interest expense.

(9) Total debt-to-EBITDA ratio is computed by dividing total debt by EBITDA.

(10) Net debt-to-EBITDA ratio is computed by dividing net debt by EBITDA.

(11) Debt-to-equity ratio is computed by dividing total debt by total equity.

(12) Net debt-to-equity ratio is computed by dividing net debt by total equity.

SMIC DEBT MATURITY PROFILE

The following table sets forth a summary of the maturity profile of SMIC's outstanding debt as of 31 December 2023:

Payments Due by Period	Amount
	(in billions of ₱)[(1)]
Within one year	127.0
From one to five years	334.7
More than five years	40.0
Total	501.7

Note:

(1) Net of debt issue costs.

As of 31 December 2023, SMIC's average cost of debt is 4.76% with an average debt tenure of 2.26 years and of which 37.7% are in foreign currency. The table below summarizes the outstanding bonds issued by SMIC as of 31 December 2023.

Issue Date	Amount	Due Date	Coupon Rate
18 February 2022	₱15 billion	February 2025/ February 2027	3.5915%/ 4.7713%
2 October 2020	₱10 billion	April 2024	3.3613%
10 June 2014	U.S.$350 million	June 2024	4.8750%

SM PRIME OTHER FINANCIAL DATA

	As of and for the years ended 31 December			
	2021	2022	2023	
	(in billions, except for ratios and percentages)			
EBITDA[(1)]	₱ 43.1	₱ 61.1	₱ 74.1	U.S.$1.3
EBITDA margin[(2)]	52.4%	57.7%	57.8%	N/A
Net income[(3)]	₱ 21.8	₱ 30.1	₱ 40.0	U.S.$0.7
Net income margin[(4)]	26.5%	28.5%	31.2%	N/A
Total debt[(5)]	₱ 313.7	₱ 352.4	₱ 366.7	U.S.$6.6
Net debt[(6)]	₱ 273.9	₱ 310.3	₱ 334.8	U.S.$6.0
Cash and cash equivalents	₱ 39.8	₱ 42.1	₱ 31.8	U.S.$0.6
Capital expenditure[(7)]	₱ 64.9	₱ 75.4	₱ 88.2	U.S.$1.6
Interest rate coverage ratio[(8)]	4.6	5.3	5.3	N/A
Total debt-to-EBITDA ratio[(9)]	7.3	5.8	4.9	N/A
Net debt to EBITDA ratio[(10)]	6.4	5.1	4.5	N/A
Debt to equity ratio[(11)]	0.9	1.0	0.9	N/A
Net debt to equity ratio[(12)]	0.8	0.9	0.8	N/A

Notes:

(1) EBITDA is calculated as income from operations less net income attributable to non-controlling interest, and depreciation and amortization. Total may be differ from the sum of individual segments due to eliminations. The following table sets forth further information with respect to the computation of EBITDA:

	For the years ended 31 December			
	2021	2022	2023	
	(in billions)			
	₱	₱	₱	U.S.$
EBITDA				
Income from operations	32.4	49.2	61.3	1.1
Less: Net income attributable to non-controlling interest	(0.1)	(0.6)	(0.9)	–
Depreciation and amortization	10.8	12.5	13.7	0.2
	43.1	61.1	74.1	1.3

EBITDA per SM Prime business unit is further broken down as follows:

	For the years ended 31 December			
	2021	2022	2023	
	(in billions)			
	₱	₱	₱	U.S.$
EBITDA				
Malls	18.9	38.3	47.3	0.8
Residential	20.0	16.2	18.7	0.3
Commercial, hotels & convention centers	4.2	6.6	8.1	0.1
	43.1	61.1	74.1	1.3

Malls

	For the years ended 31 December			
	2021	2022	2023	
	(in billions)			
	₱	₱	₱	U.S.$
EBITDA				
Income from operations	10.0	28.6	36.7	0.7
Less: Net income attributable to non-controlling interest	(0.1)	(0.6)	(0.8)	–
Depreciation and amortization	9.0	10.3	11.4	0.2
	18.9	38.3	47.3	0.9

Residential

	For the years ended 31 December			
	2021	2022	2023	
	(in billions)			
	₱	₱	₱	U.S.$
EBITDA				
Income from operations	19.9	16.1	18.6	0.3
Less: Net income attributable to non-controlling interest	–	–	–	–
Depreciation and amortization	0.1	0.1	0.1	–
	20.0	16.2	18.7	0.3

Commercial, hotels and convention centers

	For the years ended 31 December			
	2021	2022	2023	
	(in billions)			
	₱	₱	₱	U.S.$
EBITDA				
Income from operations	19.9	16.1	18.6	0.3
Less: Net income attributable to non-controlling interest	–	–	–	–
Depreciation and amortization	0.1	0.1	0.1	–
	20.0	16.2	18.7	0.3

(2) EBITDA margin is computed as EBITDA divided by total revenue.

(3) Net income pertains to net income attributable to equity holders of the parent.

(4) Net income margin is computed as net income attributable to equity holders of parent divided by total revenue.

(5) Total debt reflects total interest-bearing debt and is calculated as loans payable and long-term debt (current and noncurrent portion).

(6) Net debt is calculated as total debt less cash and cash equivalents.

(7) Capital expenditure calculated as development cost incurred plus additions to investment properties and property and equipment.

(8) Interest rate coverage ratio is calculated as EBITDA divided by total interest expense.

(9) Total debt-to-EBITDA ratio is computed by dividing total interest-bearing debt by EBITDA.

(10) Net debt-to-EBITDA ratio is computed by dividing net debt by EBITDA.

(11) Debt-to-equity ratio is computed by dividing total interest-bearing debt by total equity attributable to equity holders of the parent and total interest-bearing debt.

(12) Net debt-to-equity ratio is computed by dividing net debt by total equity attributable to equity holders of the parent.

SM PRIME DEBT MATURITY PROFILE

The following table sets forth a summary of the maturity profile of SM Prime's outstanding debt as of 31 December 2023:

Payments Due by Period	**Amount**
	(in billions of ₱)
Within one year	72.8
From one to five years	263.6
More than five years	32.2
Total	368.6

SM RETAIL OTHER FINANCIAL DATA

	As of and for the years ended 31 December			
	2021	**2022**	**2023**	
	(in billions, except for ratios and percentages)			
Revenue[(1)]	₱ 303.9	₱ 378.2	₱ 415.0	U.S.$7.5
Food Group	₱ 196.4	₱ 219.6	₱ 235.3	U.S.$4.2
Specialty Retail	₱ 65.4	₱ 85.2	₱ 94.6	U.S.$1.7
The SM Store	₱ 61.5	₱ 98.8	₱ 114.2	U.S.$2.1
EBIT margin[(2)]	5.6%	7.6%	7.5%	N/A
Food Group	5.4%	5.5%	6.0%	N/A
Specialty Retail	10.2%	11.7%	11.4%	N/A
The SM Store	(0.5%)	6.5%	5.8%	N/A
Net income attributable to the parent company	₱ 9.6	₱ 17.9	₱ 19.9	U.S.$0.4
Food Group	₱ 6.7	₱ 8.1	₱ 9.7	U.S.$0.2
Specialty Retail	₱ 4.4	₱ 7.1	₱ 8.0	U.S.$0.1
The SM Store	₱ (0.6)	₱ 4.5	₱ 4.7	U.S.$0.1
Same Store Sales Growth	(1.1%)	22.3%	6.3%	N/A
Food Group	(6.7%)	9.5%	3.9%	N/A
Specialty Retail	7.3%	26.0%	6.0%	N/A
The SM Store	10.9%	59.9%	12.1%	N/A

Notes:

(1) Revenue total figures are presented on a consolidated basis and include intersegment eliminations or group cost.

(2) EBIT margin is computed as revenue less costs and expenses and then divided by sales. The following table sets forth further information with respect to the computation of EBIT margin.

Total Retail Group	**2021**	**2022**	**2023**
		(in billions)	
	₱	₱	₱
Revenue	303.9	378.2	415.0
Less: Costs and Expenses	287.5	350.2	384.6
EBIT	**16.4**	**28.0**	**30.3**
Divided by Sales	294.7	367.5	402.0
EBIT margin	**5.6%**	**7.6%**	**7.5%**

Food Group	**2021**	**2022**	**2023**
		(in billions)	
	₱	₱	₱
Revenue	196.4	219.6	235.3
Less: Costs and Expenses	186.0	207.7	221.4
EBIT	**10.4**	**11.8**	**13.9**
Divided by Sales	191.9	215.4	231.5
EBIT margin	**5.4%**	**5.5%**	**6.0%**

Specialty Retail	**2021**	**2022**	**2023**
		(in billions)	
	₱	₱	₱
Revenue	65.4	85.2	94.6
Less: Costs and Expenses	58.9	75.7	84.4
EBIT	**6.5**	**9.5**	**10.2**
Divided by Sales	63.1	81.5	90.0
EBIT margin	**10.2%**	**11.7%**	**11.4%**

The SM Store	**2021**	**2022**	**2023**
		(in billions)	
	₱	₱	₱
Revenue	61.5	98.8	114.2
Less: Costs and Expenses	61.8	92.6	107.9
EBIT	**(0.3)**	**6.2**	**6.2**
Divided by Sales	58.0	94.9	108.4
EBIT margin	**(0.5%)**	**6.5%**	**5.8%**

DESCRIPTION OF THE ISSUERS

SMIC SG HOLDINGS PTE. LTD.

General

Established on 8 June 2022 as a company with limited liability under the laws of Singapore, SMIC SG Holdings is the holding company of SMIC's investments outside the Philippines. The registered address of SMIC SG Holdings is at 9 Raffles Place, #26-01 Republic Plaza, Singapore 048619. SMIC SG Holdings is a wholly-owned subsidiary of SMIC.

Management

The board of the directors of SMIC SG Holdings consists of Erwin G. Pato and Siddharth Swarup.

The establishment of the Programme and the issuance of Notes thereunder was approved by the board of directors on behalf of SMIC SG Holdings on 19 March 2024.

Capitalization

As of 31 December 2023, the issued and paid-up capital of SMIC SG Holdings was U.S.$5,165,001, divided into one ordinary share of U.S.$1.00 each and 5,165,000 redeemable preferred shares of U.S.$1.00 each.

As of 31 December 2023, SMIC SG Holdings had no borrowings or indebtedness in the nature of borrowings (including loan capital issued, or created but unused), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

SMPHI SG HOLDINGS PTE. LTD.

General

Established on 11 March 2024 as a company with limited liability under the laws of Singapore, SM Prime SG Holdings is an investing and financing company of SM Prime. The registered address of SM Prime SG Holdings is at 9 Raffles Place, #26-01 Republic Plaza, Singapore 048619. SM Prime SG Holdings is a wholly-owned subsidiary of SM Prime.

Management

The board of the directors of SM Prime SG Holdings consists of John Nai Peng C. Ong and Siddharth Swarup.

The establishment of the Programme and the issuance of Notes thereunder was approved by the board of directors on behalf of SM Prime SG Holdings on 19 March 2024.

Principal Activities

SM Prime SG Holdings has been established as a special purpose vehicle for the purpose of issuance of Notes under the Programme. Since its incorporation, SM Prime SG Holdings has not engaged in any material activities other than those incidental to the matters contemplated in this Offering Circular, the authorisation of the establishment of the Programme and the issuance of the Notes and other matters which are incidental or ancillary to those activities, and has not incurred borrowings or indebtedness in the nature of borrowings (including loan capital issued, or created but unused), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

DESCRIPTION OF SMIC

In the case of an issuance of Notes by SM Prime SG Holdings, investors should only consider and rely on the disclosure in relation to SM Prime in this Offering Circular (and not any disclosure in relation to SMIC SG Holdings, SMIC or the SM Group). SM Prime is the only Parent Guarantor with respect to any issuance of Notes by SM Prime SG Holdings and SMIC will not provide any guarantee or credit support for Notes issued by SM Prime SG Holdings. Investors should therefore not consider nor rely on any disclosure relating to SMIC SG Holdings, SMIC or the SM Group with respect to any issuance of Notes by SM Prime SG Holdings. For the avoidance of doubt, SMIC is the only Parent Guarantor with respect of any issuance of Notes by SMIC SG Holdings and SM Prime will not provide any guarantee or credit support for Notes issued by SMIC SG Holdings.

OVERVIEW

SM Investments Corporation ("**SMIC**") is the holding company of the SM Group, one of the largest conglomerates in the Philippines and the largest publicly listed company in the Philippines as of 23 April 2024 with a market capitalization of ₱1,152.4 billion and a common share price of ₱943.00 per share as of the same date.

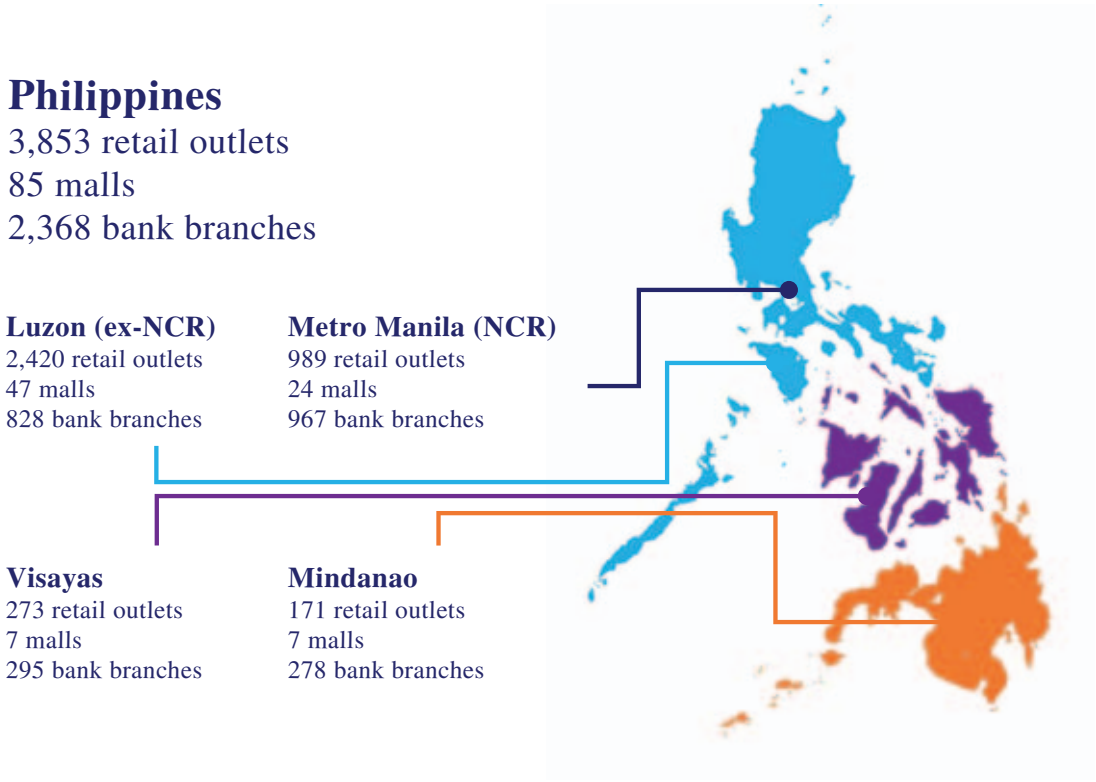
SMIC is a leading Philippine conglomerate that is invested in market leading businesses and interests divided into four principal business segments: retail and merchandising operations (the "**Retail Group**"), property development, mall and real estate operations (the "**Property Group**"), financial services (the "**Banking Group**") and equity investments in other sectors ("**Portfolio Investments Group**").

- **Retail Group**: SMIC's retail and merchandising arm with a nationwide portfolio of stores, SM Retail Inc. ("**SM Retail**"), operates department stores under "The SM Store" brand, and a wide range of food retail formats including Supermarkets, Hypermarkets, Savemore and Alfamart stores, and ranges from stand-alone hypermarkets and large supermarkets in malls, to mid-sized stores in neighborhoods and small local minimarts. SM Retail also operates specialty stores focused on DIY, furniture, appliances, fashion and toys, among others. As of 31 December 2023, SMIC, through SM Retail, operates 74 The SM Stores, 65 SM Supermarkets, 219 Savemore stores, 54 SM Hypermarkets and 88 WalterMarts, 1,692 Alfamarts, one Mindpro and 1,660 specialty retail stores ("**Specialty Stores**," including stores such as ACE Hardware, SM Appliance, SM Home, Our Home, Crate & Barrel, Toy Kingdom, Pet Express, Baby Company, Crocs, Kultura, Miniso, Body Shop, Innisfree, Sports Central, Dyson, Under Armour, Forever 21, ECCO and Levi's, among others). Other retail associates include Uniqlo and Watsons.

- **Property Group**: SMIC's property arm, SM Prime Holdings Inc. ("**SM Prime**"), is engaged in developing, operating and maintaining shopping malls and related businesses, both in the Philippines and in China. It is also engaged in residential property development through its subsidiary, SM Development Corporation ("**SMDC**"), as well as commercial property development, and hotels and convention centers operations through other subsidiaries. As of 31 December 2023, SM Prime operates, with the assistance of certain management companies, 22 integrated lifestyle cities, 85 shopping malls in the Philippines and 8 shopping malls in China, has 67 primary and 24 secondary residential projects in the market across the Philippines, 18 office buildings, 10 hotels, six convention centers and two trade halls and is one of the largest real estate companies in Southeast Asia with total assets of ₱943.3 billion as of 31 December 2023, and an aggregate land bank of more than 2,324 hectares as of the same date. See "*Description of SM Prime*" for further information on the Property Group.

- **Banking Group**: The Banking Group comprises BDO Unibank, Inc. ("**BDO"**) and China Banking Corporation ("**Chinabank**"). BDO is a leading Philippine bank offering a diverse selection of financial products and services. BDO is the country's largest bank by resources based on publicly available information published by the BSP as of 31 December 2023 and has one of the largest distribution networks with 1,720 operating domestic branches and more than 4,800 ATMs nationwide as of the same date. BDO manages 16 international offices in Asia, Europe, North America and the Middle East. Chinabank services its customers through its 648 bank branches with over 1,000 ATMs nationwide as of 31 December 2023. The Banking Group has an aggregate of 2,368 bank branches in the Philippines, with 967 bank branches in Metro Manila, 828 bank branches in Luzon (outside of Metro Manila), 295 bank branches in the Visayas and 278 bank branches in Mindanao.

- **Portfolio Investments Group**: The Portfolio Investments Group comprise SMIC's equity investments in other new and related sectors that capture high growth opportunities in the emerging Philippine economy such as premium commercial buildings, leisure, logistics, geothermal steam production, food manufacturing and mining.



As a conglomerate with market leading consumer-centric businesses, strong brand franchise, and extensive group synergies, SMIC believes that it is a proxy for long-term growth in the Philippines. SMIC has two principal consolidated subsidiaries, SM Prime and SM Retail, and a principal equity-accounted associate, BDO, in which SMIC had effective interests of 49.7%, 77.3%, and 45.3%, respectively, as of 31 December 2023. SM Prime and BDO's shares are each listed on The Philippine Stock Exchange, Inc. (the "**PSE**"). The three largest companies, SMIC, SM Prime and BDO, comprise 32.9% of the value of the Philippine Index as of 23 April 2024.

For the years ended 31 December 2021, 2022 and 2023, SMIC's consolidated revenues were ₱431.7 billion, ₱553.0 billion and ₱616.3 billion, respectively, and its consolidated net income attributable to equity holders of the parent were ₱40.4 billion, ₱61.7 billion and ₱77.0 billion, respectively.

As of 31 December 2021, 2022 and 2023, SMIC's consolidated total assets were ₱1.4 trillion, ₱1.5 trillion and ₱1.6 trillion, respectively, and its total equity was ₱623.6 billion, ₱692.2 billion and ₱772.2 billion, respectively.

The contribution of each of the four business segments to consolidated revenues and net income is as indicated below:

	2021		2022		2023		
	(in ₱ millions)	*%*[2]	*(in ₱ millions)*	*%*[2]	*(in ₱ millions)*	*(in U.S.$ millions)*	*%*[2]
Revenues							
Retail Group	303,188.8	71	377,327.6	68	413,996.3	7,450.4	67
Property Group	79,552.6	19	98,244.8	18	119,003.9	2,141.6	19
Banking Group	23,395.5	5	30,984.0	6	39,267.6	706.7	7
Portfolio Investments Group	23,167.5	5	43,677.7	8	41,828.0	752.7	7
Others[1]	2,429.1	–	2,764.5	–	2,156.1	38.8	–
Total	431,733.5	100	552,998.6	100	616,251.9	11,090.2	100
Net Income Attributable to Equity Holders of the Parent							
Retail Group	7,697.5	16	13,937.9	21	15,267.1	274.8	19
Property Group	11,317.5	24	15,372.4	23	20,506.6	369.0	25
Banking Group	22,768.9	49	30,148.9	45	38,193.6	687.3	47
Portfolio Investments Group	5,366.6	11	7,345.9	11	7,752.1	139.5	9
Others[1]	(6,738.6)	–	(5,151.4)	–	(4,730.4)	(85.1)	–
Total	40,411.9	100	61,653.7	100	76,989.0	1,385.5	100

Notes:

(1) Others primarily consists of the operating results of SMIC Parent and its other smaller subsidiaries not forming part of the four business segments.

(2) The percentage contribution figures were calculated based on the contribution of each business segment to the total revenues and net income attributable to equity holders of the Parent of the four business segments.

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

	2021		2022		2023		
	(in ₱ millions)	*%*	*(in ₱ millions)*	*%*	*(in ₱ millions)*	*(in U.S.$ millions)*	*%*
Dividend Income							
SM Retail, Inc.	6,491	42.5	7,727	48.8	8,500	153	38.0
BDO Unibank, Inc.	2,226	14.6	4,120	26.0	6,532	118	29.2
SM Prime Holdings, Inc.	1,177	7.7	1,392	8.8	3,402	61	15.2
Neo Group.	2,316	15.2	886	5.6	1,167	21	5.2
China Banking Corporation	606	4.0	909	5.7	1,151	21	5.1
Goldilocks Bakeshop Inc.	–	–	–	–	445	8	2.0
Henfels Investments Co.	205	1.3	160	1.0	317	6	1.4
Globalfund Holdings, Inc.	157	1.0	155	1.0	305	5	1.4
Philippine Geothermal Production Company, Inc.	–	–	–	–	242	4	1.1
Prime Central Limited.	1,745	11.4	100	0.6	–	–	–
Multi-Realty Development Corporation	227	1.5	255	1.6	–	–	–
Others	116	0.8	139	0.9	294	5	1.4
Total	15,266	100.0	15,843	100.0	22,355	402	100.0

HISTORY AND MILESTONES

SMIC was incorporated in the Philippines on 15 January 1960 and was listed on the PSE on 22 March 2005. On 27 December 2019, the Philippine Securities and Exchange Commission ("**SEC**") approved the amendment of SMIC'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.

SMIC has over 65 years of evolving heritage and has a track record of continued expansion. Mr. Henry Sy, Sr., the founder of the SM 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.

Pursuant to a restructuring of SMIC's department store business in 2002, SM Mart (a 50.2% owned subsidiary through SM Retail as of 31 December 2023) 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 other retail subsidiaries. The SM Group acquired its supermarket and hypermarket operations in June 2006. Shoemart was renamed SM Land, Inc.

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. SM Prime was incorporated in 1994 for the primary purpose of acquiring from other members of the SM 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 SM Group's vehicle for commercial center operations. See "*Description of SM Prime.*"

On November 1976, Mr. Henry Sy, Sr. acquired Acme Savings Bank, which was renamed Banco De Oro Savings and Mortgage Bank on August 1977 and then as Banco De Oro Commercial Bank in December 1994. BDO initially provided services to suppliers of Shoemart, but has subsequently developed into a full-service commercial bank. On August 1996, Banco De Oro Commercial Bank was renamed Banco De Oro Universal Bank when the BSP granted approval for it 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. On May 2007, BDO merged with Equitable PCI Bank and was subsequently renamed Banco De Oro Unibank, Inc. on 6 February 2008. On 4 November 2011, it was renamed to BDO Unibank, Inc. as part of the company's re-branding initiatives. On 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 SM Group increased by 349.9 million shares.

In 1986, the SM Group obtained majority ownership of SM Fund, Inc., a closed-end investment company listed on the PSE. On May 1996, the SEC approved a change of name of SM Fund, Inc. to SM Development Corporation and a change of its purpose to property holding and development. The SM 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, SMIC approved the rationalization of Shoemart as the holding entity for the real estate and tourism operations of the SM Group. On 8 October 2007, SMIC and Shoemart entered into an agreement whereby SMIC 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 SMIC'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 2 April 2008, SM Hotels was incorporated to further focus on and develop the SM Group's Hotel business, and rationalize the SM 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 SM Group embarked on a highly transformational transaction to consolidate all of its real estate interests under SM Prime, in line with the SMIC's Group's vision to create a leading integrated real estate company in Asia, increase synergies and organizational efficiencies among the SM Group's various real estate business units, and further enhance the value of the SM Group's real estate businesses. The consolidation involved PSE-listed companies SMDC and Highlands Prime, Inc. ("**HPI**"), various unlisted SM Group real estate companies including SM Land and SM Hotels and various real estate properties owned by SMIC.

The SM 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 SM 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 in SM Prime becoming one of the largest real estate companies in Southeast Asia. See "*Description of SM Prime*".

On 7 July 2016, SMIC 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 SM 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.

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

In 2017, SMIC 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.

SMIC 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 and October 2017, SMIC 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, SMIC acquired 34.1% of Goldilocks Bakeshop, Inc.

The table below summarizes certain milestones of the SM Group:

Year	Milestones
1920	• Chinabank was incorporated
1927	• Chinabank undertook its initial public offering in the Manila Stock Exchange
1958	• The first Shoemart store opened in Rizal Avenue, Metro Manila, Philippines
1960	• SMIC was incorporated in the Philippines
1967	• BDO was incorporated
1976	• Mr. Henry Sy, Sr. acquired Acme Savings Bank
1977	• Acme Savings Bank was renamed Banco De Oro Savings and Mortgage Bank
1985	• The first shopping mall, SM City – North EDSA, commenced operations in Quezon City
	• SM Supermalls was founded
1986	• The SM Group obtained majority ownership of SM Fund, Inc. which was later renamed SM Development Corporation
1994	• The SM Group opened four shopping malls, including SM Megamall, the largest shopping mall in the Philippines
	• SM Prime was incorporated and undertook its initial public offering in the PSE
	• Banco De Oro Saving and Mortgage Bank was renamed to Banco De Oro Commercial Bank

Year	Milestones
1996	• Banco De Oro Commercial Bank was renamed to Banco De Oro Universal Bank, with the BSP approval to operate as an expanded commercial bank
	• SM Development Corporation was founded
2002	• BDO undertook its initial public offering and was listed on the PSE
2005	• SMIC undertook its initial public offering and was listed on the PSE
	• SMIC acquired a stake in Chinabank
2006	• The SM Group acquired Supervalue, Inc. and Super Shopping Market, Inc. and began its supermarket and hypermarket operations
2007	• BDO merged with Equitable PCI Bank and was subsequently renamed Banco De Oro Unibank, Inc. in 2008
	• SM Prime acquired three malls in China
2008	• SM Hotels and Conventions Corporation was established
2009	• SMIC acquired a stake in Belle Corporation
2011	• SMIC acquired a 17.9% stake in Atlas Mining
2013	• The SM Group consolidated all of its real estate interests under SM Prime
2016	• SM Retail merger with related entities that own various specialty stores formed the Specialty Stores business segment under SM Retail
2017	• The SM Group acquired a 34.5% minority stake in 2GO Group, Inc. (2GO) through its parent company, NENACO
	• SMIC acquired a 61.2% minority stake in MyTown
	• SMIC acquired a 34.0% stake in three entities forming part of the NEO Group
2018	• SMIC acquired a 34.1% minority stake in Goldilocks Bakeshop, Inc.
2020	• The SM Group acquired a 35.0% minority stake in AIC Group of Companies Holding Corp. (Airspeed)
2021	• 2GO and Goldilocks became subsidiaries of SMIC
2022	• The SM Group gained full ownership in Philippine Geothermal Production Company, Inc. (PGPC) through merger with a related entity, Allfirst Equity Holdings, Inc. (Allfirst)
	• Airspeed became a subsidiary of SMIC
2023	• 2GO voluntary delisting of shares from the PSE after completion of tender offer

COMPETITIVE STRENGTHS

The key strengths of the SM Group are as follows:

Diversified, integrated and synergistic platform with a track record of value creation for all stakeholders.

As a conglomerate with market leading consumer-centric businesses, strong brand franchise, and extensive group synergies with three its largest companies (SMIC, SM Prime and BDO) comprising 32.9% of the value of the Philippine Index as of 23 April 2024, the SM Group believes that it is a strong proxy for long-term growth in the Philippines given SM Group's diverse business interests across property, banking and finance, consumer retail, banking and other industries.

Through SM Retail and the Retail Group, the SM Group has created modern retailing to address the needs of millions of Filipinos, which is complemented by the Property Group with its development of integrated properties centered on its malls as community centers. To support growth across all these sectors, the Banking Group delivers a full range of banking services to corporates, SMEs and individuals, enabling growth and financial inclusion. Through SM Prime, the SM Group develops integrated properties centered on their malls as community centers. In addition, SMIC through its Portfolio Investments Group, invests in new and related sectors to help capture high growth opportunities. Underpinning these initiatives are prudent financial management and a strong balance sheet with stable recurring cash flows through focusing on diverse businesses which are relatively less cyclical.

The SM Group has built an extensive ecosystem across SMIC's business verticals, supported by its leading consumer-centric businesses, strong brand franchise, and extensive group synergies across its businesses centered on four core principles: responsible development, financial prudence, good governance and nationwide expansion. Moreover, the SM Group has established a track record of generating sustainable returns while creating real impact for its various stakeholders and the wider community, including (as of 31 December 2023):

- Creating socio-economic opportunities
    - 131,000 jobs offered in 2023
    - Largest MSME community supporting over 100,000 to date
    - ₱19.2 billion Chinabank microfinancing loans to MSMEs
    - 58% of leadership roles occupied by women
- Creating positive community impact
    - 10,564 scholar graduates as of 31 December 2023
    - 1,728 scholarship grants in 2023
    - 172 schools donated/constructed
    - 372 health centers and medical facilities built/renovated
- Facilitating responsible urbanization and development
    - Three marine protected areas
    - 14.2 million cubic meters total water recycled in 2023

- 59 renewable energy projects funded by BDO

- Advocating for national growth and partnership
  - 10% of capital expenditures allocated for disaster resiliency and sustainability
  - 67 SMDC residential developments
  - 18 office buildings
  - 22 integrated lifestyle cities nationwide
- Promoting natural habitats and environmental stewardship
  - 24 hectares of mangroves protected
  - 23.3MWp capacity of solar panels installed in SM Supermalls
  - Two adopted plantations under PGPC's *Kupkop Kabundukan* program
  - 2,604.4 GWh steam output generated by PGPC in 2023
  - 2.65 million trees/seedlings planted
- Generating sustained returns
  - ₱77.0 billion in net income attributable to owners of the parent in 2023
  - ₱9.2 billion total dividends declared in 2023
  - Six SM companies awarded by ASEAN CG Awards

Established and reputable brand with over 65 years of evolving heritage.

The "SM" brand has over 65 years of evolving heritage, which the SM Group believes has created significant goodwill among its customers and suppliers and developed a reputation for providing value for customers. The SM brand has strong brand equity and reputation, with extensive track record of industry awards and accolades. Its distinctive logo and popular consumer brand are a fixture in the Philippines. Moreover, the SM brand is widely recognized by the industry and championed by various programs.

The SM brand was awarded "Brand of the Year" at the World Branding Forum 2020 World Branding Awards and was a Platinum awardee by Reader's Digest 2020 Trusted Brands Awards. In addition, the SM Group has implemented various programs to further serve and deepen its relationship with its various stakeholders. These include the SM Foundation, SM Cares and the SM Advantage Card ("**SMAC**"). The SM Foundation is the SM Group's social outreach arm, focused on social inclusion by nurturing and caring for underserved communities where SM is present. SM Cares is the SM Group's corporate social responsibility arm partnering with advocates, communities and organization to advance the best interests of its many advocacies. The SMAC loyalty card allows customers to shop with points, get discounts, and enjoy freebies with brands that fit their lifestyles.

The SM Group has established itself as a leader in corporate governance and management and ESG as demonstrated by the numerous awards earned throughout the years, the most recent of which are set out below.

SMIC

2021	• The Asset Corporate Awards: ESG Platinum Award
	• The Asset Benchmark Research: Best Investor Relations Team
	• Alpha Southeast Asia 11th Institutional Investor Corporate Awards: Most Organized Investor Relations and Strongest Adherence to Corporate Governance
	• Bloomberg Gender-Equality Index: Bloomberg Gender Equality Index Inclusion
2022	• Institute of Corporate Directors ASEAN Corporate Governance Scorecard Golden Arrow: Four Golden Arrow Recognition
	• The Asset Corporate Awards: Platinum Award for Excellence in Corporate Sustainability
	• IR Magazine: Best Crisis Management
	• Corporate Governance Asia 12th Asian Excellence Award: Asia's Best Corporate Social Responsibility and Best Investor Relations Company
	• Alpha Southeast Asia 12th Institutional Investor Corporate Awards: Most Organised Investor Relations and Strongest Adherence to Corporate Governance
	• Asia Responsible Enterprise Awards: Corporate Governance Hall of Famer
2023	• Alpha Southeast Asia 13th Institutional Investor Corporate Awards: Most Organised Investor Relations and Strongest Adherence to Corporate Governance
	• Corporate Governance Asia 13th Asian Excellence Award: Best Corporate Social Responsibility and Best Investor Relations Company
	• Finance Asia (Asia's Best Companies): Outstanding Corporate ESG Strategy
	• The Asset Corporate Awards: Platinum Award

SM Prime

2021	• Institute of Corporate Directors ASEAN Corporate Governance Scorecard Golden Arrow: Four Golden Arrow Award
	• Securities and Exchange Commission – Institute of Corporate Directors (SEC-ICD): Top 20 ASEAN Publicly Listed Companies (PLC) Award
	• Securities and Exchange Commission – Institute of Corporate Directors (SEC-ICD): The ASEAN Asset Class Philippine PLC Award
2022	• Institute of Corporate Directors ASEAN Corporate Governance Scorecard Golden Arrow: Five Golden Arrow Award
	• AsiaMoney Asia Outstanding Companies Poll: Most Outstanding Company in the Philippines – Real Estate Sector

- DOT Property Philippines Awards: Best Township Development – Gold City and Best Mixed-Use Development – Air Residences

- Property Guru Philippines Property Awards: Special Recognition in ESG – SMDC, Best Mixed Use Development – Gold City and Best CBD Development – Air Residences

2023

- Finance Asia (Asia's Best Companies): Best Company in the Philippines, Best Investor Relations in the Philippines, Best Diversity, Equity, and Inclusion in the Philippines, Best Real Estate Company in the Philippines and Best ESG Company in the Philippines

- Corporate Governance Asia 13th Asian Excellence Award: Best Environment Responsibility and Best Investor Relations Company

Dominant size with leading market position across all major business verticals – property, banking and retail

Of the 30 members of the Philippine Stock Exchange Index ("**PSEi**"), SMIC, BDO, and SM Prime are the three largest companies in terms of market capitalization, representing 32.9% of the total market capitalization of all index stocks as of 23 April 2024. SMIC is the largest listed Philippines conglomerate by market capitalization as of 23 April 2024. SM Prime is the largest listed Philippines property developer by market capitalization as of 23 April 2024. SM Group's banking business, comprising BDO and Chinabank collectively, is the largest by total assets among Philippines banks as of 31 December 2023 according to the statements of conditions submitted by banks to the BSP.

Strong balance sheet resulting from prudent financial management

SMIC has resilient topline and earnings growth underpinned by strong brand franchise and healthy consumer spending. SMIC has strong operating cash flows and its prudent balance sheet supports capital expenditure and debt servicing requirements. Moreover, SMIC has robust credit metrics with leverage ratios on a downward trend. For the years ended 31 December 2021 to 2023, Retail Group revenues grew at a compounded annual growth rate (CAGR) of 16.9%, Property Group (SM Prime) revenues grew at a CAGR of 22.3% and Banking Group revenues grew at a CAGR of 29.6%. As of 31 December 2023, according to the statements of condition submitted by banks to the BSP, BDO ranked as the number one bank in the Philippines and the largest Philippine bank in terms of total assets, gross customer loans, total deposits, capital and total trust funds under management. The Portfolio Investments Group has also seen a significant increase in revenues growing at a CAGR of 34.4% for the years ended 31 December 2021 to 2023 and SMIC revenues grew at a CAGR of 19.5% for the same period.

SM Prime has strong revenue and earnings growth as the Philippines' largest mall operator/developer and leading residential developer. SM Prime has a high visibility of cash flows that supports its capital expenditure requirements for sustained growth. SM Prime continues to maintain a conservative balance sheet with leverage ratios consistently below 1.0x net debt/equity.

Best-in-class group leadership supported by accomplished management teams

SMIC and SM Prime are led by highly credentialed management teams. SMIC and SM Prime's management teams include Mr. Amando M. Tetangco Jr., Mr. Frederic C. DyBuncio, Mr. Henry T. Sy Jr. and Mr. Jeffrey Lim.

Mr. Amando M. Tetangco Jr. was appointed as Chairman of the Board in 2023, serves as Independent director of Belle Corporation, Converge ICT Solutions, Inc., and Pilipinas Shell Petroleum Corporation, was the previous Governor of the Bangko Sentral ng Pilipinas and Chairman of the Monetary Board and graduated with a degree in AB Economics at Ateneo de Manila University and Masters in Public Policy and Administration (Development Economics) at the University of Wisconsin-Madison.

Mr. Frederic C. DyBuncio was appointed as President and CEO in 2017, serves as President and CEO of 2GO Group, Inc. and Vice Chairman of the Board of Atlas Mining and was a career banker who spent 20 years with JP Morgan Chase and predecessor institutions and graduated with a degree in Bachelor of Science in Business Management at Ateneo de Manila University and Master of Business Administration at the Asian Institute of Management.

Mr. Henry T. Sy Jr. was appointed as Chairman of the Board in 2014, serves as Vice Chairman of SMIC, Chairman and CEO of SM Development Corporation, Vice Chairman of The National Grid Corporation of the Philippines, and Chairman of the Board of Synergy Grid & Development Phils., Inc., was the previous President and CEO of the National Grid Corporation of the Philippines and graduated with a degree in Bachelor of Science Management at De La Salle University.

Mr. Jeffrey C. Lim was appointed as President in 2016 and is also a member of SM Prime's Executive Committee and holds various board and executive positions in other subsidiaries of SM Prime, was the previous President of SM Development Corporation and worked for a multinational company and for SGV & Co. and graduated with a degree in Bachelor of Science in Accounting at the University of the East.

STRATEGY

SMIC's strategy is focused on growing each of the Retail Group, Property Group and Financial and Other Services, and maintaining or attaining market leadership in each of their respective sectors. SMIC will continue to target the mass market in the Philippines by offering essential goods and services such as food, clothing, housing and financial services.

SMIC is responsible for setting the SM Group's policy and strategy, establishing the financial and operating policies for the SM Group and supervising and monitoring the performance of its subsidiaries and associates.

SMIC's vision is to build an ecosystem of sustainable businesses that are catalysts for responsible development in the communities it serves and the key elements of SMIC's strategy to support its vision are to:

- Maintain its leading market share in the shopping mall sector by continuing to expand the 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;

- Develop five to seven malls in the Philippines each year for the near term, and also to opportunistically expand its presence in second and third tier cities in China by building one mall per year for the near term, in each case subject to market conditions;

- Diversify and expand the businesses of the SM Group (including through acquisition) in the property development, tourism, leisure and data center sectors by leveraging its strategically located land bank;

- 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 Group by encouraging its suppliers and retail customers to take advantage of and utilize the financial services offered by BDO and Chinabank;

- Continue to drive growth in each of its existing portfolio investments and identify additional synergies among the portfolio companies;

- Integrate all land banking functions of SM Prime into a centralized department while retaining the highly successful culture that has allowed SM Prime to reach its strong 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;

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

- Further expand these complementary projects by adding retail, office, residential and leisure developments to its existing property projects, including those projects with underutilized plots of vacant land; and

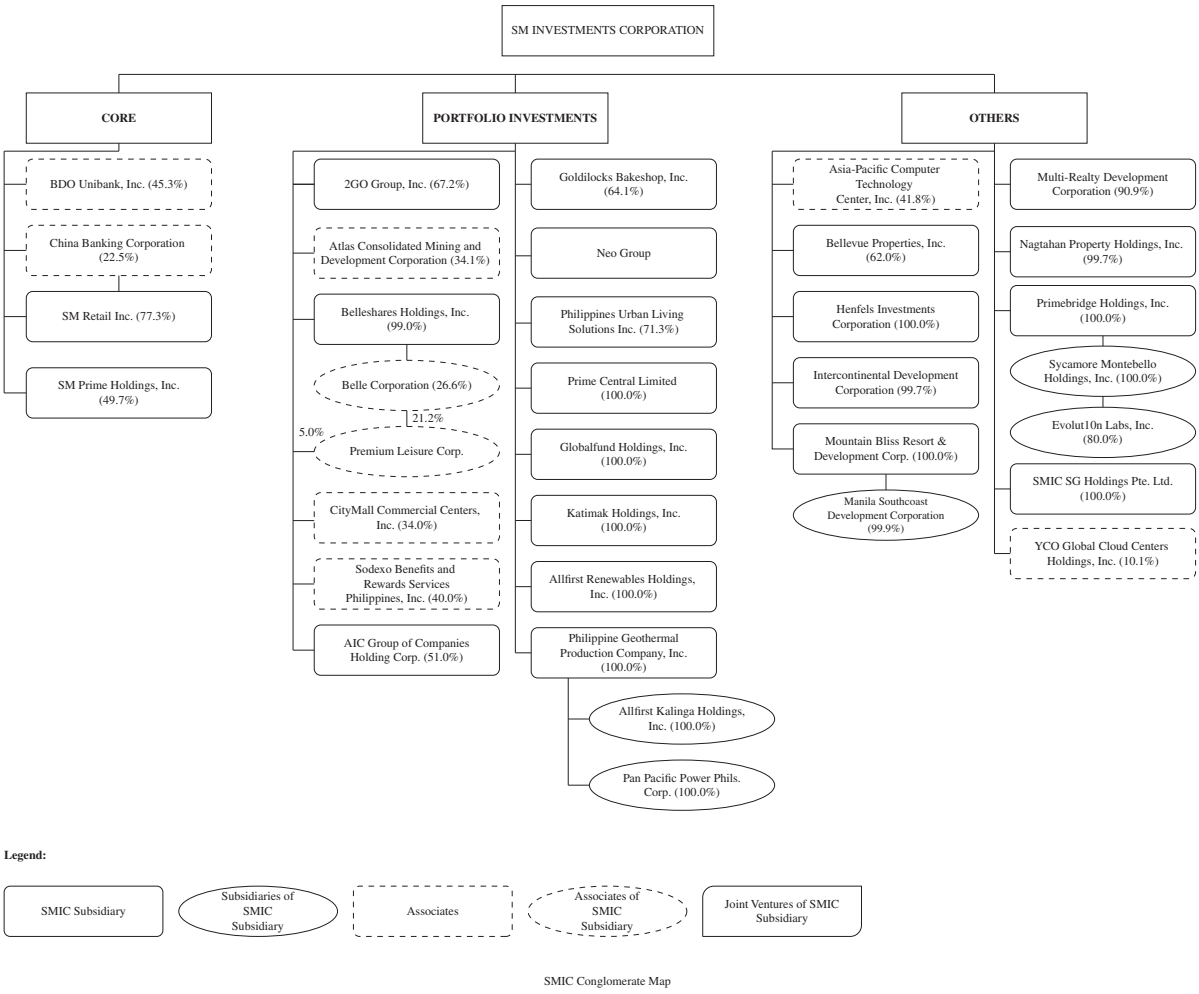
- Continue to champion ESG initiatives across all businesses while identifying new opportunities to further align sustainability programs to the 17 United Nations Sustainable Development Goals, to build on the numerous awards and recognitions earned by the SM Group throughout the years.

OWNERSHIP AND CORPORATE STRUCTURE

As of 31 December 2023, the Sy Family beneficially holds 52.4% of the outstanding share capital of SMIC.

The following chart sets forth SMIC's simplified corporate structure, organized by business segment, including its principal subsidiaries and associates and the direct ownership of each as of 31 December 2023.

SM INVESTMENT CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS AT DECEMBER 31, 2023
(Effective Ownership Interest)



SMIC Conglomerate Map

THE RETAIL GROUP (RETAILING AND MERCHANDISING)

SM Retail was incorporated in June 2002 and started operations in January 2008 and is designated as the holding company for the SM Group's retail and merchandising operations, where SMIC has a 77.3% effective stake as of 31 December 2023. SM Retail organizes its operations into three categories: The SM Store (department stores), Specialty Stores and Food Retail Stores. SM Retail is one of the market leaders in Philippine retailing with multiple formats to address the market. As of 31 December 2023, SM Retail has been growing outside Metro Manila where over 80% of new stores are being opened.

As of 31 December 2023, there were 3,853 stores in operation, namely, 74 The SM Stores, 1,660 Specialty Stores and 2,119 Food Retail Stores as follows: 65 SM Supermarkets, 54 SM Hypermarkets, 219 Savemore stores, 88 WalterMart stores, 1,692 Alfamart stores and one Mindpro store, with gross selling area ("**GSA**") of 3.36 million square meters ("**sq.m.**").

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.

The SM Store is the largest department store chain in the Philippines and as of 31 December 2023, there are 74 department stores in operation. These stores are located in Metro Manila and key provincial cities. Of these, 70 stores are based inside SM malls, while four stores in Makati, Cubao, Quiapo, and Delgado are stand-alone stores. As of 31 December 2023, the GSA of The SM Stores is 892,864 sq.m. The SM Store offers a wide range of merchandise and price points to target all customer segments and leverages on the mall footprint of SM Prime for choice locations.

Following 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, Crate & Barrel, Toy Kingdom, Pet Express, Baby Company, Crocs, Kultura, Miniso, Body Shop, Innisfree, Sports Central, Dyson, Under Armour, Forever 21, ECCO, Levi's, and other retail associates such as Uniqlo and Watsons, among others. These formats are located in SM and non-SM malls with several also growing as stand-alone stores. The Specialty Stores are leading local category specialists, with a diverse array of leading brands to capture growth in various categories of discretionary spending, mostly aspirational but affordable foreign brands with high margin and high growth. The Specialty Stores are key tenants in the malls with selective expansion outside of the malls.

The SM Group has been a pioneer and in the forefront of the Philippine retail market decades after Mr. Henry Sy, Sr. opened his first store. It has withstood numerous challenges and crises and emerged stronger and bigger through discipline, adaptability and transformation.

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 that spans generations. It is committed to providing an extensive range of up-to-date fashion, beauty, and home essentials, toys, snacks and other latest finds making The SM Store the everyday go to for everything the consumer needs.

For over 60 years, The SM Store has provided quality products and services at competitive prices and SMIC 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 and innovation. 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 and by providing delightful and engaging in-store activations and shareable shopping moments driving more purchases and word of mouth through social media. Beyond merchandising, The SM Store also provides value-added services such as ATM banking, bills payment, ticketing, remittance and money exchange, and gifting services such as gift registry and gift passes. Lastly, The SM Store extends VIP treatment to its most valued customers through customer lounges nationwide making their shopping experience with SM complete.

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 year ended 31 December 2023. 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 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 SM Stores, as well as to Specialty Stores. These support services may include treasury, credit, non-trade procurement, payroll, information technology and administrative support services. Likewise, SMIC provides various services as well, including policy directions, legal consultancy, tax advisory and compliance, and assistance in the business operations. SM Retail and SMIC charge fees for these services.

Merchandising

The SM Store and Specialty Stores adopt a localization strategy based on demographics and offers a great selection of menswear, womenswear, children's wear, all kinds of beauty products, home furnishings, stationery, electronic gadgets, snacks, toys, hardware, fun Philippine souvenirs and others.

Merchandise sold is sourced from a pool of suppliers. Outright merchandise includes in-house private label brands such as SM Exclusive, Coco Republic, Men's Club, Mainstreet, Bo' Athletics, SM Basics for Men, SM Smart Buys for basic staple items, SM Woman, Coco Cabana, Gigi Amore Ladies Intimates for Women, Just Kids, Little Miss for Kids, AXCS for Accessories, Salvatore Mann, Milanos 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 generally 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 sq.m. productivity. Some of the main Store Suppliers include globally known brands such as Wrangler, Lee, Arrow, Triumph, Wacoal, Jockey, Nike, Adidas, Rayban, Samsonite, Disney, Breville, Cuisinart, Tefal, Philips, Kitchen Aid, Delonghi, Oster, Hanabishi, Kyowa, Imarflex 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 diverse sales mix in terms of outright merchandise or Store Suppliers merchandise to meet customers' varying needs and wants in terms of style, quality and price.

Marketing

The SM Store is a 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.

The SM Store continues to offer a wide assortment of global and local brands along with private labels. Merchandise remains fashion forward, creating distinction or differentiation, while maintaining commitment to a value-for-money proposition through competitive price points across different categories. The strategic focus remains on the growth and 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 its position as the preferred one-stop shop for consumers, The SM Store also offers a variety of services such as foreign exchange, processing services in various government agencies, bills payment, remittance, events ticketing, clothes alteration and sale of prepaid cards.

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 products 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 Retail 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 engage their consumers in the digital space via online tools such as Facebook/Meta, Twitter/X, Instagram, YouTube, Tiktok 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 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 capitalize 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 Stores are committed to improve their customer reach through store openings in city neighborhoods 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 Bataan and SM Sto. Tomas in 2023. In parallel, the Retail Group continues to make ongoing improvements to 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 merchandise collections.

The Specialty Stores are likewise committed to customer reach. The Retail Group opens branches in locations where the respective target markets frequently visit, regardless of 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. SMAC is a dynamic and innovative loyalty program that provided members an engaging experience through points, sales discounts, and other perks. It rewards members with points every time they shop in The SM Store, SM Markets and any of the Specialty Stores, as well as other SM-owned establishments such as 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. SMAC has 10 million registered members as of 31 December 2023.

SMAC also has tie-ups with other non-SM establishments such as, among others, Shell Philippines, PLDT Home Rewards, Philippine Airlines Mabuhay Miles, and Globe Rewards to provide members with added benefits. SMAC members also enjoy members-only privileges such as exclusive sales, discounts and freebies in numerous partner establishments both inside and outside SM Malls. SMAC members who qualify are promoted to Prestige, and enjoy exclusive shopping offers, access to the SMAC Prestige lounge, priority fitting rooms, courtesy check-out lanes, and so much more.

With 10 million registered members, SMIC believes that SMAC is now one of the largest and most successful loyalty programs in the Philippines. It has made shopping more rewarding as members can also enjoy exclusive offers whenever they dine, unwind, travel, and gas up.

Suppliers

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 Retail Group sources its outright merchandise from over 3,500 active suppliers. SM Retail does not rely on any one supplier or group of suppliers. As of 31 December 2023, 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 are no sales generated outside of the Philippines.

Competition

The retail industry is highly competitive in both the department store and specialty store formats. Strong local players such as Rustan's, Robinsons, Landmark, Gaisano Group in the Southern Philippines, Wilcon, AllHome, Landers and S&R also have presence 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, large foreign retailers such as IKEA, H&M, Zara and others have also entered the retail market.

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, such as 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.

Despite the expansion of established department store chains as well as the entry of foreign brands, SM Retail believes that it is one of the market leaders 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, including the introduction of successful foreign brands (i.e., Uniqlo, Miniso, Innisfree, Body Shop, Crocs, Under Armour and Dyson) to the local market and the development of local brands (e.g., Toy Kingdom, Kultura, SM Home, Our Home, Baby Company and Pet Express). Moreover, the Retail Group believes that its 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.

E-commerce and Online Initiatives

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 SM Personal Shopper. 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 Markets store. It 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 orders delivered to their nominated address with cash on delivery as a further payment option.

The Personal Shopper program 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 their orders delivered as early as same day or picked up in-store. These can be paid with cash or credit and debit cards upon delivery or online.

SM Retail also partnered with end-to-end customer solutions such as Mastercard, VISA, GCash, PayMaya, Alipay, WeChat Pay and Grab Pay to promote secure and efficient digital cashless transactions.

To take advantage of online retailing platforms such as Lazada and Shopee, some Specialty Stores have also established official stores within these platforms.

Food Retail Stores

As of 31 December 2023, SM Retail had 2,119 food retailing stores in operation in five store formats varying by size, namely SM Supermarket (65 stores), SM Hypermarket (54 stores), Savemore (219 stores), WalterMart (88 stores), Alfamart (1,692 stores) and Mindpro (1 store). These formats enable SM Retail to serve many different local markets nationwide. SM Retail believes that Food Retail Stores are among the top performing food retailers in the country with their continued expansion, innovation and up-to-date assortment.

Operations

SM Supermarket is a large format anchor tenant in SM malls. It has been in operation since 1985 and has 65 stores nationwide totaling to 382,864 sq.m. of GSA as of 31 December 2023. It opened two new stores in Bataan and Sto. Tomas in 2023.

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. As of 31 December 2023, it had 54 stores in operation totaling 337,227 sq.m. of GSA. It opened one new store in 2023.

Savemore is a mid-sized format store introduced in 1998. It is located in community malls or as a stand-alone store. Savemore is a neighborhood format store, providing food and grocery items in residential locations with extended opening hours. Savemore introduced a smaller-sized format called Savemore Express which are below 1,000 sq.m. in size and carries a more concentrated selection of fast-moving stock keeping units ("**SKUs**"). Among SM Retail's food formats, Savemore has the largest footprint with 571,821 sq.m. of GSA across 219 stores as of 31 December 2023. In 2023, they opened nine stores nationwide.

WalterMart is a mid-sized format store 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 88 department stores and supermarkets as of 31 December 2023, with an aggregate GSA of 220,324 sq.m. In 2023, they opened four department stores and two supermarkets in the areas of Laguna, Batangas and Metro Manila.

Each store of SM Supermarket, SM Hypermarket and Savemore carry 27,000 to 36,000 SKUs as of 31 December 2023.

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 1,692 stores as of 31 December 2023, mostly located outside Metro Manila, each carrying up to 5,500 SKUs. In 2023, they opened 287 new stores within Luzon.

The Food Retail Stores utilize a distribution network to deliver inventory across different branches nationwide.

In addition to selling food and grocery items, the Food Retail Stores also offer value-added services such as prepaid cellular service loading station, bills payment options, money exchange, pharmacy, ATM banking, among others, as part of its strategy 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 credit, payroll, human resources, information technology and administrative support services. SMIC provides various services as well, including legal documentation, licensing, tax advisory and compliance, and treasury services. SM Retail and SMIC charge fees for these services.

Merchandising

The Food Retail 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. The stores host other product offerings as well, including pharmacies, bakeries, photo shops, wine and liquor stores, *pasalubong* items, Chinese delicatessens, innovative snacks like *turon* 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 Retail 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 Retail Stores source their outright merchandise from various suppliers. Over the years, the Food Retail Stores have developed close relationships with a large number of suppliers in the Philippines. However, the Food Retail Stores do 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 Retail Stores do not rely on any one supplier or a small group of suppliers for its requirements.

Customers

The Food Retail 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 are no sales generated outside of the Philippines.

Marketing

The Food Retail 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 Retail Group believes that 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. Boasting over 8,000 international items, including popular Japanese and Korean products, the Food Retail Stores are truly the home of imported products. Furthermore, the Food Retail Stores have expanded their selection of high quality, good value imported goods through exclusive partnerships such as the one with Australian supermarket brand Coles. Alongside these global offerings, the Food Retail Stores proudly features a wide array of local products and pasalubong items.

SM Markets remained at the forefront of innovation by offering favorites like *turon* and introducing an exciting addition to its lineup: affordable ready-to-cook BBQ Master. It officially launched in 2023, and quickly became a favorite among shoppers. BBQ Master is set to become the star in various occasions, gatherings, and holiday celebrations, impromptu or planned.

SM Markets has also expanded their dine-in offers introducing budget coffee line Five Star Coffee in majority of its stores. Furthermore, to enhance its shoppers' dining experience, SM Markets has opened 14 new United Steak branches, providing shoppers with a diverse range of delicious dining choices to enjoy.

The Food Retail Stores are also part of the SMAC loyalty program where customers can earn points on their purchases.

SM Markets was awarded "Best Customer Service 2023" under the Supermarket category by the Philippine Daily Inquirer and German research online platform Statista – a testament to its unwavering commitment to providing exceptional service and satisfaction to its customers.

Competition

Competition in the food retail industry is characterized by aggressive expansion and intensifying competition among market players. The competitors include national and regional supermarket chains, independent and specialty grocers, convenience stores, hard discount 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, Robinsons, Super8, Gaisano's, S&R and Landers. In the small-market category, major competitors include Puregold Jr, 7-Eleven, Shopwise, Mercury Drug, Uncle John's and Dali.

Overall, despite the increasing competition in the industry, the Retail Group believes that the Food Retail 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 spans 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 Retail Stores with continuous competitive advantage in this ever-growing and challenging industry.

E-commerce and Online Initiatives

SM Retail has always recognized the technological advances in retailing and changes in consumer preferences. Even before the pandemic, SM Retail has already developed innovative solutions to take advantage of various social media marketing and internet-based online retailing.

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.

THE PROPERTY GROUP (MALLS AND REAL ESTATE)

As SMIC's property arm, SM Prime leads the Property Group and has four business units: (i) Malls; (ii) Residential; (iii) Commercial; and (iv) Hotels and Convention Centers.

Malls. The Malls business unit is focused on developing, operating and maintaining shopping malls and related businesses, both in the Philippines and in China and as of 31 December 2023 had 85 shopping malls in the Philippines with an aggregate GFA of approximately 9.2 million sq.m., with 24 malls located in Metro Manila with a GFA of 3.8 million sq.m., 47 malls located in Luzon (outside of Metro Manila) with a GFA of 3.6 million sq.m., seven malls in Visayas with a GFA of 1.1 million sq.m. and seven malls in Mindanao with a GFA of 0.7 million sq.m., and eight shopping malls in China with an aggregate GFA of approximately 1.6 million sq.m.

Residential. The Residential business unit is engaged in residential property development. As of 31 December 2023, the primary residential business had 67 residential projects in the market, 47 of which are located in Metro Manila and 20 are outside Metro Manila. It has launched 183,491 units raising approximately ₱713 billion and has a land bank of 1,345 hectares for primary residential. The primary residential business generated reservation sales of ₱102 billion in 2023. SM Prime, through its secondary residential business, also owns leisure and resort developments. It has 508 hectares for leisure homes as of 31 December 2023.

Commercial. The Commercial business unit is engaged in the development and leasing of office buildings in prime locations particularly in Metro Manila, as well as the operations and management of such buildings and other property holdings and as of 31 December 2023 had 18 office buildings with an aggregate GFA of approximately 1.6 million sq.m. It has a land bank of 118 hectares for future office development.

Hotels and Convention Centers. The Hotels and Convention Centers business unit is engaged in developing, operating and maintaining hotels and convention centers, including services and facilities incidental thereto and as of 31 December 2023 had 10 hotels with 2,602 saleable rooms, six convention centers and two trade halls. The hotel brands include Conrad Manila and Radisson Blu. The convention centers and trade halls are located within the vicinity of SM malls with an aggregate of approximately 42,000 sq.m. of leasable space.

See *"Description of SM Prime"* for further information.

BANKING GROUP

BDO Unibank, Inc.

Founded in 1976, BDO is a full-service 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. BDO is the product of a merger between Banco de Oro Universal Bank, Inc. and Equitable PCIBank, which took effect on 31 May 2007. As of 31 December 2023, according to the statements of condition submitted by banks to the BSP, BDO ranked as the number one bank in the Philippines and the largest Philippine bank in terms of total assets, gross customer loans, total deposits, capital and total trust funds under management. BDO's consolidated total assets stood at ₱4.5 trillion as of 31 December 2023, while total equity stood at ₱518.6 billion as of 31 December 2023. BDO has ₱186.4 billion net interest income (calculated as interest income less interest expense), ₱84.0 billion other income and ₱73.4 billion net income attributable to the parent. BDO profit hit an all-time high of ₱73.4 billion for the year ended 31 December 2023 on the back of strong loan growth, higher fee-based income and improving cost efficiency.

BDO'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. BDO'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 or consumer market. BDO's customers are based primarily in the Philippines and include large multinational corporations with local operations. BDO has experienced significant growth over the last few years arising from organic growth and as a result of recent mergers and acquisitions.

As of 31 December 2023, the Bank had a network of 1,720 operating domestic branches and offices (including 514 branches and offices of BDO Network Bank, Inc., formerly One Network Bank, Inc.), with 619 branches in Metro Manila, 642 branches in Luzon (outside of Metro Manila), 226 branches in the Visayas and 233 branches in Mindanao, and two full service branches in Hong Kong and Singapore. As of the same period, its network also includes 16 overseas remittance and representative offices across Asia, North America, Europe and the Middle East, and 4,803 automated teller machines ("**ATMs**") and 711 cash deposit machines ("**CDMs**").

As of 23 April 2024, BDO had a market capitalization on the PSE of approximately ₱756.6 billion (U.S.$13.6 billion). As of 31 December 2023, BDO has a total loan portfolio of ₱2,851.4 billion, with 76.1% from corporate loans and 23.9% consumer loans and has a total ₱3,567.6 billion deposits, with 57.5% from savings deposits, 28.4% from time deposit and 14.1% demand deposit.

BDO has both consumer banking and corporate banking products, as follows:

1. Consumer banking

    a. Accounts – savings, current, time deposit, FOREX

    b. Cards – credit, debit, BDO pay, reward

    c. Digital – BDO online, BDO pay

    d. Loans – home, auto, SME, personal loan

    e. Insurance – non-life insurance, life insurance

    f. Investments – funds, managed portfolio, stocks

    g. Remittance – Kabayan (services, loans, investments, insurance)

    h. Assets for sale – real estate, vehicles, club shares

2. Corporate banking

   a. Financing – loans, leasing, capital markets

   b. Business services – cash management, trade facilities, payment solutions, institutional trust management

   c. Investments – managed portfolio

   d. International banking – China desk, Europe & North America desks, Japan desk, Korea desk

   e. Corporate insurance – BDO insure business, BDO life group insurance

   f. Corporate cards – American express corporate card, Master corporate card, Visa corporate card, Diners club corporate card

BDO has a Baa2 rating for its long-term local currency bank deposits from Moody's Investor Services. BDO also has an Issuer/Debt Rating (long-term) of BBB- from Fitch Ratings.

As of 31 December 2023, SMIC's effective ownership in BDO was 45.3%.

Financial highlights

The following table sets forth selected consolidated financial information of BDO as of and for the periods indicated:

	2022	**2023**	**% Change**
	(in ₱ billions, except for ratios and percentages)		
Net interest income	149	186	24.9
Other income	72	84	17.4
Net income	57	73	28.7
Assets	4,075	4,478	9.9
Deposits	3,221	3,568	10.8
Gross customer loans	2,614	2,851	9.1
Net interest margin	4.1%	4.6%	–
Cost to income ratio	59.4%	58.0%	–
Return on average common equity	13.0%	15.2%	–
Gross loan to deposits ratio (LDR)	81.2%	79.9%	–
Gross NPL ratio	1.95%	1.85%	–
Total CAR	14.5%	14.9%	–
Tier 1 ratio	13.6%	14.0%	–
CET1	13.4%	13.8%	–

	As of and for the years ended 31 December			
	2021	2022	2023	
		(Audited)		(Unaudited)
	(in billions, except for ratios and percentages)			
	₱	₱	₱	*U.S.$*
Deposits	2,821	3,221	3,568	64.2
CASA	2,405	2,537	2,555	46.0
Time deposits	416	684	1,012	18.2
CASA ratio	85%	79%	72%	N/A
Loan Growth				
Growth	6%	9%	9%	N/A
Industry	5%	14%	7%	N/A
Operating income	193	221	270	4.9
Net interest income	131	149	186	3.3
Insurance premium	18	19	18	0.3
Fees	35	43	48	0.9
Trading/FX	4	5	6	0.1
Others	5	4	12	0.2
NII + Fees + Ins. Prem. %	96%	96%	93%	N/A
Asset quality				
NPL	70	53	54	1.0
Provisions	78	89	100	1.8
NPL ratio	2.80%	1.95%	1.85%	N/A

China Banking Corporation

Founded in 1920, Chinabank is one of the first privately-owned universal banks in the Philippines. Chinabank is a strong player in the Chinese-Filipino commercial sector and is a private universal bank delivering above-industry growth, in terms of loan growth, consistently. 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. Chinabank has ₱53.5 billion net interest income, ₱0.6 billion other income and ₱22.0 billion net income.

It is the Philippines' fourth largest privately-owned bank based on assets of ₱1,478.0 billion as of 31 December 2023, based on the statements of condition submitted by banks to the BSP. As of 31 December 2023, the gross nonperforming loan ("**NPL**") ratio of Chinabank was 2.5%, while its NPL cover was 104%.

Over the years, Chinabank has been involved with strategic alliances to expand and strengthen its operations. Chinabank is one of the largest private domestic universal banks in the Philippines in terms of capital base, assets and market value based on publicly available information published by the BSP as of 31 December 2023, and the SM Group believes that it is recognized as one of the most well-governed and most transparent publicly-listed companies in the country.

Chinabank is one of the leading private domestic universal banks in the Philippines that offers a full range of banking products and services to institutional and individual customers, as well as thrift banking, investment banking, insurance brokerage, stock brokerage, and bancassurance through its subsidiaries, China Bank Savings, Inc. (CBS), China Bank Capital Corporation (Chinabank Capital), CBC Assets One (SPC), China Bank Securities, Resurgent Capital (FIST-AMC), China Bank Insurance Brokerage, Inc. (CIBI), CBC Properties and Computer Center, Inc., and affiliate Manulife China Bank Life Assurance Corporation (MCBLife). The Bank's franchise stems from its 103-year history, a factor that has enabled it to become deeply entrenched within the socioeconomic fabric of the Chinese-Filipino community.

With over a century of financial history, its strong commitment to personal, quality service, contributions to the country's financial landscape, and legacy of partnerships with generations of clients trusting it with their wealth and future, the SM Group believes that Chinabank remains to be one of the most respected, trusted, stable and profitable financial institutions in the country.

Chinabank operates branches across the Philippines along with self-service and digital banking channels available 24/7. Chinabank's products and services are made available across multiple distribution and delivery channels: 648 branch network (of which 480 are Chinabank branches, 168 are CBS branches and 60 branch lite units); 1,069 ATM network (653 in-branch and 416 off-site ATMs nationwide); founding member of the Bancnet consortium, access to more than 26,000 ATMs nationwide of Bancnet networks; online banking (through the bank's e-portal www.chinabank.ph) and Mobile Banking.

As of 23 April 2024, Chinabank had a market capitalization on the PSE of approximately ₱102.7 billion (U.S.$1.8 billion). As of 31 December 2023, Chinabank has a total loan portfolio of ₱791.0 billion, with 77.1% from business and 22.9% consumer and has a total ₱1,186.7 billion deposit breakdown with 48.5% from CASA deposit and 51.5% from time deposit. Chinabank's loan book growth in the year ended 31 December 2023 resulted in an improvement of net interest income and return on equity. Chinabank is ranked among the top 10 banks in terms of total assets, gross customer loans, customer deposits, and assets under management as of December 2023 among other listed banking peers in Philippines based on the statements of condition submitted by banks to the BSP.

Chinabank has both consumer banking and corporate banking products, as follows:

1. Consumer banking

    a. Save – savings, checking account, term deposits, remittance accounts, foreign currency savings accounts, foreign currency term deposits

    b. Cards – range of Mastercard

    c. Borrow – home loan, car loan, salary loan

    d. Invest – trust banking, treasury, China Bank securities

    e. Protect – life & health insurance, non-life insurance

    f. Channels – online account opening, internet banking, mobile banking, phone banking

2. Corporate banking

    a. Cash management – receivables & liquidity management and POS solutions, among others

    b. Loans – corporate, commercial, trade

    c. Investments – trust, treasury

    d. International banking – remittance services

    e. Investment banking – fund raising solutions, capital advisory

    f. Branch banking – government payments, SSS pension credit, night depository

    g. Stock brokerage – Peso & Dollar securities, REIT

    h. Insurance – through Chinabank Insurance Brokers Inc and Manulife China Bank Life Insurance

In April 2024, Moody's affirmed Chinabank's investment grade credit rating of Baa2, citing its strong capital base, profitability and strong level of liquidity.

As of 31 December 2023, SMIC's effective interest in Chinabank was 22.5%.

Financial highlights

	2022	2023	% Change
	(in ₱ billions, except for ratios and percentages)		
Net interest income	46	54	17.4
Other income	10	1	(94.4)
Net income	19	22	15.1
Assets	1,330	1,478	11.2
Deposits	1,066	1,187	11.3
Gross customer loans	718	791	10.2
Net interest margin	4.2%	4.2%	–
Cost to income ratio	43.8%	50.0%	–
Return on average common equity	15.1%	15.5%	–
Gross loan to deposits ratio (LDR)	67.3%	66.7%	–
Gross NPL ratio	2.3%	2.5%	–
Total CAR	15.9%	16.1%	–
CET1	15.1%	15.3%	–

	As of and for the years ended 31 December			
	2021	2022	2023	
		(Audited)		(Unaudited)
	(in billions, except for ratios and percentages)			
	₱	₱	₱	U.S.$
Deposits	863	1,066	1,187	21.4
CASA	555	573	575	10.3
High cost	308	492	611	11.0
LDR	72%	67%	67%	N/A
Loan Growth				
Growth	9%	15%	10%	N/A
Industry	5%	14%	7%	N/A
Operating income	49	56	54	1.0
Net interest income	39	46	54	1.0
Trading & securities and forex	5	1	(6)	(0.1)
Other fees	5	9	7	0.1
Asset quality				
NPL	15	17	20	0.4
Allowance for impairment	18	20	21	0.4
NPL ratio	2.5%	2.3%	2.5%	N/A

PORTFOLIO INVESTMENTS GROUP

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. SMIC invests in key sectors in the Philippines with high growth potential, including:

Sector	Company
Logistics	2GO Group, Inc.
	Airspeed
Geothermal and renewable energy	Philippine Geothermal Production Company
Bakeshops	Goldilocks Bakeshop, Inc.
Leisure	Belle Corporation
Mining	Atlas Consolidated Mining and Development Corporation
Urban dormitories	Philippines Urban Living Solutions, Inc.
Green buildings	The NEO Group
Community malls	CityMall Commercial Centers Inc.

Belle Corporation

Belle Corporation ("**Belle**") was incorporated in 1973 as Belle Mining and Oil Exploration, Incorporated ("**Belle Resources**") and was listed on the PSE in 1977. 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 and has become one of the leading developers of sustainable resort destinations and leisure properties in the Philippines with two premium destinations: City of Dreams Manila and Tagaytay Highlands.

Belle's principal asset is the integrated resorts, operated by Melco Resorts Leisure (PHP) Corporation ("**Melco**") under their City of Dreams Manila brand ("**CODM**"), which is located at the Philippine Amusement and Gaming Corporation ("**PAGCOR**") Entertainment City by Manila Bay. The property is leased on a long-term basis. In addition to lease income, Belle receives dividends from Premium Leisure Corp ("**PLC**"), its 79.78%-owned subsidiary. PLC is accorded a share in revenues or earnings from CODM's gaming operations through the operating agreement between its wholly owned subsidiary, Premium Leisure and Amusement, Inc ("**PLAI**") and Melco.

South of Metro Manila, Belle owns significant real estate assets and develops premium residential resort projects around Tagaytay City. Among its exclusive destinations are the club and golf facilities and residential communities of Tagaytay Highlands and Tagaytay Midlands, as well as a further 800 hectares intended for future development. SMIC acquired an initial stake in 2009.

As of 31 December 2023, SMIC's effective ownership in Belle was 26.6%.

Atlas Consolidated Mining and Development Corporation

Atlas Consolidated Mining and Development Corporation ("**Atlas Mining**") is primarily engaged in metallic mineral exploration and mining and is one of the largest copper concentrate producers in the Philippines. 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 magnetite and pyrite. Atlas Mining has 22 years of mine life and 408m tonnes of proven and probable reserves. SMIC acquired an initial stake in 2011.

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 31 December 2023, SMIC's effective ownership in Atlas Mining was 34.1%.

The NEO Group

The NEO Group features a portfolio of seven commercial office buildings certified green under the BERDE green building rating system and certified net zero carbon under the EDGE Zero Carbon and Advancing Net Zero Philippines programs. With a total GFA of 256,707 sq.m. and a tenant base that includes top-tier local and multinational companies, all seven buildings are located within the largest and only Philippine Economic Zone Authority (PEZA) certified IT park in Bonifacio Global City. The occupancy rate was 85% as of 31 December 2023. SMIC acquired an initial stake in 2013.

As of 31 December 2023, SMIC effectively owned 95.0% of the first five buildings[1] and 34.0% in the remaining two buildings[2] in the NEO portfolio.

2GO Group, Inc.

2GO Group, Inc. ("**2GO**") is a shipping and logistics provider that synergizes its various businesses in shipping, freight forwarding, warehousing and express delivery services to provide total solutions to its customers. 2GO has 18 major ports of calls, 10 ROPAX vessels for freight and travel, and over 14,000 TEU shipping containers. SMIC acquired an initial stake in 2017.

As of 31 December 2023, SMIC's effective ownership in 2GO was 67.2%.

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 of 31 December 2023, there were 16 buildings in operation with two more buildings under development. SMIC acquired an initial stake in 2017.

As of 31 December 2023, SMIC's effective ownership in PULS is 71.3%.

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 11 manufacturing facilities and 926 stores and selected operations overseas as of 31 December 2023. Now on its 57th year, Goldilocks serves customers with best-selling dishes as well as a wide array of baked goods and home cooked food. SMIC acquired an initial stake in 2018.

As of 31 December 2023, SMIC's effective ownership in Goldilocks was 64.1%.

Airspeed

Airspeed is an end-to-end logistics solutions and express courier company that has been in the industry for over 37 years. Airspeed provides freight solutions management via air, sea, and land through its established network of international and domestic partners and carriers. Airspeed also offers customized logistics, warehousing and distribution, and customs clearance. Airspeed has over 200 dedicated vehicles and presence in over 90 countries. SMIC acquired an initial stake in 2018.

As of 31 December 2023, SMIC's effective ownership in Airspeed was 51.0%.

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1 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.

2 Neo Associates consist of N-Park BGC Properties, Inc., N-Lima BGC Properties, Inc. and N-Park BGC Land, Inc.

Philippine Geothermal Production Company

Philippine Geothermal Production Company ("**PGPC**") is a company that operates steam fields to supply third-party owned geothermal power plants. PGPC also has rights exclusive rights to explore, develop and utilize other geothermal resources in the Philippines. PGPC is currently supplying steam with an equivalent of approximately 300MW powering the Luzon grid. PGPC has a total contract area of 9,410 hectares with enough geothermal steam to produce 300 MW. SMIC merged with Allfirst Equity Holdings, Inc. in August 2022, with SMIC as the surviving entity. SMIC acquired an initial stake in 2022.

As of 31 December 2023, SMIC's effective ownership in PGPC was 100.0%.

Portfolio Investments Financial Highlights for the year ended 31 December 2023

	PGPC	The NEO Group	Goldilocks	2GO	Atlas Mining	Belle
Revenue	6.9	4.4	13.7	16.0	19.9	5.6
EBITDA	4.9	3.4	1.3	2.7	6.7	3.7
EBITDA margin (%)	71%	77%	9%	17%	34%	66%
Net income attributable to parent	4.0	2.4	0.4	0.9	1.0	1.8

(1) EBITDA calculated as Revenue less Costs and expenses plus Depreciation and amortization. The following table sets forth further information with respect to the computation of EBITDA.

EBITDA						
Revenue	6.9	4.4	13.7	16.0	19.9	5.6
Costs and Expenses	(2.6)	(1.3)	(13.1)	(14.6)	(17.8)	(2.8)
Depreciation and amortization	0.6	0.3	0.7	1.3	4.6	0.9
	4.9	3.4	1.3	2.7	6.7	3.7

INSURANCE, ENVIRONMENT, HEALTH AND SAFETY

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

The SM 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 SM malls, have their own loss of revenue/business interruption insurance cover. The Retail Group's subsidiaries operating inside SM malls have the same insurance coverage with BDO Insure.

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

As of the date of this Offering Circular, SMIC and each of its principal subsidiaries is in material compliance with all applicable environmental, health and safety regulations.

The SM Group takes an integrated approach to creating shared value for all its stakeholders and to applying global Environmental, Social and Governance (ESG) best practices across its businesses. The SM Group seeks alignment of its sustainability programs to the 17 United Nations Sustainable Development Goals. It publishes its report following the International Integrated Reporting Framework, in reference to GRI Standards and the Task Force for Climate.

SM Prime has various ESG initiatives and credentials. These include credentials from its LEED Certified buildings. It is a signatory to UN ARISE, UN Women's Empowerment and a member of the National Resilience Council. It is also committed to achieve Net Zero greenhouse gas (GHG) emissions by 2040, subject to verification by the Science Based Targets Initiatives. BDO aims to have no new coal loans policy and reduce its exposure by 50% by 2033. BDO is also leading in financing 59 renewable energy projects. SMIC also has its share of ESG initiatives and credentials. These include being a signatory to the UN Global Compact, UN ARISE, and UN Women's Empowerment Principles. A subsidiary, NEO, was also certified as NetZero Carbon by the EDGE (Excellence in Design for Greater Efficiencies) program of the IFC.

Both SMIC and SM Prime are Task Force on Climate Related Financial Disclosures (TCFD) supporters.

INVESTMENTS AND PROPERTY

SMIC's current assets, consisting of cash and cash equivalents, time deposits, financial assets at fair value through other comprehensive income, receivables and contract assets, inventories, and other current assets, amounted to ₱361.5 billion and ₱359.5 billion as of 31 December 2022 and 2023, respectively.

As of 31 December 2022 and 2023, SMIC's investments in associate companies and joint ventures amounted to ₱328.3 billion and ₱361.3 billion, respectively. These investments pertain to investments in shares of stock of associates and joint ventures such as, but not limited to, BDO, Chinabank, Belle Corporation, Atlas Mining, Sodexo Benefits and Rewards Services Philippines, Inc., Fast Retailing Philippines, Inc., Premium Leisure Corp., Feihua Real Estate (Chongqing) Company Ltd., Ortigas Land Corporation, Winsome Development Corporation, Willin Sales, Inc., Willimson, Inc., Waltermart Ventures, Inc., WM Development, Inc., WM Development, Inc., WM Shopping Center Management, Inc., ST 6747 Resources Corporation, two Neo Buildings and Watsons.

SMIC's investment properties amounted to ₱486.0 billion and ₱537.1 billion as of 31 December 2022 and 2023, respectively. These investments consist of land, shopping malls and improvements.

SMIC's property and equipment amounted to ₱47.9 billion and ₱52.9 billion as of 31 December 2022 and 2023, respectively. SMIC's noncurrent time deposits amounted to ₱24.1 billion and ₱22.3 billion as of 31 December 2022 and 2023, respectively. SMIC 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 sq.m.

INTELLECTUAL PROPERTY

SMIC 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 SMIC's core businesses such as retail, real estate development and management, hotels, leisure and entertainment, among others. The "SM" mark is protected by eight trademark registrations and one pending application.

SMIC has allowed use of the "SM" trademark by some of its subsidiary and affiliate companies. The trademark "SM" is often times used as a house mark and has been incorporated in the in-house brands and service marks belonging to the SM Group.

As of 31 December 2023, SMIC is the holder of 71 Philippine trademark registrations and 39 foreign trademark registrations, including its legacy trademarks, "SHOEMART", "SM SHOEMART" and the "SM STORE".

The SM Group utilizes trademarks and other intellectual properties in the conduct of its businesses. Over the years, the tradename SM, its distinctive logos, including its in-house brands have gained public goodwill and popularity. Hence, these trademarks are important to the SM Group's success and competitive position. The SM brand is widely recognized by the industry. It won Brand of the Year in the 2020 World Branding Awards by the World Branding Forum and 2020 Trusted Brands Awards by the Reader's Digest.

SMIC registers its brands to ensure that their intellectual property rights are duly protected. Apart from actively monitoring and maintaining the validity of these registrations, SMIC is also active in brand enforcement and protection.

CAPITAL EXPENDITURE

The SM Group incurred capital expenditure amounting to ₱55.4 billion, ₱43.7 billion, and ₱80.6 billion, for the years ended 31 December 2021, 2022 and 2023, respectively, in connection with the construction of shopping malls and land banking activities, resort facilities, hotel development, new ships, new retail stores, logistics facilities, and others.

GOVERNMENT REGULATIONS AND AUTHORIZATIONS

SMIC's legal department is responsible for ensuring continued compliance with applicable laws and regulations, including any changes or updates that may materially impact or adversely affect SMIC and its principal subsidiaries' operations and business.

As of the date of this Offering Circular, SMIC and its principal subsidiaries are in material compliance with applicable regulatory requirements, including permits and licenses which are necessary to its business operations.

See "*Regulation*" beginning for a detailed discussion of the government regulations and environmental laws affecting the SM Group.

CUSTOMERS

SMIC, as a holding company, is not dependent on a single or few customers. As such, there is no customer which accounts for 20% or more of sales.

EMPLOYEES

As of 31 December 2023, SMIC had 394 regular employees. Its employees are not subject to any Collective Bargaining Agreements, are not on strike nor are threatening to strike, and have not been on strike for the past three years. The employees are classified as follows:

	No. of Employees
Rank and file	46
Middle management	341
Senior management	7

SMIC expects to have 394 regular employees within the next twelve months. Apart from the basic employment compensation package, SMIC does not and will not have any supplemental benefits or incentive arrangements with its employees.

LEGAL PROCEEDINGS

The SM 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 are those involving amounts equivalent to at least 5% of the SMIC's and its subsidiaries' earnings before income tax.

SM Prime

See "*Description of SM Prime*".

BDO

As of the date of this Offering Circular, BDO, an associate of SMIC, is a party to the following legal/quasi-judicial cases. As of 31 December 2023, 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

In 2011, the Department of Finance ("**DOF**") and BIR issued RR No. 4-2011 regarding the allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes. RR No. 4-2011 prescribed a special method of allocation of cost and expenses for banks such that when computing the amount allowable as deduction from regular banking unit ("**RBU**") operations, all cost and expenses should first be allocated between the RBU and FCDU/expanded FCDU or offshore banking unit.

On 6 April 2015, banks and other financial institutions filed a Petition for Declaratory Relief with the Regional Trial Court ("**RTC**") of Makati, seeking to annul RR No. 4-2011. BDO Unibank and BDO Private were among those who joined other banks in assailing the validity of RR No. 4-2011.

On 25 May 2018, the RTC issued an Order declaring RR No. 4-2011 null and void. DOF and BIR filed Petition for Review on Certiorari directly before the Supreme Court. Banks and other financial institutions filed Comment. In a Decision dated 1 December 2021, the Supreme Court denied the Petition filed by DOF and BIR. Supreme Court Decision became final and executory on 7 June 2022 and was recorded in the Book of Entries of Judgments.

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 BDO Unibank where in consideration of the assumption by BDO Unibank of FeB's liabilities in the maximum amount of ₱10 billion, PDIC will provide BDO Unibank ₱10 billion of Financial Assistance and PDIC will receive FeB's assets to recover said financial assistance.

About ₱5 billion of the financial assistance was released to BDO Unibank and the remaining ₱5 billion was deposited in escrow with BDO – TIG in accordance with the escrow agreement dated 23 October 2002 entered into by BDO Unibank, PDIC, and BDO – TIG.

In August 2016, PDIC authorized the release of a total amount of ₱4.65 billion from escrow inclusive of proportional interest. However, as of 26 August 2016, the amount of ₱1.224 billion remains in escrow, which includes: (i) ₱602 million, which covers assets BDO Unibank still considers capable of delivery worth ₱214 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 20 September 2016, the PDIC filed a Complaint for Specific Performance and Damages against BDO Unibank, which case was raffled to RTC Makati City Branch 60.

On 14 October 2016, BDO Unibank filed its Answer to the Complaint affirming that it has assumed ₱10 billion in liabilities of FeB and is thus entitled to release of the remaining escrow of ₱1.224 billion.

In a judgment dated 31 May 2018, RTC Makati dismissed the complaint, granted BDO Unibank's counterclaim and ordered BDO – TIG to immediately release the remaining escrow amount, plus interests, to BDO Unibank. On 18 June 2018, the Parent Bank received an amount of ₱1.243 billion for the full termination of escrow. PDIC filed Notice of Appeal. In the Decision dated 15 June 2020, the Court of Appeals (CA) dismissed PDIC's appeal. PDIC filed Motion for Reconsideration but the same was denied by the CA in a Resolution dated 25 January 2021. PDIC filed Petition for Review with the Supreme Court. The BDO Unibank filed a comment. In a resolution dated 5 July 2023, the Supreme Court denied PDIC's petition for Review. PDIC filed Motion for Reconsideration.

As of 31 December 2023, the difference between the amount received and the balance of the amount in escrow amounts to ₱572 million. This is presented as part of Others under Other Liabilities account and is not yet recognized as income due to the pending Petition for Review filed by PDIC. The case is still pending before the Supreme Court as of 31 December 2023.

Others

The BDO Group is also a defendant in various cases pending in courts for alleged claims against BDO, the outcomes of which are not fully determinable at present. As of 31 December 2023, management believes that any liability or loss arising from these claims would not have a material effect on the financial position and results of operations of BDO and will be recognized if and when a final resolution by the courts is made on each claim.

DESCRIPTION OF SM PRIME

In the case of an issuance of Notes by SM Prime SG Holdings, investors should only consider and rely on the disclosure in relation to SM Prime in this Offering Circular (and not any disclosure in relation to SMIC SG Holdings, SMIC or the SM Group). SM Prime is the only Parent Guarantor with respect to any issuance of Notes by SM Prime SG Holdings and SMIC will not provide any guarantee or credit support for Notes issued by SM Prime SG Holdings. Investors should therefore not consider nor rely on any disclosure relating to SMIC SG Holdings, SMIC or the SM Group with respect to any issuance of Notes by SM Prime SG Holdings. For the avoidance of doubt, SMIC is the only Parent Guarantor with respect of any issuance of Notes by SMIC SG Holdings and SM Prime will not provide any guarantee or credit support for Notes issued by SMIC SG Holdings.

OVERVIEW

SM Prime Holdings, Inc. ("**SM Prime**"), a subsidiary of SMIC, is a leading integrated Philippine real estate company and is one of the largest integrated real estate developers in Southeast Asia that offers innovative and sustainable lifestyle cities with the development of malls serving as meeting centers, residences, hotels, convention centers and office spaces, helping facilitate the rapid urbanization of local communities. SM Prime is listed on the PSE under stock code "SMPH" with a market capitalization of ₱814.4 billion and a common share price of ₱28.20 per share as of 23 April 2024. SM Prime is one of the largest listed real estate developers on the PSE by market capitalization and net income.

SM Prime operates, with the assistance of certain management companies, 22 integrated lifestyle cities, a total of 93 shopping malls in the Philippines and China and has 67 primary and 24 secondary residential projects in the market across the Philippines, 18 office buildings, 10 hotels, six convention centers and two trade halls. It is one of the largest real estate companies in Southeast Asia with total assets of ₱943.3 billion and an aggregate land bank of more than 2,324 hectares, each as of 31 December 2023.

As SMIC's property arm, SM Prime leads the Property Group and has four business units: (i) Malls; (ii) Residential; (iii) Commercial; and (iv) Hotels and Convention Centers.

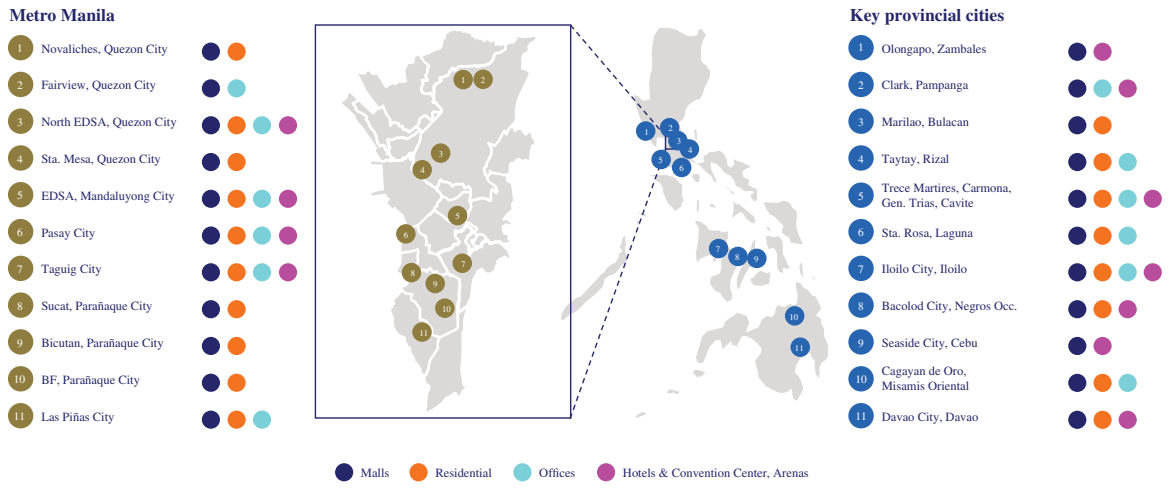
Malls. The Malls business unit is focused on developing, operating and maintaining shopping malls and related businesses, both in the Philippines and in China and as of 31 December 2023 had 85 shopping malls in the Philippines with an aggregate GFA of approximately 9.2 million sq.m., with 24 malls located in Metro Manila with a GFA of 3.8 million sq.m., 47 malls located in Luzon (outside of Metro Manila) with a GFA of 3.6 million sq.m., seven malls in Visayas with a GFA of 1.1 million sq.m. and seven malls in Mindanao with a GFA of 0.7 million sq.m., and eight shopping malls in China with an aggregate GFA of approximately 1.6 million sq.m.

Residential. The Residential business unit is engaged in residential property development. As of 31 December 2023, the primary residential business had 67 residential projects in the market, 47 of which are located in Metro Manila and 20 are outside Metro Manila. It has launched 183,491 units raising approximately ₱713 billion and has a landbank of 1,345 hectares for primary residential. The primary residential business generated reservation sales of ₱102 billion in 2023. SM Prime, through its secondary residential business, also owns leisure and resort developments. It has 508 hectares for leisure homes as of 31 December 2023.

Commercial. The Commercial business unit is engaged in the development and leasing of office buildings in prime locations particularly in Metro Manila, as well as the operations and management of such buildings and other property holdings and as of 31 December 2023 had 18 office buildings with an aggregate GFA of approximately 1.6 million sq.m. It has a land bank of 118 hectares for future office development.

Hotels and Convention Centers. The Hotels and Convention Centers business unit is engaged in developing, operating and maintaining hotels and convention centers, including services and facilities incidental thereto and as of 31 December 2023 had 10 hotels with 2,602 saleable rooms, six convention centers and two trade halls. The hotel brands include Conrad Manila and Radisson Blu. The convention centers and trade halls are located within the vicinity of SM malls with an aggregate of approximately 42,000 sq.m. of leasable space.

SM Prime has 22 integrated property developments in Metro Manila and in key provincial cities in the Philippines as follows:



Note: As of 31 December 2023

The table below sets out each business unit's contribution to SM Prime's consolidated revenue (from external customers and inter-segment revenues) for the years ended 31 December 2021, 2022, and 2023:

	2021		2022		2023		
	(in ₱ millions)	*%*	*(in ₱ millions)*	*%*	*(in ₱ millions)*	*(in U.S.$ millions)*	*%*
Revenues							
Malls	30,078.9	36.5	55,540.6	52.5	72,122.7	1,297.9	56.3
Residential	45,897.0	55.8	40,082.6	37.9	43,100.2	775.6	33.6
Commercial	5,009.9	6.1	6,123.3	5.8	6,896.8	124.1	5.4
Hotels and Convention Centers	1,587.5	1.9	4,343.9	4.1	6,287.7	113.2	4.9
Eliminations	(257.8)	(0.3)	(304.7)	(0.3)	(309.8)	(5.6)	(0.2)
Total	82,315.5	100.0	105,785.7	100.0	128,097.6	2,305.2	100.0

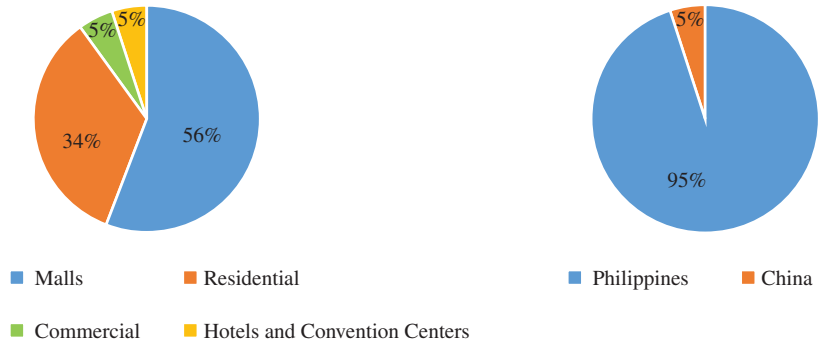
The table below sets out each business unit's contribution to SM Prime's operating income (computed as revenues less costs and expenses) for the year 31 December 2023:

	2023	
	(in ₱ billions)	*%*
Operating Income		
Malls	37.4	60.4
Residential	18.6	30.1
Commercial	4.4	7.1
Hotels and Convention Centers	1.5	2.4
Total	61.9	100.0

The following tables sets a breakdown on a consolidated basis of SM Prime's principal businesses in terms total net income attributable to equity holders of the parent, total assets and total liabilities for the years ended 31 December 2021, 2022 and 2023:

	2021		2022		2023		
	(in ₱ billions)	*%*	*(in ₱ billions)*	*%*	*(in ₱ billions)*	*(in U.S.$ millions)*	*%*
Net Income Attributable to Equity Holders of the Parent							
Malls	5.4	24.7	18.8	62.4	23.6	0.4	59.0
Residential	15.2	69.7	8.9	29.6	11.7	0.2	29.2
Commercial	2.5	11.5	3.0	10.0	3.7	0.1	9.3
Hotels and Convention Centers	(0.9)	(4.1)	0.3	1.0	1.2	0.0	3.0
Eliminations	(0.4)	(1.8)	(0.9)	(3.0)	(0.2)	0.0	(0.5)
Total	21.8	100.0	30.1	100.0	40.0	0.7	100.0
Assets							
Malls	429.9	53.4	461.5	52.8	473.7	8.5	50.2
Residential	291.8	36.3	317.1	36.3	344.6	6.2	36.5
Commercial	69.8	8.7	81.0	9.3	109.2	2.0	11.6
Hotels and Convention Centers	14.9	1.8	16.3	1.8	17.7	0.3	1.9
Eliminations	(2.0)	(0.2)	(1.8)	(0.2)	(1.8)	0.0	(0.2)
Total	804.4	100.0	874.1	100.0	943.4	17.0	100.0
Liabilities							
Malls	297.1	63.2	320.3	62.9	323.9	5.8	59.5
Residential	166.6	35.4	180.6	35.5	195.4	3.5	35.9
Commercial	7.4	1.6	8.5	1.7	25.6	0.5	4.7
Hotels and Convention Centers	0.8	0.2	1.4	0.3	1.3	0.0	0.2
Eliminations	(2.0)	(0.4)	(1.8)	(0.4)	(1.8)	0.0	(0.3)
Total	469.9	100.0	509.0	100.0	544.4	9.8	100.0

The charts below display the composition of SM Prime's combined revenue by segment and geographical region as of and for the year ended 31 December 2023.



As of 31 December 2023, SM Prime's consolidated total assets was ₱943.3 billion, consolidated total liabilities were ₱544.4 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 0.845.

HISTORY AND MILESTONES

In 1985, its first shopping mall, SM City – North EDSA, commenced operations in Quezon City. In 1986, the SM Group obtained majority ownership of SM Fund, Inc. which was later renamed SM Development Corporation.

SM Prime was incorporated in 1994 for the primary purpose of acquiring other members of the SM Group, as well as companies affiliated with the Sy Family, the shopping malls and land intended for the development of shopping malls and, henceforth, the SM Group's vehicle for commercial center operations.

SM Prime undertook its initial public offering on the PSE in July 1994, raising approximately ₱6,000.0 million and opened four shopping malls in 1994, including SM Megamall.

In 2006, the SM Group acquired its supermarket and hypermarket operations. On 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 such acquisition in May 2008. As a result, SM Prime opened SM Suzhou, SM Chingquing, SM Zibo and SM Tianjin in China in September 2011, December 2012, September 2015, and December 2016, respectively.

On 31 May 2013, the SM Group embarked on a highly transformational transaction to consolidate all of its real estate interests under SM Prime, in line with the SM's Group's vision to create a leading integrated real estate company in Asia, increase synergies and organizational efficiencies among the SM Group's various real estate business units, and further enhance the value of the SM Group's real estate businesses.

COMPETITIVE STRENGTHS

Key strengths of SM Prime include:

Largest integrated property developer in the Philippines, with geographically diversified portfolio

SM Prime benefits from a strong track record in the Philippine real estate industry, including being the number one shopping mall developer and operator in the Philippines based on both GFA and number of malls. SM Prime has integrated property developments in Metro Manila and key provincial cities across the Philippines.

SM Prime possesses end-to-end capabilities across the integrated real estate value chain, encompassing land banking, master planning, construction, retail and operations. SM Prime is able to leverage the diverse skill sets of each of its business units while optimizing value through more efficient planning and control over its developments. SM Prime believes it can maximize the existing plots of its retail developments that may be underutilized or unutilized by adding residential, commercial and hospitality developments, thereby providing customers with an attractive "live, work, play" lifestyle.

Comprehensive property portfolio across mall, residential, commercial and hotels and convention centers

SM Prime is the largest mall-focused property developer with the largest portfolio of malls diversified across the Philippines based on the number of malls. As of 23 April 2024, SM Prime had a market capitalization on the PSE of approximately ₱814.4 billion (U.S.$14.7 billion).

As of 31 December 2023, SM Prime was the largest mall operator and developer in the Philippines, with 85 malls in the Philippines, with an aggregate GFA of approximately 9.2 million sq.m., 20,615 tenants, and an average daily footfall of 3.6 million, and an additional eight malls in China, with an aggregate GFA of approximately 1.6 million sq.m., 2,183 tenants, and an average daily footfall of 0.3 million. SM Prime's existing land bank owned for development of new malls as of 31 December 2023 is 353 hectares. SM Prime's track record of operating malls dates back to 1985 when the first SM Mall was opened.

In addition, SMDC is a leading mid-high end residential developer in the Philippines as of 31 December 2023. SMDC has launched 183,491 units raising approximately ₱713 billion and has a land bank of 1,345 hectares for primary residential and 508 hectares for leisure homes as of 31 December 2023.

SM Offices develops and leases of office buildings across the Philippines in prime locations particularly in Metro Manila, as well as the operations and management of such buildings and other property holdings and as of 31 December 2023 had 18 office buildings with an aggregate GFA of approximately 1.6 million sq.m. It has a land bank of 118 hectares for future office development.

SM Hotels and Convention Centers develops and operates hotels and convention centers across the Philippines, including services and facilities incidental thereto and as of 31 December 2023 had 10 hotels with over 2,600 saleable rooms, six convention centers and two trade halls. The hotel brands include Conrad Manila, Radisson Blu and SMX. The convention centers and trade halls are located within the vicinity of SM malls with an aggregate of approximately 42,000 sq.m. of leasable space.

SM Prime's resilient residential segment had a robust reservation sales performance over the last five years even during the COVID-19 market downturn. For the years ended 31 December 2021, 2023 and 2023, SM Prime had ₱98.9 billion, ₱102.0 billion and 102.1 billion in reservation sales.

Access to prime large-scale land bank

SM Prime aims to have a significant growth pipeline as underscored by its large and diversified land bank consisting of retail, commercial, and residential land in prime locations across the Philippines. As of 31 December 2023, SM Prime possessed a land bank of 2,324 hectares, which is sufficient to support the next five to seven years of SM Prime's development operations, mostly located in key emerging cities and metros in the Philippines with strong growth potential including around the MOA complex, South Road Properties in Cebu, and SMDC properties in Metro Manila, among others, which SM Prime believes is among the largest land banks in the country.

The table below sets out details of its landbank as of 31 December 2023.

				Area by Region (in hectares)	
	No. of Sites	Area (in hectares)	% of Total	Metro Manila	Provincial
Malls	59	353	15%	24	329
Residential – Primary	93	1,345	58%	342	1,003
Residential – Leisure Homes	5	508	22%	–	508
Commercial	22	118	5%	24	94
Total	179	2,324	100%	390	1,934

SM Prime believes that its well-established presence and reputation in the Philippines, as well as its expansion into China, enable it to gain access to additional quality land bank. SM Prime also has a track record of implementing a proactive land banking strategy, for example, the master plan for the 600-hectare reclamation project in Pasay and Parañaque is already in process. In addition, SMIC has granted a non-binding right of first refusal to SM Prime to purchase additional land from SMIC to support further development initiatives.

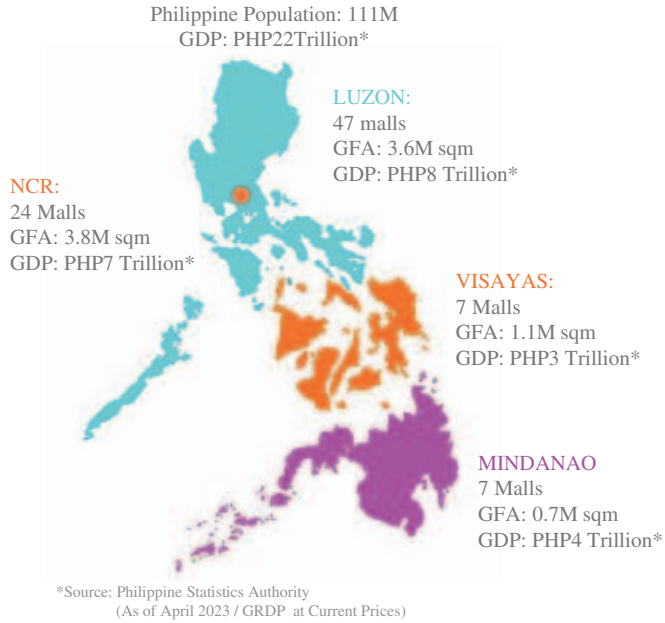
Robust, resilient, recurring cash flows predominantly supported by stable leasing business

For the year ended 31 December 2023, 75% of SM Prime's EBITDA is from stable, recurring leasing segments (malls, commercial, and hotels and convention centers), anchored by cashflows from the largest mall portfolio in the Philippines, with 95% overall occupancy. Recurring EBITDA grew at a CAGR of 31.1% from 2021 to 2023.

	EBITDA (₱ billion)			Recurring EBITDA (%)		
	For the years ended December 31					
	2021	2022	2023	2021	2022	2023
Malls	18.9	38.3	47.3			
Residential	20.0	16.2	18.7	53.6%	73.6%	74.6%
Commercial, Hotels & Convention Centers	4.2	6.6	8.1			
Total	43.1	61.1	74.1			

1 Total may differ from sum of individual segments due to eliminations

SM Prime has a geographically diversified mall portfolio across the Philippines.



SM Prime believes that it has access to capital from a wide variety of sources and thus is not dependent on any one source for its funding needs. As a PSE-listed company, SM Prime has access to the Philippine and international capital markets for potential issuance of equity, debt or other securities. SM Prime is also able to secure debt financing at what it believes to be competitive rates, including revolving bank loans and medium-term notes.

Strong balance sheet resulting from prudent financial management

SM Prime has strong revenue and earnings growth as the Philippines' largest mall operator/developer and leading residential developer. SM Prime has a high visibility of cash flows that supports its capital expenditure requirements for sustained growth. SM Prime continues to maintain a conservative balance sheet with leverage ratios consistently below 1.0x net debt or equity.

SM Prime has high visibility of cash flows that supports its capital expenditure requirements for sustained growth. Its capital expenditures in the last three years are set out below.

	For the year ended December 31,		
	2021	**2022**	**2023**
		(in ₱ billion)	
Malls	26.0	25.8	37.3
Residential	33.7	36.3	25.4
Commercial, Hotels & Convention Center (ex-Coastal Development)	3.9	4.3	7.7
Coastal Development	1.3	9.0	17.8
Total[1]	64.9	75.4	88.2

1 Total may differ from sum of individual segments due to eliminations

SM Prime's strong balance sheet boosted by a large asset and equity base ensures that it is able to move quickly to acquire real estate assets and additional land bank. As of 31 December 2023, SM Prime had consolidated total assets of ₱943.3 billion and a total equity attributable to equity holders of the Parent of ₱396.2 million. As of 31 December 2023, SM Prime's consolidated net debt to equity ratio was 84.5%, providing sufficient debt headroom flexibility for current and future capital expenditure and expansion plans.

SM Prime believes that its stable real estate portfolio contributes to its liquidity and strong mix of recurring income from its mall and office operations. For the year ended 31 December 2023, 61.7% of SM Prime's consolidated revenue was derived from mall and commercial operations. SM Prime believes that its long-term leases help to create a steady stream of cash flow.

Best-in-class group leadership supported by accomplished management teams

SM Prime's senior management team comprises Mr. Henry T. Sy, Jr., as Chairman of the Board, and Mr. Jeffrey Lim and Mr. Hans T. Sy as President and Chairman of the Executive Committee, respectively. Each of these individuals has been with SM Prime or its component businesses for at least 30 years.

SM Prime adheres to strong corporate governance practices, with three out of the eight members of its Board of Directors being independent directors. SM Prime's commitment to uphold excellence in corporate governance has again been confirmed and recognized through the prestigious award it received in 2023. In particular, Five Golden Arrow Award, the highest corporate governance distinction in the Golden Arrow Recognition organized by the Institute of Corporate Directors, in partnership with the SEC, held on 28 September 2023.

STRATEGIES

Continue to expand SM Prime's land bank and develop integrated lifestyle cities

SM Prime has integrated all land banking functions into a centralized department retaining the highly successful culture that allowed SM Prime to reach its strong current land bank position. Going forward, the key focus of SM Prime will be on acquiring land bank that is suitable for mid-to-large scale mixed-use master planned projects in fast growing areas of the Philippines. SM Prime also plans to continue acquiring a strategic land bank near its existing developments, select schools, mass transit stations and other areas which are expected to be significant beneficiaries of infrastructure development in the future.

A successful land banking strategy creates the foundation for the next phase in the development of lifestyle city projects, being the master planning for an integrated township design. These lifestyle cities are anchored by SM Prime's retail malls, supported by commercial, residential, hotel and convention center developments, creating a synergistic value enhancement across product classes and offering a complete selection of products to customers. For example, SM Prime aims to replicate the successful model of its MOA complex, a 60-hectare master-planned bayside development in Pasay City. SM Prime believes that the success of the MOA complex is a result of the substantial synergies from each real estate offering in the integrated development. For example, the MOA Arena has been a preferred venue for events due to its proximity to the MOA, which in turn increased foot traffic at the MOA. Sea Residences, Shell Residences and Shore 1 to 3 Residences have been SM Prime's top selling residential development projects in part due to its proximity to the MOA, while again providing additional foot traffic to the MOA. SM Prime was also awarded by the cities of Pasay and Parañaque to reclaim land adjacent to the MOA complex totaling around 600 hectares.

SM Prime has a large and diverse land bank suitable for projects that are modeled after the MOA complex and creating lifestyle cities across the Philippines. For example, SM Prime is building a 30-hectare mixed use development project in Cebu City, the SM Seaside City. The mall in SM Seaside City is the city's largest mall, with a GFA of over 400,000 sq.m. Other potential developments in SM Seaside City complex may include high-rise residential condominiums, office buildings and hotels.

Leverage retail malls to anchor lifestyle city developments

SM Prime expects mall operations to continue to be its primary focus going forward and is targeted to account for a majority of SM Prime's net income for the foreseeable future. Expansion is expected to take place in major cities outside of Metro Manila, especially in areas where disposable income is expected to increase significantly and retail space is currently limited. Certain major cities have a per capita income and rent per sq.m. that are comparable to those within Metro Manila, driven by a shift in Business Process Outsourcing ("**BPO**") demand to regional provinces. Over time, retail malls built in these cities could be converted into mixed use developments by adding office, residential and hospitality components as the cities continue to grow.

SM Prime also plans to expand within Metro Manila on a selective basis, developing supercenters (malls consisting of less than 100,000 sq.m.) that are situated between mega malls in Metro Manila. SM Prime believes that the current demand backlog for leases in several of its developments provides an opportunity for further mall expansion.

SM Prime plans to develop three to five malls in the Philippines each year for the near term, and also to opportunistically expand its presence in second and third tier cities in China by building one mall every two years for the near term, in each case subject to market conditions. SM Prime is targeting to increase its overall mall GFA by 2-4% per year to approximately 9.6 million sq.m. in the Philippines and approximately 1.6 million sq.m. in China by year end 2024. SM Prime believes it will be able to do this given its direct access to a larger land bank that should allow it to accelerate its mall development throughout the Philippines.

Optimize existing properties by adding complementary developments

SM Prime will pursue a multi-pronged long term strategy that is aimed to allow it to optimize the value of existing properties, developments and current land bank through an integrated real estate platform while retaining flexibility to efficiently allocate capital among its various business units. SM Prime will embark on more large scale mixed used developments throughout the Philippines in an effort to replicate the success of the MOA complex.

SM Prime intends to further expand these complimentary projects by adding retail, office, residential and leisure developments to its existing property projects, including those projects with underutilized plots of vacant land. For example, SM Prime developed Radisson Blu Cebu, Park Inn by Radisson Davao, Park Inn by Radisson Clark, Park Inn Radisson Iloilo, Park Inn by Radisson North EDSA, and Conrad Manila within existing mall developments such as SM City Cebu, SM Lanang Premier, SM City Clark, SM City Iloilo, SM City North EDSA, and SM Mall of Asia. SM Prime believes that SM Seaside City, SM Megamall, SM City Fairview, SM City Clark, and SM City Iloilo still have significant underutilized plot ratios that are suitable for commercial, hospitality and residential developments.

Continue rollout of BPO office development

Taking advantage of the robust BPO sector outlook as well as increasing flight to quality from older BPO developments, SM Prime's strategic focus includes expanding its office portfolio with Information Technology ("**IT**") and BPO buildings. SM Prime plans to leverage the new company's enlarged and geographically diverse land bank to expand its office space presence in second and third tier Philippine cities in Cebu, Davao, Pampanga and Iloilo, areas where BPO companies are currently expanding their operations due to favorable labor market conditions.

Focus on a "one product-one market" strategy for the residential business

SM Prime intends to capitalize on the increasing urbanization and economic development of the Philippines to develop vertical residential projects in key areas across Metro Manila, specifically the cities of Makati, Mandaluyong, Manila, Parañaque, Pasay, Pasig, Quezon City, and Taguig, as well as Tagaytay City and Cebu that target the Philippine mass middle market. By leveraging the already strong SM brand and its leadership in the residential condominium segment, SM Prime believes it can aggressively roll-out new projects in the strategically placed land bank throughout Metro Manila and the rest of the Philippines. SM Prime will focus its residential development on the low-to-middle income segments, which is underpinned by resilient housing demand driven by a housing supply backlog, growing household creation and increasing urbanization. As of 31 December 2023, SM Prime has 33 completed residential projects.

SM Prime plans to accelerate residential project launches in areas near existing SM Prime developments. For 2024, SM Prime is targeting to launch between 8,000 to 10,000 residential units.

Maintain a strong balance sheet, prudent risk and capital management and good governance

By maintaining a strong balance sheet, SM Prime believes it will be better able to withstand economic and financial cycles, while allowing it to achieve expansion quickly, as well as give it the flexibility to embark on acquisitions if and when opportunities arise. SM Prime intends to maintain prudent debt levels and a sufficient equity buffer with a target net debt-to-equity ratio of no more than 50:50. SM Prime also plans to maintain a relatively long and well spread out debt maturity profile and continue to diversify its sources of funding. SM Prime will take a disciplined approach to the allocation of capital across its projects with strict application of hurdle rates and benchmarks for each investment.

RECENT DEVELOPMENTS

On 11 March 2024, SM Prime filed a registration statement with the Philippine SEC covering a debt securities program and an initial offering of an aggregate amount of up to ₱20 billion split into three separate series of bonds with an oversubscription option of up to ₱5 billion (the "**SM Prime Bonds**"). As of the date of this Offering Circular, the registration statement is subject to the Philippine SEC's review and it is expected that offer of the SM Prime Bonds will commence on or around June 2024.

MALLS BUSINESS UNIT

SM Prime 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. The principal sources of mall revenues include rental income from leases in mall and food court, cinema ticket sales and amusement income from bowling and ice skating. As of 31 December 2023, the malls business unit has 85 malls in the Philippines with 9.2 million sq.m. of GFA and 8 shopping malls in China with 1.6 million sq.m. of GFA.

SM Prime plans to continue to expand its existing malls and develop new ones, with a target of opening approximately four new malls in the Philippines in 2024, subject to market conditions, which will provide an addition of 0.4 million sq.m. of GFA. 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 61 malls and holds an additional of 330 hectares plot of land available for development, all of which are owned.

SM Prime also owns and operates amusement parks, an arena, and various buildings across the country. The major tenant of these buildings is the SM Retail Group.

Approximately 52% 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 30% (₱18.2 billion) of SM Prime's consolidated mall revenues for the year ended 31 December 2023.

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 Center Pasig, SM City Clark, SM City Taytay, SM Aura Premier, SM City Masinag, SM City Baguio, SM by the Bay, SM Cubao, SM Savemore Nagtahan, SM Marketmall Dasmariñas, SM Center Muntinlupa, SM City Naga, SM City Tarlac, SM City San Pablo, SM City Calamba, SM City Olongapo, SM City Consolacion, SM City San Mateo, SM City Pampanga, SM City Daet, SM City Dasmariñas, SM Makati, SM Delgado, SM Savemore Jaro, SM Hypermarket Sucat-Lopez, SM City Xiamen, SM City Jinjiang, SM City Chengdu, SM City Suzhou, SM City Chongqing, SM City Zibo, SM City Tianjin and SM City Yangzhou which are held under long term leases.

SM China malls have 40 to 70 years land use rights. In addition, the land where SM City Baguio is constructed is owned by SMIC, the land where SM Savemore Nagtahan is constructed is owned by A. D. Farming Inc., a subsidiary of SMIC. The land where SM City San Lazaro is constructed is owned by SLHC. SM by the Bay is owned by FLVG. Lease renewal options are subject to mutual agreement of the parties.

SM Prime has also expanded its shopping mall operations outside of the Philippines. SM Prime owns eight malls located in the cities of Xiamen, Jinjiang, Chengdu, Suzhou, Chongqing, Zibo, Tianjin and Yangzhou in the southern and western parts of China with a total GFA of approximately 1.6 million sq.m. with average daily footfall is 0.3 million.

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 52% of SM Prime's gross leasable space is leased by members of the SM Group or companies affiliated with the Sy Family. Such tenants contributed 30% of SM Prime's consolidated mall revenues for the year ended 31 December 2023.

The following lists SM Prime's malls as of 31 December 2023.

Malls in Metro Manila

Supermalls	Location	GFA
		(In 000s sq.m.)
SM City North EDSA	Quezon City	477
SM City Sta. Mesa	Quezon City	133
SM Megamall	Mandaluyong City	474
SM Southmall	Las Piñas City	198
SM City Fairview	Quezon City	280
SM City Manila	Manila City	159
SM City Sucat	Parañaque City	88
SM City Bicutan	Parañaque City	116
SM City San Lazaro	Manila City	168
SM Center Valenzuela	Valenzuela City	68
SM Mall of Asia	Pasay City	497
SM Center Pasig	Pasig City	30
SM Center Muntinlupa	Muntinlupa City	35
SM City Marikina	Marikina City	126
SM Center Las Piñas	Las Piñas City	49
SM City Novaliches	Quezon City	55
SM Aura Premier	Taguig City	200
SM City BF Parañaque	Parañaque City	121
SM Center Sangandaan	Caloocan City	36
SM Cherry Shaw	Mandaluyong City	36
SM Cherry Congressional	Quezon City	12
SM City East Ortigas	Pasig City	65
S Maison	Pasay City	42
SM City Grand Central	Caloocan City	136

Provincial

Malls Outside of Metro Manila – Luzon

SM Supermalls	Location	GFA
		(In 000s sq.m.)
SM City Bacoor	Bacoor City	120
SM City Pampanga	San Fernando City	132
SM City Lucena	Lucena City	79
SM City Baguio	Baguio City	190
SM City Marilao	Marilao, Bulacan	82
SM City Dasmariñas	Dasmariñas City	198
SM City Batangas	Batangas City	77
SM City Molino	Bacoor City	75
SM City Sta. Rosa	Sta. Rosa City	137
SM City Clark	Angeles City	154
SM City Lipa	Lipa City	144
SM City Taytay	Taytay, Rizal	99
SM City Rosales	Rosales, Pangasinan	65
SM City Baliwag	Baliuag, Bulacan	100
SM City Naga	Naga City	76
SM City Rosario	Rosario, Cavite	61
SM City Tarlac	Tarlac City	99
SM City San Pablo	San Pablo City	53

SM Supermalls	Location	GFA
		(In 000s sq.m.)
SM City Calamba	Calamba City	63
SM City Masinag	Antipolo City	88
SM City Olongapo	Olongapo City	51
SM City San Fernando	San Fernando City	38
SM City Cauayan	Cauayan City	56
SM Center Angono	Angono, Rizal	36
SM Megacenter Cabanatuan	Cabanatuan City	46
SM City San Mateo	San Mateo, Rizal	70
SM City Cabanatuan	Cabanatuan City	143
SM City San Jose Del Monte	San Jose Del Monte, Bulacan	97
SM City Trece Martires	Trece Martires City	68
SM Cherry Antipolo	Antipolo City	27
SM Puerto Princesa	Puerto Princesa City	54
SM Center Tuguegarao Downtown	Tuguegarao City	34
SM Center Pulilan	Pulilan, Bulacan	27
SM Center Lemery	Lemery, Batangas	25
SM Center Imus	Imus, Cavite	13
SM Urdaneta Central	Urdaneta City	68
SM City Telabastagan	Telabastagan, Pampanga	54
SM City Legazpi	Legazpi City	73
SM Olongapo Central	Olongapo City	93
SM Center Dagupan	Dagupan City	24
SM City Daet	Daet, Camarines Norte	47
SM City Tanza	Tanza, Cavite	60
SM City Sorsogon	Sorsogon City	40
SM City Tuguegarao	Tuguegarao City	62
SM City Bataan	Balanga City, Bataan	46
SM Center San Pedro	San Pedro, Laguna	31
SM City Sto. Tomas	Sto. Tomas, Batangas	110

Malls Outside of Metro Manila – Visayas

SM Supermalls	Location	GFA
		(In 000s sq.m.)
SM City Cebu	Cebu City	268
SM City Iloilo	Iloilo City	144
SM City Bacolod	Bacolod City	128
SM City Consolacion	Consolacion, Cebu	98
SM Seaside City Cebu	Cebu City	407
SM Center Ormoc	Ormoc City	44
SM City Roxas	Roxas City	41

Malls Outside of Metro Manila – Mindanao

SM Supermalls	Location	GFA
		(In 000s sq.m.)
SM City Davao	Davao City	120
SM City Cagayan de Oro	Cagayan de Oro City	113
SM City General Santos	General Santos City	132
SM Lanang Premier	Davao City	133
SM CDO Downtown Premier	Cagayan de Oro City	128
SM City Butuan	Butuan City, Agusan Del Norte	48
SM City Mindpro	Zamboanga City	59

Malls in China

SM China Malls	Location	GFA
		(In 000s sq.m.)
SM Xiamen	Fujian	360
SM City Jinjiang	Jinjiang	168
SM City Chengdu	Sichuan	167
SM City Suzhou	Jiangsu	73
SM City Chongqing	Chongqing	149
SM City Zibo	Shandong	152
SM City Tianjin	Tianjin	338
SM City Yangzhou	Jiangsu	222

SM Prime believes that the eight 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. SM Prime 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:

	2021		2022		2023		
	(in ₱ millions)	*%*	*(in ₱ millions)*	*%*	*(in ₱ millions)*	*(in U.S.$ millions)*	*%*
Revenue	5,983.5	7	5,705.2	5	6,385.3	114.9	5
Net Income	1,505.5	7	(60.3)	–	584.8	10.5	1

Sky Ranch

Name	Location
Sky Ranch Tagaytay	Tagaytay City, Cavite
Sky Ranch Pampanga	San Fernando City, Pampanga
Sky Ranch Baguio	Baguio City, Benguet

Department Store and Supermarket Buildings

SM Prime also owns several The SM Store and SM Markets buildings with a total GFA of almost 300,000 sq.m. as of 31 December 2023. The following table sets forth certain information regarding SM Stores and SM Markets buildings as of 31 December 2023:

The SM Stores	Location	GFA
		(in 000s sq.m.)
SM Store Makati	Makati City	110
SM Store Cubao	Quezon City	109
SM Store Delgado	Iloilo City	26

SM Markets	Location	GFA
		(in 000s sq.m.)
Marketmall Dasmariñas	Dasmariñas City	30
Savemore Tacloban	Tacloban City	15
Savemore Market Malabon	Malabon City	13
Hypermarket Sucat	Parañaque City	8
Hypermarket Lapu-Lapu	Lapu-lapu City	8
Savemore Market Apalit	Apalit	6
Savemore Nagtahan Market	Manila	5
Savemore Novaliches	Quezon City	4
Savemore Jaro	Iloilo City	4

Except for Savemore Jaro, 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.

Land Bank for Malls Development

SM Prime's existing land bank owned for development of new malls as of 31 December 2023 is 353 hectares, 329 of which is strategically located on various provinces across the country.

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 and SM Markets. Other significant tenants include Jollibee, Mang Inasal, KFC, iQor, Globe, Chowking, Smart, Starbucks, Concentrix, Greenwich and Penshoppe.

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 2023, 2022, and 2021, approximately 26%, 28%, and 30%, respectively, of the aggregate mall rental revenue received by SM Prime in respect of the malls were 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.

Some SM Supermalls also hosts some premier tenants, which specialize in higher-end merchandise, such as Mango, Zara, Marks & Spencer 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. 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 five years, renewable on an annual basis thereafter. At the inception of the lease agreement, tenants are required to pay certain amounts of deposits. At the termination of the lease contracts, the deposits received by SM Prime are returned to tenants, reduced by unpaid rental fees, penalties and/or deductions from repairs of damaged leased properties, if any. Tenants likewise pay either a fixed monthly rent, which is calculated by reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises of a basic monthly amount and a percentage of gross sales or a minimum set amount, 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 Prime Commercial Property Management Corporation and subsidiaries ("**PCPMC**"). In addition, the PCPMC negotiate and handle major tenant issues for the malls, while reporting to and under the direction of SM Prime. The PCPMC 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 PCPMC 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 PCPMC 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 and Ayala Land, Inc. 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 have also been a contributing factor to its competitive advantage in the industry.

RESIDENTIAL BUSINESS UNIT

SM Prime's residential development arm, SMDC is a leading mid- to high-end residential developer in the Philippines and derives development revenues largely from the sales of condominium units for primary residential use ("**Primary Residential Business**") and for leisure purposes ("**Secondary Residential Business**").

SMDC's Primary Residential Business typically launches high-rise, mid-rise and single detached housing. Projects are located in Metro Manila and key provincial cities. As of 31 December 2023, the Primary Residential Business unit had 67 residential projects in the market, 47 of which are in Metro Manila and 20 are outside of Metro Manila.

In the Secondary Residential Business, SM Prime owns and develops leisure and resort developments including properties in the vicinity of the 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, a master planned coastal resort township development in Nasugbu, Batangas encompassing 13 coves and 31 kilometers of coastline.

Primary Residential Business – Completed Residential Projects

The following projects have completed their construction and for which units are being sold by SM Prime as of 31 December 2023:

	Condominium Projects	Building Type	Location	Year Completed	No. of Units
(1)	Mezza Residences	High-rise	Quezon City	2010	2,332
(2)	Chateau Elysee	Mid-rise	Parañaque City	2011	2,820
(3)	Berkeley Residences	High-rise	Quezon City	2011	1,276
(4)	Sea Residences	High-rise	Pasay City	2012	2,899
(5)	Princeton Residences	High-rise	Quezon City	2013	1,096
(6)	Grass Residences Phase 1	High-rise	Quezon City	2014	6,003
(7)	Sun Residences	High-rise	Quezon City	2014	4,039
(8)	Blue Residences	High-rise	Quezon City	2014	1,591
(9)	Jazz Residences	High-rise	Makati City	2015	5,367
(10)	Light Residences	High-rise	Mandaluyong City	2015	4,227
(11)	M Place South Triangle	High-rise	Quezon City	2015	3,437
(12)	Mezza II Residences	High-rise	Quezon City	2015	1,324
(13)	Shine Residences	High-rise	Pasig City	2015	892
(14)	Green Residences	High-rise	Manila City	2015	3,378
(15)	Shell Residences	High-rise	Pasay City	2015	3,093
(16)	Wind Residences	Mid-rise	Tagaytay City	2016	3,524
(17)	Breeze Residences	High-rise	Pasay City	2017	2,133
(18)	Grace Residences	Mid-rise	Taguig City	2018	3,579
(19)	Shore Residences	High-rise	Pasay City	2019	5,691
(20)	Grass Residences Phase 2	High-rise	Quezon City	2020	3,914
(21)	South Residences	Mid-rise	Las Piñas City	2020	2,010
(22)	Air Residences	High-rise	Makati City	2021	3,642
(23)	Fame Residences	High-rise	Mandaluyong City	2021	5,106
(24)	Cool Suites	Mid-rise	Tagaytay City	2021	741
(25)	Shore 2 Residences	High-rise	Pasay City	2021	5,488
(26)	Coast Residences	High-rise	Pasay City	2021	2,197
(27)	S Residences	High-rise	Pasay City	2021	2,395
(28)	Spring Residences	Mid-rise	Parañaque City	2022	1,655
(29)	Shore 3 Residences	High-rise	Pasay City	2022	5,382
(30)	Vine Residences	Mid-rise	Quezon City	2022	2,056
(31)	Hope Residences	Mid-rise	Trece Martires City	2022	685
(32)	Trees Residences	Mid-rise	Quezon City	2022	6,703
(33)	Lush Residences	High-rise	Makati City	2022	674

Primary Residential Business – Ongoing Residential Projects

The following projects are ongoing construction and for which units are being sold by SM Prime as of 31 December 2023:

	Condominium Projects	Building Type	Location	Year Launched	No. of Units
(1)	Cheer Residences	Mid-rise	Marilao City, Bulacan	2016	995
(2)	Cheerful Homes	House and Lot	Mabalacat City, Pampanga	2017	2,816
(3)	Bloom Residences	Mid-rise	Parañaque City	2017	5,890
(4)	Red Residences	High-rise	Makati City	2018	1,106
(5)	Park Residences	Mid-rise	Sta. Rosa City, Laguna	2018	1,864
(6)	Leaf Residences	Mid-rise	Muntinlupa City	2018	804
(7)	Lane Residences	Mid-rise	Davao City	2018	3,712
(8)	Field Residences	Mid-rise	Parañaque City	2019	4,165
(9)	Green 2 Residences	Mid-rise	Dasmariñas City, Cavite	2019	3,254
(10)	Hill Residences	Mid-rise	Quezon City	2019	1,717
(11)	Sail Residences	High-rise	Pasay City	2019	2,832
(12)	Glam Residences	High-rise	Quezon City	2019	2,966
(13)	Style Residences	Mid-rise	Iloilo City, Iloilo	2019	2,935
(14)	Light 2 Residences	High-rise	Mandaluyong City	2019	4,190
(15)	Gold Residences	High-rise	Parañaque City	2019	6,790
(16)	Charm Residences	Mid-rise	Cainta, Rizal	2020	3,027
(17)	Gem Residences	High-rise	Pasig City	2020	1,463
(18)	Smile Residences	Mid-rise	Bacolod City	2020	1,192
(19)	Mint Residences	High-rise	Makati City	2020	1,966
(20)	South 2 Residences	Mid-rise	Las Piñas City	2020	1,938
(21)	Sands Residences	High-rise	Malate, Manila	2021	2,367
(22)	Cheerful Homes 2	House and Lot	Mabalacat, Pampanga	2021	1,586
(23)	Ice Tower	High-rise	Pasay City	2021	844
(24)	Twin Residences	High-rise	Las Piñas City	2021	2,406
(25)	Joy Residences	Mid-rise	Baliwag, Bulacan	2021	2,823
(26)	Calm Residences	Mid-rise	Sta. Rosa City, Laguna	2021	2,949
(27)	Gold Residential-Offices	High-rise	Parañaque City	2021	2,050
(28)	Glade Residences	Mid-rise	Jaro, Iloilo	2021	1,458
(29)	Vail Residences	Mid-rise	Cagayan de Oro City	2022	2,288
(30)	Now Residences	Mid-rise	Angeles City, Pampanga	2022	1,741
(31)	Zeal Residences	Mid-rise	General Trias City	2022	2,188
(32)	Jade Residences	High-rise	Makati City	2023	1,998
(33)	Turf Residences	Mid-rise	Biñan City, Laguna	2023	998
(34)	Parkville	House and Lot	Bacolod City, Bacolod	2023	824

Residential – Leisure

SM Prime owns leisure and resort developments including properties located in the Tagaytay Highlands and Tagaytay Midlands 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.

	Projects	Location	Year Launched	No. of Units
(1)	The Horizon	Talisay, Batangas	2005-2021	308
(2)	Woodridge Place Phase 1	Tagaytay City	2006	71
(3)	The Hillside	Calamba, Laguna	2006	156
(4)	Jacana	Nasugbu, Batangas	2007	246
(5)	Myna	Nasugbu, Batangas	2007	246
(6)	Carola	Nasugbu, Batangas	2008	248
(7)	Miranda	Nasugbu, Batangas	2008	248
(8)	Pueblo Real	Talisay, Batangas	2009	86
(9)	Woodridge Place Phase 2	Tagaytay City	2010	177
(10)	Sierra Lago	Talisay, Batangas	2010	185
(11)	Aspenhills	Calamba, Laguna	2012	204
(12)	Vireya 1 & 2	Talisay, Batangas	2016-2017	209
(13)	Freia	Nasugbu, Batangas	2017	223
(14)	Horizon Terraces Garden Villas	Talisay, Batangas	2018-2022	19
(15)	Vireya 3	Talisay, Batangas	2018	92
(16)	The Pines at Aspenhills	Calamba, Laguna	2019	25
(17)	Provence	Talisay, Batangas	2020	119
(18)	The Woodlands Point	Tagaytay City	2009	60
(19)	Sola	Nasugbu, Batangas	2021	53
(20)	Primrose Parks	Talisay, Batangas	2022	99
(21)	Trealva	Talisay, Batangas	2023	231
(22)	Highlands Residences	Calamba, Laguna	2023	53
(23)	Ardea	Nasugbu, Batangas	2023	75
(24)	Balea	Nasugbu, Batangas	2023	136

Land Bank for Residential (Primary) Development

SM Prime 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 SM Prime 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. SM Prime identifies land acquisitions through active search and referrals.

SM Prime's existing land bank owned for development of residential (primary) as of 31 December 2023 is 1,345 hectares, 1,003 of which is strategically located on various provinces across the country.

SM Prime believes this land bank is sufficient to sustain development and sales. Moreover, its 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 508 hectares of land located in Tagaytay City, Cavite, Laguna and Batangas for leisure development.

COMMERCIAL BUSINESS UNIT

SM Prime's commercial business unit is engaged in the development and leasing of office buildings in prime locations in Metro Manila and in the provinces, as well as the operations and management of such buildings and other land holdings.

As of 31 December 2023, the commercial business unit has 18 office buildings, of which 13 are in Metro Manila with a combined GFA of approximately 1.56 million sq.m.

	Offices	Year Opened	Location	GFA
				(in 000s sq.m.)
(1)	SM Cyber One	2008	Makati City	24
(2)	SM Cyber Two	2008	Makati City	15
(3)	Two E-Com Center	2012	Pasay City	108
(4)	SM Aura Tower	2014	Taguig City	51
(5)	Cyber West	2014	Quezon City	41
(6)	Five E-Com Center	2015	Pasay City	144
(7)	SM City Taytay BPO Towers	2015	Taytay, Rizal	11
(8)	Clark Tech Hub	2016	Angeles City	99
(9)	The Core	2017	Sta. Rosa City	68
(10)	Downtown Tower	2018	Cagayan De Oro City	20
(11)	Three E-Com Center	2018	Pasay City	130
(12)	SM Strata	2018	Iloilo City	53
(13)	SM South Tower	2018	Las Piñas City	69
(14)	Fairview Tower 1, 2, 4 and 5	2019	Quezon City	154
(15)	NU Mall of Asia (NUMA) Building	2019	Pasay City	86
(16)	North Towers 1 and 2	2020	Quezon City	109
(17)	Mega Tower	2021	Mandaluyong City	191
(18)	Four E-Com Center	2022	Pasay City	190

Landbank for Commercial Development

SM Prime's existing land bank owned for development of new commercial buildings and offices as of 31 December 2023 is 118 hectares.

Competition

SM Prime faces competition from other key industry players listed on the Philippine Stock Exchange, that are likewise engaged in integrated property developments. 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 BUSINESS UNIT

As of 31 December 2023, the Hotels and Convention Centers Business unit is composed of 10 hotels with 2,602 saleable rooms, and six convention centers and two trade halls with approximately 48,000 sq.m. of leasable space.

Hotels

	Hotels	Location	Number of Rooms
(1)	Radisson Blu Hotel Cebu	Cebu City	400
(2)	Conrad Hotel Manila	Pasay City	348
(3)	Park Inn by Radisson Davao	Davao City	204
(4)	Park Inn by Radisson Clark	Mabalacat City	255
(5)	Park Inn by Radisson Iloilo	Iloilo City	200
(6)	Park Inn by Radisson North EDSA	Quezon City	239
(7)	Park Inn by Radisson Bacolod	Bacolod	151
(8)	Taal Vista Hotel	Tagaytay City	261
(9)	Pico Sands Hotel	Batangas City	154
(10)	Lanson Place MOA	Pasay City	390

Convention Centers and Trade halls

	Convention Centers and Trade Halls	Location	Gross Leasable Area
			(in 000s sq.m.)
(1)	SMX Manila	Pasay City	17
(2)	SMX Davao	Davao City	5
(3)	SMX Aura	Taguig City	3
(4)	SMX Bacolod	Bacolod City	4
(5)	Olongapo City Convention Center	Olongapo City	2
(6)	SMX Clark	Mabalacat City	4
(7)	Megatrade Hall	Mandaluyong City	4
(8)	Sky Hall SM Seaside	Cebu City	2

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, Park Inn Bacolod, 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. The strong synergy between our growing portfolio of hotels and properties remains one of our key strengths.

DEVELOPMENT

The business units (Malls, Residential, Commercial and Hotels and Convention Centers) coordinate on the land banking process, particularly on the use of the land. Each business unit still retains a separate engineering and project management group, as the structures and the requirements for each business unit in relation to construction and design side may be different. However, purchasing and selection of pool of contractors and suppliers may be consolidated to leverage on the size and scale of the mixed-use developments.

The Malls business unit is responsible for identifying viable sites for the construction of new malls. They determine the viability of a potential plot of land for a new mall site based on the demographics of the area, including the size of the population, its income levels, local government and the local infrastructure, particularly accessibility by public transport. For malls, once a suitable site is selected, based on the factors described above, the business unit determines the size of the mall to be constructed, which typically may range from a gross floor area of 60,000 to 150,000 sq.m. The construction and development of each mall is overseen by a third-party project management company. The average time for the planning and construction of each mall ranges from sixteen to thirty-one months, depending on the size of the mall.

For residential and commercial properties, once a suitable site is selected, based on the factors described above, the groups determine the type of development to be constructed. The construction and development of each residential condominium and commercial office building is overseen by their respective project development teams and a third-party project management company. The average time for construction is 36 to 48 months, depending on the size of the project.

SM Prime believes it benefits from its significant development experience and focus on immediately developable sites in its construction activities. SM Prime has generally financed land purchases and the construction of its developments from internal funds and borrowings.

CAPITAL EXPENDITURE

Capital expenditure (sum of real estate development cost incurred, additions to property and equipment and investment properties) for the year ended 31 December 2023 is ₱88.2 billion, with 42.3% for mall, 28.8% for residential and 28.9% for commercial, hotels and convention centers. Capital expenditure for the year ended 31 December 2022 was ₱75.4 billion, with 34.2% for mall, 48.1% for residential and 17.6% for commercial, hotels and convention centers. Capital expenditure for the year ended 31 December 2021 was ₱64.9 billion, with 40.0% for mall, 51.9% for residential and 8.0% for commercial, hotels and convention centers.SM Prime plans to fund its capital expenditure plan through recurring income flows and external financing. SM Prime intends to apply global corporate governance standards and risk management best and risk management best practices, as well as embark on integrated sustainability and corporate social responsibility initiatives.

FINANCING

Financing is handled by the Treasury Finance Group ("**TFG**"), which has the primary responsibility of ensuring that SM Prime has adequate funds on a daily basis for its capital and operational expenditures including land banking, construction, capital acquisitions, interest and debt servicing. TFG also plays active role with respect to fundraising as it service the needs of the other business units.

Sources of funding currently include internally generated funds, borrowings through syndicated loans, notes issuances (private placements), bilateral loans, and bond issuances. At the beginning of each year, TFG coordinates with its Corporate Finance Group to determine the amount of funding requirements based on the annual projected receipts and disbursements.

TFG is also actively engaged in investment placements, foreign exchange trading and derivative transactions to hedge SM Prime's loan portfolio for foreign exchange and interest rate risk exposure.

SECURITY HOLDINGS

SM Prime also holds shares of various Philippine companies, both directly and through SMDC. The tables set forth below show the company and the number of shares that SM Prime holds as of 31 December 2023.

	No. of Shares held	Market Value
		(in thousands)
BDO	108,029,274	14,097,820
Ayala Corporation	7,690,430	5,237,183
Shang Properties, Inc.	189,550,548	695,651
SMIC	146,104	127,403
ACEN Corporation	23,071,290	101,052
Republic Glass Holdings Corporation	14,230,000	42,690
Picop Resources, Inc.	40,000,000	8,200
Prime Media Holdings, Inc.	500,000	1,435
Benguet Corporation "A"	266,757	1,299
Philippine National Bank	112	2
Others	8,082,270	5,317
Total		20,318,052

INSURANCE, ENVIRONMENT, HEALTH AND SAFETY

SM Prime has its insurance arrangement effected through BDO Insurance Brokers, Inc. ("**BDO Insure**"). SM Prime believes that it is adequately insured, both in terms of the insured risks and the amount which is covered. The commercial all risks insurance policies are underwritten by Prudential Guarantee Assurance Company, which is supported by a panel of reinsurers whose minimum rating from Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, is "A."

SM Prime's policies cover any potential loss of property. Loss of revenue under the business interruption coverage resulting from fire, water damage and acts of God including earthquake, typhoon and flood is provided. Retail affiliates operating inside SM Prime's malls have their own business interruption insurance cover.

Moreover, in order to protect from losses during the construction period, the companies require their contractors to provide all-risk insurance that covers property damage and third-party bodily injury or damage claims. Losses from possible default of contractors are also covered through performance and guarantee bonds. SM Prime's principal insurance counterparties are BDO Insure and Prudential Guarantee and Assurance, Inc.

In addition, the comprehensive general liability insurance coverage extends to third-party liability, including loss of life and its corresponding litigation expenses. SM Prime is also insured against terrorism.

SM Prime maintains professional indemnity insurance for its directors and executive officers. SM Prime also maintains other insurance policies including workmen's compensation and personal accident and group hospitalization and surgical insurance for its employees. SM Prime likewise maintains key personnel insurance for its directors and executive officers.

SM Prime and its subsidiaries are subject to various environmental, health and safety regulations in the course of their operations, including but not limited to the Environmental Impact Statement Law, the Toxic Substances and Nuclear Waste Act of 1990, the Philippine Clean Air Act, the Ecological Solid Waste Management Act of 2000 and the Philippine Clean Water Act of 2004.

As of the date of this Offering Circular, SM Prime is, and each of its principal subsidiaries are, in material compliance with all currently applicable national and local environmental, health and safety laws and regulations.

SM Prime aims to reach net zero greenhouse gas (GHG) emissions by 2040, surpassing the global target of achieving net zero by 2050.

LEGAL PROCEEDINGS

SM Prime and its subsidiaries 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 SM Prime and its subsidiaries are those involving amounts equivalent to at least 5% of SM Prime's and its subsidiaries' earnings before income tax. As of the date of this Offering Circular, there is no known direct or contingent financial obligation that is material to SM Prime, including any default or acceleration of an obligation.

INTELLECTUAL PROPERTY

SM Prime has intellectual property rights on the use of various trademark and names for each of its commercial and residential development projects. The "SM" name is owned by its parent company, SMIC, and is registered with the Philippine Intellectual Property Office ("**IPO**"). SM Prime owns the trademark "SM Prime" which registration is set to expire in 2030. SMDC owns the trademark "SM Development Corporation", which registration will expire in 2028. Most of SM Prime's projects have been issued a Certificate of Registration by the IPO. SM Prime believes that its trademark and the names of its development projects play a significant role in its effort to create brand recall and strengthen its position in the industry.

Details of SM Prime's other applicable registrations are set out below:

Registered Logo/Brand	Date of Registration
SM Mall of Asia with slogan "No other mall comes close"	3 September 2007
The SM City	23 November 2009
Interior Zone SM City North EDSA	1 October 2010
Skydome SM City North Edsa Device	1 October 2010
SM Center (inside a circle logo)	31 December 2010
SM City	31 December 2010
SM Prime	31 December 2010
SM Supermalls	31 December 2010
Pico Restaurant & Bar with device	11 May 2012
Cafe Veranda	18 September 2014
Skyranch 4-2015-000811	16 July 2015
Skyranch 4-2015-000813	16 July 2015
SM Southmall	1 October 2015
SM Supercenter	1 October 2015
SM Supermalls	1 October 2015
Taza Fresh Table	10 December 2015
China Blue	7 January 2016
Food on Four	7 January 2016
SM Foodcourt Let's Meet and Eat! 4-2015-007114	7 January 2016
SM Foodcourt Let's Meet and Eat! 4-2015-007116	7 January 2016
SM Megamall Food Hall	7 January 2016
SM Food Hall	15 April 2016
SM Foodcourt Let's Meet and Eat! 4-2015-007119	29 April 2016
C Lounge	5 May 2016
Bru Coffee Bar with device	16 June 2016
Braisserie on 3	11 August 2016
SM Little Stars Logo	15 September 2016
SM Little Star	22 September 2016
Maison and Device	20 April 2017
Veranda	25 May 2017
Skyhall Seaside Cebu	23 November 2017
Click & Collect	8 March 2018
SM Click & Collect	8 March 2018
Sails	12 April 2018
Culinaire Savor.Match.Experience	3 May 2018
SM Mall of Asia No Other Mall Comes Close	3 May 2018
SMDC Residences: Home Beside the Mall	26 July 2018
Style Residences	16 September 2018

Registered Logo/Brand	Date of Registration
The Food Village	14 February 2019
Snacktime	14 April 2019
Trend Residences	18 July 2019
Mall of Asia Complex and Logo 4-2018-018198	8 August 2019
Mall of Asia Complex and Logo 4-2018-018199	8 August 2019
Ani	18 August 2019
Dash	18 August 2019
SM Prime Logo	10 October 2019
SM Cyber	14 November 2019
SM Bowling	12 January 2020
SM Offices 4-2019-001710	12 January 2020
SM Offices 4-2019-001711	12 January 2020
Casa Urban Table	10 February 2020
Terraza on 7	10 February 2020
OneE-com Center	14 March 2020
SM Skating	30 March 2020
FourE-com Center	17 July 2020
ThreeE-com Center	17 July 2020
TwoE-com Center	17 July 2020
FiveE-com Center	19 July 2020
SixE-com Center	19 July 2020
Mega Tower	24 July 2020
SM Seaside Complex Cebu	11 September 2020
Director's Club by SM Cinema	20 September 2020
Sine Sindak	20 September 2020
SM Cinema 4-2019-019971	20 September 2020
SM Cinema 4-2019-019972	20 September 2020
SM Lifestyle, Inc. 4-2019-019976	20 September 2020
SM Lifestyle, Inc. 4-2019-019977	20 September 2020
SM Lifestyle, Inc. 4-2019-019978	20 September 2020
SM Lifestyle, Inc. 4-2019-019979	20 September 2020
E-plus	22 November 2020
Esplanade Seaside Terminal	6 December 2020
South Coast City	1 January 2021
SM Tickets	17 January 2021
SMDC Woods Residences	7 February 2021
Skydome SM City North Edsa	12 March 2021
Glee Residences	14 March 2021
Twin Residences	14 March 2021
Arima	11 June 2021
South 2 Residences	11 June 2021
Hope Residences	11 June 2021
Pickup at SM Supermalls 04-2019-019589	23 July 2021
Pickup at SM Supermalls 04-2019-019590	23 July 2021
Arriba	4 June 2022
SM Bay City	29 August 2022
Rain the Spa	15 September 2022
S Mall	29 April 2023
Baguio Marketplace by SM	12 June 2023
Baguio Marketplaza by SM	12 June 2023
Baguio Marketsquare by SM	12 June 2023
SM Baguio Marketplace	12 June 2023
SM Baguio Marketplaza	12 June 2023
SM Baguio Marketsquare	12 June 2023
Focus	12 August 2023
Parcel Excellence	19 August 2023

EMPLOYEES

As of 31 December 2023, the SM Prime had 10,982 regular employees. The employees are classified as follows:

	No. of Employees
Rank and file	8,249
Junior/mid-level managers	2,360
Senior executive officers	373

The employees are not subject to a collective bargaining agreement. Apart from the basic employment compensation package, SM Prime does not and will not have any supplemental benefits or incentive arrangements with its employees.

REGULATION

GENERAL BUSINESS REGULATORY FRAMEWORK

Revised Corporation Code

Republic Act No. 11232, also known as the Revised Corporation Code, was signed into law on 20 February 2019 and took effect on 23 February 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 Philippine Securities and Exchange Commission (the "**Philippine 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 Philippine 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 intermediaries, must have at least 20% independent directors in the Board, in accordance with the Securities Regulation Code. This requirement also applies to other corporations engaged in businesses vested with public interest, as may be determined by the Philippine 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.

- Stock exchanges, banks, insurance companies and corporations declared to be vested with public interest, among others, are prohibited from incorporating as a 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, educational institution and other special corporations governed by special laws, the Revised Corporation Code requires that the filing be accompanied by a certificate of the appropriate government agency to the effect that such bylaws or amendments are in accordance with law.

- A favourable recommendation by the appropriate government agency is likewise required for banks or banking institutions, loan associations, trust companies, insurance companies, public utilities, educational institutions and other special corporations governed by special laws, before the Philippine SEC approves any merger or consolidation. Moreover, a favourable recommendation by the appropriate agency is required before the Philippine SEC approves the voluntary dissolution of banks, banking institutions, preneed, insurance and trust companies, NSSLA, pawnshops and other financial intermediaries.

- In case of transfer of shares of listed companies, the Philippine 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 Philippine 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, creation or increase of bonded indebtedness; or mergers or consolidations covered by the Philippine Competition Act thresholds.

The Philippine Competition Act

Republic Act No. 10667, also known as the Philippine Competition Act, was signed into law on 21 July 2015 and took effect on 8 August 2015. This Act aims to codify anti-trust laws in the Philippines, and provides the competition framework in the country. The Philippine Competition Act was enacted to promote 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 ("**PCC**"), an independent quasi-judicial agency to be composed of five commissioners. Among the PCC's powers are to: conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct search and inspection, the PCC must apply for an inspection order with the relevant special commercial court.

The Philippine Competition Act prohibits anti-competitive agreements between or among competitors, 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, committing acts that prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers of the same goods, subject to exceptions.

The Philippine Competition Act also introduces the pre-notification regime for mergers and acquisitions, which requires the parties to covered transactions to notify the PCC for the approval of the transaction. Parties to the merger or acquisition agreement wherein the value of the transaction breaches the thresholds, as discussed below, are prohibited from consummating their agreement until 30 days after providing notification to the PCC.

On 31 May 2016, the PCC issued the implementing rules and regulations of the Philippine Competition Act ("**PCA-IRR**"). Under the PCA-IRR, 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 (the "**UPE**") of the acquiring or the acquired entities exceed ₱1.0 billion (the "**Size of Party**"), and (b) the value of the transaction exceeds ₱1.0 billion, as determined in the IRR (the "**Size of Transaction**"); while Parties to a joint venture transaction shall also 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 ₱1.0 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 ₱1.0 billion.

The PCC also released its Guidelines on the Computation of Merger Notification Thresholds, providing the method for calculation of the aggregate value of assets and gross revenues from sales for the purpose of determining whether a proposed merger or acquisition is notifiable to the PCC.

On 1 March 2018, the PCC issued Memorandum Circular No. 18-001, which adjusted the thresholds for the compulsory notification of mergers and acquisitions from ₱1.0 billion for both the Size of Person and Size of Transaction tests to ₱5.0 billion for the Size of Person and ₱2.0 billion for the Size of Transaction as defined in the PCA-IRR. In addition, 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 ₱5.0 billion, or (b) the gross revenues generated in the Philippines by the assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2.0 billion.

The same memorandum circular also provided that, unless otherwise modified or repealed by the PCC, the thresholds set out in Rule 4, Section 3 of the PCA-IRR, as amended, shall be automatically adjusted commencing on 1 March 2019 and on March 1st of every succeeding year, using as index the Philippine Statistics Authority's official estimate of the nominal Gross Domestic Product ("**GDP**") growth of the previous calendar year rounded up to the nearest hundred millions. The most recent adjustment made by the PCC on 1 March 2024 was based on the annual nominal GDP of 10.3% in 2023.

Accordingly, the PCC issued the following to notify the public of the adjustments of the thresholds based on the nominal GDP growth:

		Adjusted Thresholds to be Implemented				
Test	**Old Threshold** (Memorandum Circular 18-001)	**Old Threshold** (Advisory 2019-001)	**Old Threshold** (Memorandum Circular 20-003)	**Old Threshold** (Resolution 18-2022)	**Old Threshold** (Resolution 04-2023)	**New Threshold** (PCC Press Release dated 01 March 2024)
	2018	**effective 1 March 2019**	**transactions entered into within two years from 15 September 2020**	**effective 16 September 2022**	**effective 1 March 2023**	**effective 1 March 2024**
Size of Person. . .	₱5.0 billion	₱5.6 billion	All mergers and acquisitions with transaction values below ₱50.0 billion shall be exempt from compulsory notification if entered into within a period of two years from the effectivity of Republic Act No. 11949, otherwise known as the Bayanihan to Recover as One Act, which took effect on 15 September 2020.	₱6.1 billion	₱7.0 billion	₱7.8 billion
Size of Transaction . . .	₱2.0 billion	₱2.2 billion		₱2.5 billion	₱2.9 billion	₱3.2 billion

In accordance with the new threshold, as provided in the PCC Press Release dated 1 March 2024, the value of the assets or revenues of the UPE of at least one of the parties must exceed ₱7.8 billion. The UPE is the entity that, directly or indirectly, controls a party to the transaction, and is not controlled by any other entity. In addition, the value of the assets or revenues of the acquired entity must exceed ₱3.2 billion. Both thresholds must be breached in order for the compulsory notification requirement to apply. As to joint venture transactions, notification is mandatory if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱3.2 billion; or (b) the gross revenues generated in the Philippines by the assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱3.2 billion. The new thresholds do not affect notifications filed before 1 March 2024, transactions currently under review, or those already reviewed and decided upon by the PCC.

Violations of the Philippine Competition Act and the PCA-IRR carry administrative and criminal penalties. 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 1 to 5% of the value of the transaction. Criminal penalties for entities that enter into these defined anti-competitive agreements include: (i) a fine of not less than ₱50.0 million but not more than ₱250.0 million; and (ii) imprisonment for two to seven years for directors and management personnel who knowingly and wilfully participate in such criminal offenses. Administrative fines of up to ₱100.0 million for the first offense, and up to ₱250.0 million for the second offense may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On 15 September 2017, the PCC published the 2017 Rules of Procedure (the "**Rules of Procedure**") which applies to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The Rules of Procedure also provides for non-adversarial remedies such as the issuance of binding rulings, show cause orders, and consent orders.

On 23 November 2017, the PCC published the 2017 Rules on Merger Procedure (the "**Merger Rules**") which provides the procedure for the review or investigation of mergers and acquisition pursuant to the PCA-IRR.

On 28 May 2019, the PCC approved the Expedited Merger Rules which applies to the following: (1) when there are no actual or potential horizontal or vertical (including complementary) relationship in the Philippines between the acquiring entity, including its Notifying Group, and the acquired entity and the entities it controls; (2) when the merger is a global transaction where the acquiring and acquired entities identified in the definitive agreement are foreign entities (foreign parents), and their subsidiaries in the Philippines act merely as manufacturers or assemblers of products with at least 95% of such products exported to the foreign parents, subsidiaries, affiliates or third parties located outside the Philippines: provided, that the remaining 5% product sales in a market in the Philippines is minimal in relation to the entirety of such Philippine product market; (3) when the candidate relevant geographic market of the merger is global and the acquiring and acquired entities have negligible or limited presence in the Philippines; and (4) joint ventures, whether incorporated or not, formed purely for the construction and development of a residential and/or commercial real estate development project. However, the acceptance of expedited review notification forms remains suspended pursuant to PCC Resolution No. 006-2021 dated 25 May 2021.

On 21 August 2023, the PCC published the Guidelines for the Motu Proprio Review of Mergers and Acquisitions in Digital Markets (the "**Mergers and Acquisitions in Digital Markets Review Guidelines**"), which provide a non-exhaustive list of indicators of potential competition issues that may arise from a merger or acquisition in the digital market, namely: (1) transactions involving a gatekeeper (i.e., a company that provides a digital service, access to which is necessary to participate in the market); (2) transactions involving companies with data-centric operations; (3) transactions that might significantly reinforce network effects; (4) transactions involving parties considered innovators (i.e., an entity who

performs in a market where research and development is essential or where there is continuous competition for innovation); (5) conglomerate transactions involving digital players; (6) transactions of parties involved in subsequent acquisitions; (7) transactions involving parties under investigation; (8) transactions with a value of the transaction close to notification thresholds; and (9) transactions involving parties with a significant share of the supply of a good or service. The Merger and Acquisitions in Digital Markets Review Guidelines also encourages parties to transactions, where the foregoing indicators are present, to consult with the PCC prior to the execution of the definitive agreements relating to their transaction.

Foreign Investments Act of 1991

Republic Act No. 7042, as amended, otherwise known as the Foreign Investments Act of 1991 ("**FIA**"), liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners can own as much as 100% equity except in areas specified in the Twelfth Regular Foreign Investment Negative List (the "**Negative List**"). This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. Partly nationalized activities include, among others, land ownership, telecommunications, mining and the operation of public utilities.

In connection with the ownership of private land, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens. While the Philippine Constitution prescribes nationality restrictions on land ownership, there is generally no prohibition against foreigners owning buildings and other permanent structures. However, with respect to condominium developments, the foreign ownership of units in such developments is limited to 40%. A corporation with more than 40% foreign equity may be allowed to lease land for a period of 25 years, renewable for another 25 years.

In addition, under the Philippine Constitution, only citizens of the Philippines or corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens may engage in activities relating to the exploration, development and utilization of natural resources. On 15 November 2022, the Department of Energy (the "**DOE**") issued Department Circular No. 2022-11-0034 which amended the implementing rules and regulations of Republic Act No. 9513, otherwise known as the Renewable Energy Act. According to this department circular, which adopted Department of Justice Opinion No. 21 series of 2022 dated 29 September 2022, renewable sources of energy are inexhaustible and, thus, beyond the ambit of the nationality restriction imposed in the exploration, utilization and development of natural resources.

For the purpose of complying with nationality laws, the term Philippine National is defined under the FIA as any of the following:

- a citizen of the Philippines;
- a domestic partnership or association wholly-owned by citizens of the Philippines;
- a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;
- a corporation organized abroad and registered to do business in the Philippines under the Revised Corporation Code, of which 100% of the capital stock outstanding and entitled to vote is wholly-owned by Filipinos; or
- a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

In SEC Memorandum Circular No. 08 dated 20 May 2013, 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, it is provided that, for purposes of determining compliance with the nationality requirement, the required percentage of Filipino ownership shall be applied both to (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, in *Jose M. Roy III v. Chairperson Teresita Herbosa* (G.R. No. 207246) dated 18 April 2017, affirmed the validity of SEC Memorandum Circular No. 08.

In the 2014 case of *Narra Nickel Mining and Development Corporation, et.al vs. Redmont Consolidated Mines Corp.* (G.R. No. 195580) and its corresponding motions for reconsideration, the Supreme Court affirmed that the Grandfather Rule is to be used jointly and cumulatively with the Control Test if the corporation's Filipino equity is at least 60% but there is doubt as to the beneficial ownership and control of the corporation. Under the Grandfather Rule, shares owned by corporate shareholders are considered either as Filipino or foreign equity by determining the nationality not only of such corporate shareholders, but also the nationality of such corporate shareholders' own shareholders, until the nationalities of shareholder individuals are taken into consideration. The Control Test, on the other hand, merely takes into account the nationality of the shareholders of the corporation without further tracing the nationality of the corporate shareholders' own shareholders. Such joint and cumulative application shall be observed as follows: (i) if the corporation's Filipino equity falls below 60%, such corporation is deemed foreign-owned, applying the Control Test; (ii) if the corporation passes the Control Test, the corporation will be considered a Filipino corporation only if there is no doubt as to the beneficial ownership and control of the corporation; and (iii) if the corporation passes the Control Test but there is doubt as to the beneficial ownership and control of the corporation, the Grandfather Rule must be applied.

Data Privacy Act of 2012

Republic Act No. 10173 or The Data Privacy Act of 2012 (the "**DPA**") 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 to promote innovation and growth; (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 the National Privacy Commission (the "**NPC**").

Intended to protect the privacy of individuals, the DPA 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.

The Implementing Rules and Regulations of the DPA (the "**DPA-IRR**") took effect on 9 September 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 NPC. The DPA-IRR also provides the conditions when further processing of personal data collected from a party other than the data subject 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.

Registration under the BOI

Under the Executive Order No. 226, otherwise known as the Omnibus Investments Code, as amended, a BOI-registered enterprise enjoy certain incentives, both financial and non-financial, provided such enterprise invests in preferred areas of investment enumerated in the Investment Priorities Plan annually prepared by the Government. However, prior to registration with the BOI, the enterprise must first satisfy the minimum equity required to finance the project applied equivalent to 25% of the estimated project cost, or as may be prescribed by the BOI. Such incentives include: (i) income tax holiday, (ii) exemption from taxes and duties on imported spare parts; (iii) exemption from wharfage dues and export tax, duty, impost and fees; (iv) reduction of the rates of duty on capital equipment, spare parts and accessories; (v) tax exemption on breeding stocks and genetic materials; (vi) tax credits; (vii) additional deductions from taxable income; (viii) employment of foreign nationals; (ix) simplification of customs procedure; and (x) unrestricted use of consigned equipment.

On 12 April 2019, Republic Act No. 11285, otherwise known as the Energy Efficiency and Conservation Act, was enacted. Under the said law, upon certification by the DOE, energy efficiency projects shall be included in the annual investment priorities plan of the BOI and shall be entitled to the incentives provided under Executive Order No. 226, as amended, and any other applicable laws for 10 years from the effectivity of the Act. Said energy efficiency projects shall also be exempt from the requirements provided under Article 32(1) of Executive Order No. 226, which involve nationality requirements. Energy efficiency projects refer to projects designed to reduce energy consumption and costs by any improvement, repair, alteration, or betterment of any building or facility, or any equipment, fixture, or furnishing to be added to or used in any building, facility, or vehicle including the manufacturing and provision of services related thereto: provided, that such projects shall be cost-effective and shall lead to lower energy or utility costs during operation and maintenance

Local Government Code

Republic Act No. 7160, otherwise known as the Local Government Code of 1991 ("**LGC**") establishes the system and powers of local government units ("**LGU**") in the country, namely provinces, cities, municipalities and barangays. The general welfare clause in the LGC states that every LGU shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

The power to tax and police power are exercised by the LGU through their respective legislative bodies. Specifically, the LGU, through its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, impose real property taxes, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

Labor and Employment

The Philippine Labor Code and other statutory enactments provide the minimum benefits that employers must grant to their employees, which include certain social security benefits, such as benefits mandated by the Social Security Act of 1997 (R.A. No. 8282), the National Health Insurance Act of 1995 (R.A. No. 7875), as amended, and the Home Development Mutual Fund Law of 2009 (R.A. No. 9679).

The Department of Labor and Employment ("**DOLE**") is the Philippine government agency mandated to formulate policies, implement programs and services, and serves as the policy-coordinating arm of the Executive Branch in the field of labor and employment. The DOLE has exclusive authority in the administration and enforcement of labor and employment laws such as the Labor Code of the Philippines and the Occupational Safety and Health Standards (which sets out, among others, the guidelines applicable to different establishments intended for the protection of every workingman against the dangers of injury, sickness or death through safe and healthful working conditions), as amended, and such other laws as specifically assigned to it or to the Secretary of Labor and Employment.

Social Security Act

An employer or any person who uses the services of another person in business, trade, industry or any undertaking is required under Republic Act No, 11199, the Social Security Act of 2018 to ensure coverage of employees following procedures set out by the law and the Social Security System ("**SSS**"). Under the said law, an employer must deduct from its employees their monthly contributions in an amount corresponding to his salary, wage, compensation or earnings during the month in accordance with the monthly salary credits, the schedule and the rate of contributions as may be determined and fixed by the Social Security Commission, pay its share of contribution and remit these to the SSS within a period set by law and/or SSS regulations. This enables the employees or their dependents to claim their pension, death benefits, permanent disability benefits, funeral benefits, sickness benefits and maternity-leave benefits.

The failure of the employer to comply with any of its obligations may lead to sanctions, including the impositions of a fine of not less than ₱5,000.00 nor more than ₱20,000.00, or imprisonment for not less than six years and one day nor more than 12 years, or both, at the discretion of the court. The erring employer will also be liable to the SSS for damages equivalent to the benefits to which the employee would have been entitled had his name been reported on time to the SSS and for the corresponding contributions and penalties thereon.

National Health Insurance Act

Employers are likewise required to ensure enrolment of its employees in a National Health Insurance Program ("**NHIP**") administered by the Philippine Health Insurance Corporation ("**PhilHealth**"), a government corporation attached to the Department of Health tasked with ensuring sustainable, affordable and progressive social health insurance pursuant to the provisions of Republic Act No. 10606, the National Health Insurance Act of 2013.

On 20 February 2019, Republic Act No. 11223, the Universal Health Care Act, was enacted, which amended certain provisions of the National Health Insurance Act of 2013. Under the said law, all Filipino citizens are now automatically enrolled into the National Health Program. However, membership is classified into two types: (i) direct contributors, and (ii) indirect contributors. Direct contributors refer to those who have the capacity to pay premiums, are gainfully employed and are bound by an employer-employee relationship, or are self-earning, professional practitioners, migrant workers, including their qualified dependents, and lifetime members. On the other hand, indirect contributors refer to all others not included as direct contributors, as well as their qualified dependents, whose premium shall be subsidized by the national government including those who are subsidized as a result of special laws. Every member is also granted immediate eligibility for health benefit package under the program. An employer who fails or refuses to register its employees, regardless of their employment status, or to deduct contributions from its employees' compensation or remit the same to the PhilHealth shall be punished with a fine of not less than ₱5,000.00 multiplied by the total number of employees of the firm.

Home Development Mutual Fund law

Under Republic Act No. 9679 or the Home Development Mutual Fund Law of 2009, all employees who are covered by the SSS must also be registered with and covered by the Home Development Mutual Fund ("**HDMF**"), more commonly referred to as the Pag-IBIG Fund. It is a national savings program as well as a fund to provide for affordable shelter financing to Filipino workers. Coverage under the HDMF is compulsory for all SSS members and their employers. Under the law, an employer must: (i) deduct and withhold 2% of the employee's monthly compensation (with a maximum fund salary of ₱10,000.00); (ii) make a counterpart contribution of 2% of the employee's monthly compensation; and (iii) remit the contributions to the HDMF. Refusal of an employer to comply, without any lawful cause or with fraudulent intent, particularly with respect to registration of employees as well as collection and remittance of contributions, is punishable by a fine of not less but not more than twice the amount involved, or imprisonment of not more than six years, or both such fine and imprisonment. When the offender is a corporation, the penalty will be imposed upon the members of the governing board and the president or general manager, without prejudice to the prosecution of related offenses under the Revised Penal Code and other laws, revocation and denial of operating rights and privileges in the Philippines and deportation when the offender is a foreigner.

Retirement Benefits under the Labor Code

The Philippine Labor Code provides that, in the absence of a retirement plan provided by their employers, private-sector employees who have reached 60 years of age or more, but not beyond 65 years of age, the compulsory retirement age for private-sector employees without a retirement plan, and who have rendered at least five years of service in an establishment, may retire and receive a minimum retirement pay equivalent to one-half month's salary for every year of service, with a fraction of at least six months being considered as one whole year. For the purpose of computing the retirement pay, "one-half month's salary" shall include all of the following: (i) fifteen days' salary based on the latest salary rate; (ii) two and half days' salary representing one-twelfth of the thirteenth month pay; and (iii) the cash equivalent of five days of service incentive leave pay. Other benefits may be included in the computation of the retirement pay upon agreement of the employer and the employee or if provided in a collective bargaining agreement.

Other Labor-Related Laws and Regulations

Contracting and Subcontracting

The Labor Code recognizes subcontracting arrangements, whereby a principal puts out or farms out with a contractor the performance or completion of a specific job, work or service within a definite or predetermined period, regardless of whether such job, work or service is to be performed or completed within or outside the premises of the principal. Such arrangements involve a "trilateral relationship" among: (i) the principal who decides to farm out a job, work or service to a contractor; (ii) the contractor who has the capacity to independently undertake the performance of the job, work, or service; and (iii) the contractual workers engaged by the contractor to accomplish the job, work, or service.

On 16 March 2017, the DOLE issued Department Order No. 174-17 or Rules Implementing Articles 106 to 109 of the Labor Code, As Amended ("**D.O. No 174-17**"), under the principle that non-permissible forms of contracting and subcontracting arrangements undermine the constitutional and statutory right to security of tenure of workers. D.O. No 174-17 empowered the Secretary of Labor and Employment to regulate contracting and subcontracting arrangement by absolutely prohibiting labor-only contracting, and restricting job contracting allowed under the provisions of the Labor Code. Labor-only contracting refers to arrangement where the contractor or subcontractor merely recruits, supplies or places workers to perform a job or work for a principal, and the contractor or subcontractor does not have substantial capital, or the contractor or subcontractor does not exercise the right to control over the performance of the work of the employee. D.O. No. 174-17 expressly requires the registration of contractors with the Regional Office of the DOLE where it principally operates, without which, a presumption that the contractor is engaged in labor-only contracting arises.

D.O. No. 174-17 provides that in the event that there is a finding that the contractor or subcontractor is engaged in labor-only contracting and other illicit forms of employment arrangements, the principal shall be deemed the direct employer of the contractor's or subcontractor's employees. Further, in the event of violation of any provision of the Labor Code, including the failure to pay wages, there exists a solidary liability on the part of the principal and the contractor for purposes of enforcing the provisions of the Labor Code and other social legislations, to the extent of the work performed under the employment contract.

DOLE Mandated Work-Related Programs

Under Republic Act No. 9165 or the Comprehensive Dangerous Drugs Act, a national drug abuse prevention program implemented by the DOLE must be adopted by private companies with 10 or more employees. For this purpose, employers must adopt and establish company policies and programs against drug use in the workplace in close consultation and coordination with the DOLE, labor and employer organizations, human resource development managers and other such private sector organizations. DOLE Department Order No. 053-03 sets out the guidelines for the implementation of Drug-Free Workplace policies and programs for the private sector.

The employer or the head of the work-related, educational or training environment or institution, also has the duty to prevent or deter the commission of acts of sexual harassment and to provide the procedures for the resolution, settlement or prosecution of such cases pursuant to Republic Act No. 7877 (Anti-Sexual Harassment Act) and Republic Act No. 11313 (Safe Spaces Act). The employer will be solidarily liable for damages arising from the acts of sexual harassment committed in the workplace if the employer is informed of such acts by the offended party and no immediate action is taken. Notwithstanding, the victim of sexual harassment is not precluded from instituting a separate and independent action for damages and other affirmative relief. Any person who violates the provisions of these laws shall, upon conviction, be penalized by imprisonment of not less than one month nor more than six months, or a fine ranging from ₱5,000 to ₱20,000, or both such fine and imprisonment, at the discretion of the court.

Moreover, Department Order No. 102-10 requires all private workplaces to have a policy on HIV and AIDS and to implement a workplace program in accordance with the Philippines AIDS Prevention and Control Act. The workplace policies aim to manage sensitive issues, such as confidentiality of medical information and continuation of employment for HIV-positive staff, and to avoid the discrimination of any employee due to HIV/AIDS. Any HIV/AIDS-related information of workers should be kept strictly confidential and kept only on medical files, whereby access to it are strictly limited to medical personnel.

All private workplaces are also required to establish policies and programs on family welfare, solo parenting, breastfeeding, mental health promotion, Hepatitis B, and tuberculosis prevention and control.

REGULATIONS RELATING TO THE REAL ESTATE BUSINESS

General

Presidential Decree No. 957 ("**P.D. 957**"), Republic Act No. 4726 ("**R.A. 4726**"), and Batas Pambansa Bilang 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 and all areas included therein for residential, commercial, industrial and recreational purposes, and condominium projects for residential or commercial purposes.

On 14 February 2019, the President signed Republic Act No. 11201, otherwise known as "Department of Human Settlements and Urban Development Act". Consequently, the Implementing Rules and Regulations of the Act was approved on 19 July 2019. This Act created the Department of Human Settlements and Urban Development ("**DHSUD**") through the consolidation of Housing and Urban Development Coordinating Council ("**HUDCC**") and Housing and Land Use Regulatory Board ("**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 were transferred to and consolidated in the DHSUD, while the HSAC assumed and continued to perform the adjudication functions of HLURB.

Under the Act, 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 Comprehensive Land Use Programs and Zoning Ordinances;

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, B.P. 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. 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 HSAC's operations are in place. Thereafter, the Regional Adjudicators and the HSAC shall correspondingly assume jurisdiction over those cases and appeals. All decisions of the HSAC shall 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 ended on 31 December 2019. Thereafter, the Act became in full force and effect.

All subdivision and condominium plans for residential, commercial, industrial and other development projects are subject to the approval of the DHSUD 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 DHSUD locational clearance, Philippine Department of Environment and Natural Resources ("**DENR**") permits, and, as applicable, Philippine Department of Agrarian Reform ("**DAR**") conversion or exemption orders as discussed below.

Developers who sell lots or units in a subdivision or a condominium project are required to register the project with and obtain a license to sell from the DHSUD. Subdivision or condominium units may be sold or offered for sale only after a license to sell has been issued by the DHSUD. As a prerequisite for the issuance of a license to sell by the DHSUD, developers are required to file with the DHSUD 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 DHSUD;

- a real estate mortgage executed by the developer as mortgagor in favor of the Republic of the Philippines as mortgagee, represented by the DHSUD, 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 Philippine Bureau of Internal Revenue ("**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 DHSUD;

  - a certificate of guaranty deposit issued by any bank or financing institution of good standing in favor of the DHSUD 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 DHSUD, which amount may be withdrawn by the Chief Executive Officer of DHSUD 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 DHSUD, 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 DHSUD'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 DHSUD 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 29 June 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 DHSUD. 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 DHSUD. 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 DHSUD and other existing laws. On 3 May 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 DHSUD.

Under the 2022 Strategic Investment Priorities Plan issued by the Board of Investments, mass housing projects are eligible for government incentives subject to certain policies and guidelines.

Condominium Projects

R.A. 4726, or the Condominium Act, 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

R.A. 6552, or the Maceda Law (the "**Maceda Law**"), applies to all transactions or contracts involving the sale or financing of real estate through installment payments, including residential condominium units but excluding industrial lots, commercial buildings, and sales to tenants under R.A. 3844. Under the Maceda Law, where a buyer has paid at least two (2) years of installments, the buyer is entitled to the following rights in case of a default in the payment of succeeding installments:

1. A grace period of one month for every year of paid installments to cure any payment default. However, this right may be exercised by the buyer only once every five (5) years during the term of the contract and its extensions, if any.

2. In case of contract cancellations, the sellers of real estate should refund the buyer the cash surrender value, which is equivalent to at least 50% of total payments made, provided that the buyer has paid at least two (2) years of installments, with an additional 5% per annum in cases where at least five (5) years of installment have been paid (but with the total not to exceed 90% of the total payments).

Downpayments, deposits or options on the contract shall be included in the computation of the total number of installment payments made.

Buyers who have paid less than two (2) years of installment and who default on installment payments are given a sixty (60)-day grace period to pay all unpaid installments before the sale can be cancelled, but without right of refund. If the buyer fails to pay the installments due at the expiration of the grace period, the seller may cancel the contract after thirty days from receipt by the buyer of the notice of cancellation or the demand for rescission of the contract by a notarial act.

The Maceda Law does not apply when payments are made through bank financing.

Shopping Malls

Shopping malls are regulated by the LGU 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 the Philippine Department of Tourism ("**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 per 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.

NCIP Certificate of Non-Overlap

Republic Act No. 8371, or The Indigenous Peoples Rights Act of 1997 ("**IPRA**"), provides that no department or governmental agency shall issue, renew or grant any concession, license or lease, or enter into any production-sharing agreement without prior certification from the National Commission on Indigenous Peoples ("**NCIP**") that the area affected does not overlap with any ancestral domain (*i.e.,* Certificate of Non-Overlap or CNO).

Under the Implementing Rules and Regulations of the IPRA, the Ancestral Domain Office shall issue the certification only after a field-based investigation that such areas are not within any certified or claimed ancestral domains are conducted. The Certificate of Non-Overlap ("**CNO**") shall be issued by the NCIP Regional Director and concurred with by the concerned NCIP Commissioner.

Land Reclamation

The Philippine Reclamation Authority (the "**PRA**") is the agency responsible for recommending for approval by the National Economic Development Authority all possible reclamation projects. Reclamation refers to the deliberate process of converting foreshore land, submerged areas or bodies of water into land by filling or other means using dredge fill and other suitable materials for specific purposes.

Reclaimed lands are, upon reclamation, inalienable lands of the public domain. Mere reclamation of foreshore and submerged areas by the PRA does not convert these inalienable natural resources of the State into alienable or disposable lands of the public domain. Such lands must first be classified as, and converted into, alienable land of the public domain before they can be sold to Filipino citizens. Certain legal requirements (i.e. presidential proclamation and special patent) and procedures must be complied with to convert reclaimed lands into alienable lands of the public domain.

Reclaimed land that has already been classified as alienable land of the public domain and has been declared to be no longer needed for public service may be leased to Filipino citizens or to corporations with capital that is at least 60% owned by Filipino citizens. A private corporation (i.e. a corporation with capital that is at least 60% owned by Filipino citizens) may not hold but may only lease agricultural lands of the public domain for a term of 25 years and renewable for another 25 years, and not to exceed 1,000 hectares in area in accordance with Section 3, Article XII of the Philippine Constitution. Filipino citizens may lease not more than 500 hectares, or acquire not more than 12 hectares thereof by purchase, homestead or grant. Such land may also be transferred to an end user government entity (i.e. not an agency tasked to dispose of public lands).

The following are qualified applicants for a reclamation permit in foreshore and submerged areas, or for issuance of proclamation and special patents over existing reclaimed lands: (i) the PRA, created under Presidential Decree No. 1084, as amended; (ii) cities, provinces, and other LGUs that are authorized under law to undertake reclamation projects; and (iii) other government entities or instrumentalities authorized by law to conduct reclamation activities. Any applicant falling under (ii) and (iii) must first secure clearance or favorable endorsement from the PRA before applying with DENR. For private corporations applying to conduct land reclamation, they must submit proof of 60% shareholding ownership by Filipino citizens.

PRA Administrative Order No. 04-19 ("**PRA A.O. 04-19**") sets out the IRR which prescribes the requirements, rules, and regulations for the approval of reclamation projects and reclamation components of development/infrastructure projects, applicable to reclamation projects initiated by: (1) the PRA, (2) city or provincial government units, (3) National Government Agencies ("**NGAs**") or Government-Owned and Controlled Corporations ("**GOCCs**"), as defined under Republic Act No. 10149, mandated under existing laws to reclaim, (4) private sectors or entities through PRA, city or provincial government units, GOCCs or NGAs authorized to reclaim land, and (5) PRA jointly with government entities without authority to reclaim under existing laws through a proper contract.

In an application for land reclamation, for the pre-qualification stage, the business applicant must submit a letter of intent, together with the following required documents: (1) sketch plan with preliminary technical description, (2) affirmation under oath by the applicant that the area being applied for is free and clear from any legal constraints, claims, and/or tenurial instruments, (3) city and provincial council resolution expressing no objection to the proposed reclamation project, (4) certified true copy of the Certificate of Registration from the SEC, (5) proof that the corporation is sixty percent (60%) owned by Filipino citizens, (6) Certification of Corporate Secretary on the current membership of the Board of Directors and Authority of the Person filing the application to the PRA, (7) certified true copy of BIR Certificate of Registration, (8) certified true copy of the income tax return for the past three years, (9) BIR Tax Clearance Certificate, (10) certified true copy of the audited financial statements for the past three (3) years, and (11) check payment for the filing fee.

All pre-qualified applicants shall be required to enter into a Memorandum of Understanding with PRA to detail the mandatory requirements. The mandatory requirements include the environmental compliance certificate ("**ECC**"), area clearance, technical studies, designs and plans (e.g., detailed engineering design, reclamation plans, etc.), letter of no objection from concerned government agencies, advisory opinions from DENR, National Economic Development Authority, and Department of Finance, and check payment for the processing fee.

Further, if the application involves five (5) hectares or more, the applicant should be supported by the following documents: (1) feasibility study, (2) reclamation project description, (3) final environmental impact statement or equivalent study, (4) initial environmental examination, and (5) hydrodynamic modelling.

Prior to approval of any reclamation project, the PRA is required to coordinate with, and secure from, DENR, a permit authorizing or clearing a particular area to be the site of the proposed reclamation project, otherwise known as the area permit or sale clearance. Moreover, prior to implementation of the duly approved reclamation project, an ECC has to be secured from DENR. No reclamation works can commence unless such certificate has been obtained. DENR is the entity that has exclusive jurisdiction to manage and dispose of all lands of the public domain, and is the sole agency responsible for classification, sub-classification, surveying and titling of lands.

Upon completion of the reclamation project, the PRA and DENR are required to undertake the survey of the completed reclaimed land in accordance with DENR rules and regulations. Thereafter, upon request and/or clearance from the PRA, DENR will endorse to the President of the Philippines, the issuance of proclamation declaring some portions of reclaimed land to be alienable or disposable and retaining some portions thereof for public use and public service.

Reclamation projects/components undertaken without the required DENR area clearance, ECC, the approval of PRA Governing Board or the President of the Philippines, shall be considered illegal and shall be forfeited in favor of the State without need of judicial action pursuant to Presidential Decree No. 3-A.

PRA Administrative Order No. 2021-01, also known as the Rules and Procedures for the Forfeiture of Unauthorized and Illegal Reclamations through Titling under the Name of the PRA ("**PRA A.O. 2021-01**"), govern completed or ongoing reclamation projects throughout the Philippines which have been undertaken and/or are being undertaken by private parties and/or government agencies or entities, that are not authorized to reclaim under existing laws, without the approval of the President of the Philippines or of the PRA Governing Board, as the case may be.

Under PRA A.O. 2021-01, subject to review and evaluation of documents pertaining to the reclamation project and upon advice by PRA, the reclaimer shall pay to PRA, a penalty fee of ten percent (10%) of the value of the land based on zonal value or assessed value, or fair market value of the property nearest to the reclaimed land, whichever is higher. Further, based on the survey/sketch plan of the reclaimed land, as approved by the DENR, and upon issuance of the title in the name of the PRA: (1) the PRA shall convey or transfer to the reclaimer a portion of the reclaimed land equivalent to sixty percent (60%) of the gross size/area of the reclaimed land, and (2) the remaining forty percent (40%) of the gross size/area of the reclaimed land shall be retained as land share of the National Government or PRA.

The entitlement of the reclaimer to sixty percent (60%) of the gross size/area of the reclaimed land shall be subject to compliance with the requirement on legal qualifications of the reclaimer. Reclaimers notified by the PRA about the forfeiture shall be given a period of ninety (90) calendar days within which to submit and comply with the PRA requirements. Failure to do so would mean the reclaimer waiving its right to claim for a land share and shall cause the PRA to proceed with the total forfeiture of the reclaimed land.

Under PRA Administrative Order No. 2021-03 ("**PRA A.O. 2021-03**"), reclaimers or beneficial users or occupants of the illegal or unauthorized reclaimed lands, subject to conditions, may be allowed interim use or the use of the said land for a fee, for a period of two (2) years and renewable for the same period. The interim user shall be subject to an interim use fee of 4% of the appraised value or zonal value per annum of the illegal or unauthorised reclaimed land, whichever is higher, plus value-added tax.

Special Economic Zone

The Fiscal Incentives and Review Board ("**FIRB**") is the inter-agency government body given the authority by the Philippine law to approve or disapprove, the grant of tax incentives of Registered Business Enterprises ("**RBEs**") to the extent of the registered project or activity upon the recommendation of the Investment Promotion Agency ("**IPA**").

IPAs refer to government entities created by law, executive order, decree or other issuance, in charge of promoting investments, granting and administering tax and non-tax incentives, and overseeing the operations of the different economic zones and freeports in accordance with their respective special laws, including Philippine Economic Zone Authority ("**PEZA**"), Tourism Infrastructure and Enterprise Zone Authority ("**TIEZA**"), Board of Investments ("**BOI**"), and all other similar existing authorities or that may be created by law.

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.

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 sixteen (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.

"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.

On the other hand, a "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.

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 Philippine Department of Agriculture ("**DA**"), DHSUD, Environmental Management Bureau-DENR ("**EMB-DENR**"), NWRB, and the concerned LGUs.

Further, 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.

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, 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 ("**RA**"), 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.

   "Retirement Ecozone Developer/Operator" refers to a business entity duly endorsed by the RA 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 RA 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 RA to have support facilities and services required by the retirement industry.

   PEZA rules for registration of retirement Ecozones and facilities enterprises require, among others, the endorsement from the RA, and clearances and certifications from the DAR, DA, DHSUD, EMB-DENR, NWRB, and the concerned LGUs.

Another government agency which is tasked to administer certain Ecozones is the TIEZA, which 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

Republic Act No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Act (the "**CREATE Act**"), which took effect on 11 April 2021, sought to rationalize the tax incentives that may be granted by IPAs to RBEs.

The FIRB has the power to grant tax incentives; however, the FIRB shall delegate the power to grant tax incentives to the IPAs where the invested capital is ₱1 billion or below.

The incentives under the CREATE Act are dependent on the entity's geographical location and the industry tier under which the project or activity is included in the Strategic Investment Priority Plan ("**SIPP**"). The following tax incentives may be granted to registered projects or activities: (1) Income Tax Holiday ("**ITH**") for four (4) to seven (7) years depending on the location and industry priorities, (2) Special Corporate Income Tax ("**SCIT**") rate of 5% based on the gross income earned, in lieu of all national and local taxes or enhanced deductions for ten (10) years, (3) duty exemption on importation of capital equipment, raw materials, spare parts, or accessories, and (4) value-added tax ("**VAT**") exemption on importation and VAT zero-rating on local purchases, provided that they meet the conditions of availment set out under the CREATE Act.

Further, corporations and enterprises registered with IPAs prior to the effectivity of the CREATE Act have been given the following sunset provisions:

(1) Those enjoying the ITH are allowed to continue the available incentive for the remaining period of the ITH as specified in the terms of their registration;

(2) Those granted ITH but have not yet availed of the incentive may use the ITH for the period as specified in the terms of their registration;

(3) Those granted ITH and are entitled to the five percent (5%) tax on gross income earned may be allowed to avail of the five percent (5%) tax provided the five percent (5%) tax shall be allowed for only ten (10) years; and

(4) Those availing of the five percent (5%) tax on gross income earned shall be allowed to continue to avail of the incentive for ten (10) years.

We note that prior to the effectivity of the CREATE Act, the PEZA Board, through its Board Resolution No. 12-610 dated 1 November 2012, withdrew (i) the 5% Gross Income Tax ("**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.

Pursuant to Board Resolution No. 12-329 dated 6 July 2012, IT Parks and Buildings to be located in Metro Manila and Cebu City shall no longer be entitled to 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 twenty-five (25) hectares except for single locator economic zones which shall be covered by specific guidelines issued by PEZA.

PEZA-registered entities are also entitled to the following non-fiscal incentives: (a) employment of foreign nationals, as provided under R.A. 7916; and (b) Special Investor's Resident Visa, as provided under E.O. No. 63.

The SM Group routinely secures the required governmental approvals for its projects during the planning and construction and marketing stages of project development. The SM Group is not aware of any pending legislation or governmental regulation that is expected to materially affect its business. The SM Group believes that it has obtained the required government approvals relevant for each project at its current state of development.

REGULATION RELATING TO THE RETAIL BUSINESS

Retail Trade Liberalization Act

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. R.A. 8762 was amended by Republic Act No. 11595 ("**R.A. 8762, as amended**") on 10 December 2021.

A "foreign retailer" is defined by R.A. 8762, as amended, as a foreign national, partnership, association, or corporation of which more than forty percent (40%) of the capital stock outstanding and entitled to vote is owned and held by such foreign national, engaged in retail trade.

"Retail Trade" covers any act, occupation, or calling of habitually selling direct to the general public any merchandise, commodities, or goods for consumption. Under R.A. 8762, as amended, 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, under the following conditions:

(1) a foreign retailer shall have a minimum paid-up capital of ₱25 million;

(2) the foreign retailer's country of origin does not prohibit the entry of Filipino retailers; and

(3) in the case of foreign retailers engaged in retail trade through more than one (1) physical store, the minimum investment per store must be at least ₱10 million pesos*; provided*, that: (a) this requirement shall not apply to foreign investors and foreign retailers who are legitimately engaged in retail trade and were not required to comply with the minimum investment per store at the time of the effectivity of R.A. No. 11595.

The foreign retailer shall be required to maintain in the Philippines at all times the paid-up capital of ₱25 million, unless the foreign retailer has notified the SEC of its intention to repatriate its capital and cease operations in the Philippines. The actual use in Philippine operations of the minimum paid-up capital shall be monitored by the SEC.

Failure to maintain in the Philippines the required paid-up capital, prior to notification of the SEC, shall subject the foreign retailer to penalties or restrictions on any future trading activities/business in the Philippines.

For purposes of registration with the SEC, the foreign retailer shall submit a certification from the BSP of the inward remittance of its capital investment, or in lieu thereof, such other proof certifying that its capital investment is deposited and maintained in a bank in the Philippines.

REGULATION RELATING TO THE FINANCIAL SERVICES BUSINESS

General

The New Central Bank Act of 1993 (Republic Act No. 7653), as amended (the New "**Central Bank Act**"), and the General Banking Law of 2000 (Republic Act No. 8791), as amended (the "**General Banking Law**") vest the BSP, through its Monetary Board, with the power to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, private development banks, 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 BSP.

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. In this regard, the New Central Bank Act defines:

- a subsidiary 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; and

- an affiliate 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. The BSP Manual of Regulations for Banks (the "**MORB**") further 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.

Under the General Banking Law, the power of supervision of the BSP includes the power to issue 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. The General Banking Law also provides that, in examining a bank, the BSP shall have the authority to examine an enterprise which is owned or majority-owned or controlled by a bank. The New Central Bank Act provides that there shall be an interval of at least twelve (12) months between regular examinations, but the Monetary Board may authorise a special examination.

The MORB is the principal source of rules and regulations for the operation of banks in the Philippines and is periodically updated to reflect the latest updates and amendments to BSP regulations affecting banks, such as circulars, memoranda, letters and other directives issued by the Monetary Board. The 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.

The MORB and other BSP rules and regulations are principally implemented by the Financial Supervision Sector of the BSP (the "**FSS**"). 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)).

Permitted Activities

Banks are entities engaged in the lending of funds obtained in the form of deposits. Under the General Banking Law, there are several classifications of banks, including commercial banks and universal banks.

A commercial bank has, in addition to the general powers incident to corporations, all such powers as may be necessary to carry on the business of commercial banking, such as accepting drafts and issuing letters of credit; discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; accepting or creating demand deposits; receiving other types of deposits and deposit substitutes; buying and selling foreign exchange and gold or silver bullion; acquiring marketable bonds and other debt securities; and extending credit, subject to such rules as the Monetary Board may promulgate.

Meanwhile, a universal bank has, in addition to the general powers incidental to corporations, the authority to exercise (a) the aforementioned powers of a commercial bank, (b) the powers of an investment house and (c) the power to invest in non-allied enterprises.

In relation to the power to invest:

- A commercial bank may own: (a) up to 100.0 per cent of the equity in a thrift bank or a rural bank; (b) where the equity investments of a commercial bank are in other financial allied enterprises (including another commercial bank), a minority holding in that enterprise; and (c) up to 100.0 per cent of the equity in a non-financial allied enterprise. Meanwhile, 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.

- 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 bank in all enterprises, whether allied or non-allied, are not permitted to exceed: (a) for commercial banks, 35.0 per cent of the net worth of the bank; and (b) for universal banks, 50.0 per cent of the net worth of the bank. A bank's 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.

In addition to those functions specifically authorised by the General Banking Law and the MORB, banking institutions in general (other than building and loan associations) are allowed to (a) receive in custody funds, documents and valuable objects, (b) rent out safety deposit boxes, (c) 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 (d) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business.

Minimum Capitalization

Under the MORB, universal banks 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). For the purposes of these requirements, the MORB provides that capital shall be the combined capital accounts or net worth of the applicable bank as set out in the MORB.

Capital Adequacy Requirements

The Philippines adopts capital requirements based on the Basel Capital Accord.

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 Common Equity Tier 1 ("**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 capital adequacy ratio ("**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 capital conservation buffer ("**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 Circular No. 1027 issued by the BSP on 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.

Circular No. 856 (2014)

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 adopted policy measures for domestic systemically important banks ("**D-SIBs**"), which are essentially aligned with documents issued by the Basel Committee on Banking Supervision ("**BCBS**") on global systemically important banks ("**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.

Under 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.

Circular No. 1051 (2019)

On 27 September 2019, the BSP issued Circular No. 1051, entitled "Amendments to the Framework for Dealing with Domestic Systemically Important Banks (D-SIBs)", which amended the framework for dealing with D-SIBs provided under Circular No. 856.

Under 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 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 countercyclical capital buffer ("**CcyB**"), as determined under Circular No. 1051. Restrictions on distributions are provided under 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.

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

	Level of CET1 Capital	
Restrictions on Distributions	**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

	Level of CET1 Capital	
Restrictions on Distributions	**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;

(b) Compliance with total required CET1 and D-SIBS HLA requirement (under the circular) before distribution; and

(c) 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.

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.

Circular No. 881 (2015)

On 9 June 2015, the BSP issued Circular No. 881, entitled "Implementing Guidelines on the Basel III Leverage Ratio Framework". 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.

Circular No. 905 (2016) and Circular No. 990 (2018)

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 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 thirty (30)-day liquidity stress scenario. The monitoring of the leverage ratio has been implemented as a Pillar 1 minimum requirement since 1 July 2018. Beginning 1 January 2019, the LCR threshold that banks would have to meet is 100%.

Circular No. 1007 (2018) and Circular No. 1034 (2019)

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.

Circular No. 1035 (2019)

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.

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", which introduced certain amendments to the Basel III LCR Framework and Minimum Liquidity Ratio Framework. Circular No. 1035 (a) 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, (b) adopted the 70% LCR floor for subsidiary banks and quasi-banks during the observation period, and (c) amended the formula for minimum liquidity ratio.

Both the LCR threshold and the NSFR threshold are now at 100 per cent, following the full implementation of the provisions of Circular Nos. 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 Circular Nos. 1035 and 1034.

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.

The rates of required reserves against deposit and deposit substitute liabilities in local currency of universal and commercial banks, with effect from reserve week of 6 January 2024 are as follows: (a) 9.5 per cent against demand deposits, negotiable order of withdrawal (NOW) accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable certificates of time deposits ("**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 (Philippine branch of a foreign bank); (b) 0 per cent against deposit substitutes evidenced by repurchase agreements; (c) 4.0 per cent against long-term negotiable certificates of time deposits (LTNCDs); (d) 1.0 per cent against green, social sustainable bonds as defined under the relevant regulations of the Philippine SEC or other relevant regional or international standards acceptable to the market (Sustainable Bonds) issued within one year from 6 January 2024; (e) 0 per cent for Sustainable Bonds issued one year after 6 January 2024, effective for another 12 months, (f) 3.0 per cent against bonds other than Sustainable Bonds; and (g) 0 per cent against basic deposit accounts as defined under Section 213 of the MORB and for interbank call loan transactions (IBCL).

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 such other higher percentage (e.g., 35.0 per cent, 50.0 per, cent, 40.0 per cent) of the net worth of the bank in the event that certain types and levels of security are provided or certain conditions are met, and some of which shall apply only within a certain period). This ceiling may be adjusted by the Monetary Board from time to time.

Pursuant to the General Banking Law, the basis for determining compliance with the single borrower's limit ("**SBL**") 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 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 SBL 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. On 5 July 2017, the BSP issued Circular No. 965, approving the guidelines on the exclusion from the loan limit of banks and quasi-banks' short-term exposures to clearing and settlement banks arising from payment transactions.

On 5 January 2023, the BSP issued Circular No. 1164 which provides for the definition of credit risk transfer and which clarifies that loans and other credit accommodations or portion thereof covered by an effective credit risk transfer arrangement in the form of a guarantee or credit derivative that complies with the minimum operational requirements provided under the MORB shall be excluded from the total credit commitment of the bank to a borrower in reckoning compliance with the SBL. Meanwhile, the portion of the loans and other credit accommodations that is riot covered by an effective credit risk transfer arrangement, if any, shall still form part of the credit commitment of the bank to the borrower in reckoning compliance with the SBL. On 13 December 2023, the BSP Issued Circular No. 1185, which granted additional SBL for financing eligible green or sustainable projects.

Trust Regulation

The 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 MORB. A 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

A Foreign Currency Deposit System ("**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. Only a bank with authority to operate an FCDU or Expanded FCDU ("**EFCDU**") may accept foreign currency-denominated trusts, other fiduciary or investment management accounts ("**IMA**"). 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.

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/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.

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 20.0 per cent of their total loan portfolio, net of interbank loans, with certain exceptions under the MORB.

In accordance with the Circular No. 855 issued by the BSP 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 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 25.0 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

Republic Act No. 11901, otherwise known as the Agriculture, Fisheries and Rural Development Financing Enhancement Act of 2022 ("**AFRD Law**"), which lapsed into law on 28 July 2022 and repealed Republic Act No. 10000 or The Agri-Agra Reform Credit Act of 2009, mandates all banking institutions, whether private or government, to set aside a credit quota or a minimum mandatory agricultural and fisheries financing requirement of at least 25 per cent of their total loanable funds. This requirement does not apply to newly-established banks for a period of five (5) years from the date of the commencement of the banks' operations. The law gives more flexibility to the banks in extending credit to the agriculture and agrarian reform sectors as the law removed the required allocation of credit between the agrarian reform beneficiaries (10 per cent) and agricultural beneficiaries (15 per cent) under the AFRD Law.

Pursuant to Circular No. 1159 issued on 4 November 2022 (as amended by Circular No. 1174 issued on 9 June 2023), the Implementing Rules and Regulations of the AFRD Law, banks may comply with the mandatory credit requirement under the AFRD Law through the following methods:

1. Actual extension of loans to rural community beneficiaries (gross of allowance for credit losses), for purposes of financing agricultural, fishery and rural development activities;

2. Purchase of eligible loans listed above on a "without recourse" basis from other banks and financial institutions;

3. Purchase of eligible securities (gross of allowance for credit losses but net of unamortised premium or discount), to wit:

    a. Invest in debt securities, provided that the proceeds therefrom will be used to finance agricultural, fishery and rural development activities;

    b. Investments in sustainable finance instruments;

    c. Invest in shares of stock of the rural finance institutions ("**RFIs**"), Philippine Crop Insurance Corporation or in companies that primarily engage in agricultural, fishery or rural development;

    d. Investments in unsecured subordinated debt securities that meet the definition of regulatory capital and are issued by banks that are RFIs;

    e. Investments in MSMEs of farmers, fisherfolk, agrarian reform beneficiaries, agrarian reform communities, settlers, agricultural lessees, amortizing owners, farmworkers, fishworkers, owner cultivators, compact farmers, and tenant farmers by way of purchase of their securities through an organised market, initial public offering, follow-on offering, or through registered crowdfunding intermediaries;

4. Grant of loans and other credits (gross of allowances for credit losses), to wit:

    a. Placements in deposit accounts and/or fixed term deposit products with RFIs;

    b. Wholesale lending granted by banks to RFIs;

    c. Rediscounting facility granted by banks to other banks covering eligible AFRD financing (as defined under the AFRD Law);

    d. Actual extension of loans intended for the construction and upgrading of infrastructure;

    e. Actual extension of loans to agri-business enterprises that maintain agricultural commodity supply-chain arrangements directly with qualified rural community beneficiaries;

f. Agricultural value chain financing ("**AVCF**"), including financing to electronic platforms that will facilitate AVCF and supply chain financing transactions among actors in agriculture that benefits rural communities;

g. Actual extension of sustainable finance in the form of loans; or

h. Purchase of eligible loans listed under (4)(d) to (4)(g) on a "without recourse" basis from other banks and financial institutions.

Banks which fail to comply or only partially comply with the minimum requirements shall be penalised by the BSP with an annual monetary penalty of 0.5 per cent of the amount of non-compliance or under-compliance computed on a quarterly basis. Additionally, the BSP may impose administrative sanctions. Banks shall, for a period of 10 years from approval of Republic Act No. 11901, or from 18 August 2022 to 27 July 2032, set aside at least 25.0 per cent of their total loanable funds for the financing of agricultural and fishery-related activities.

The law also provides that banks which are unable to directly lend to rural community beneficiaries may invest in debt and equity securities, undertake agricultural value chain financing, and grant agri-business loans to fund agricultural and community-enhancing activities, among others.

The Magna Carta for Small Enterprises (Republic Act No. 6977), as amended by the Magna Carta for Micro, Small and Medium Enterprises (MSMEs) (Republic Act No. 9501), provides that for a period of ten years from 17 June 2008 (until 16 June 2018), 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

The board of directors of a bank must have at least five (5) and a maximum of 15 members. Under the Revised Corporation Code, the board of banks and quasi-banks must have independent directors comprising at least 20.0 per cent of such board. In case of merged or consolidated banks, the number of directors shall not exceed 21.

Under the MORB, at least one-third (1/3) but not less than two members of the board of directors of universal and commercial banks shall be independent directors. Further, SEC Memorandum Circular No. 24, Series of 2019, on the Code of Corporate Governance for Publicly-Listed Companies requires the board of directors of publicly-listed companies to have a board composed of a majority of non-executive

directors and at least two (2) independent directors, or such number as to constitute at least one-third (1/3) of the members of the board, whichever is higher. An independent director is a person who is not an officer or employee of a bank, its subsidiaries or affiliate or related interests during the past three years counted from the date of his election or appointment. The Revised Corporation Code likewise requires independent directors, apart from shareholdings and fees received from the bank, to be free from any business or other relationship which could, or could reasonably be perceived to materially interfere with the exercise of independent judgment in carrying out their responsibilities as a director. Foreigners are allowed to have board seats to the extent of the foreign equity in the bank.

Material contracts of a corporation vested with public interest with one or more of its directors, trustees, officers or their spouses and relatives within the fourth civil degree of consanguinity or affinity must also be approved by at least two-thirds (2/3) of the members of the board, with at least majority of the independent directors approving the same, in addition to common requirements for similar contracts for other companies pursuant to Section 31 of the Revised Corporation Code.

The Monetary Board shall issue regulations that provide for the qualifications and disqualifications to become a director or officer of a bank. After due notice to the board of directors of a bank, the Monetary Board may disqualify, suspend or remove any bank director or officer who commits or omits to perform an act which renders him unfit for the position.

The Monetary Board may regulate the payment by the bank of compensation, allowances, bonus, fees, stock options and fringe benefits to the bank officers and directors only in exceptional cases such as when a bank is under conservatorship, or is found by the Monetary Board to be conducting business in an unsafe or unsound manner or when the Monetary Board deems it to be in unsatisfactory condition.

Except in cases allowed under the Rural Bank Act (Republic Act No. 7353) and Circular No. 1076 issued by the BSP on 18 February 2020 entitled "Amendments to the Regulations on the Disqualifications and Watchlisting of Directors/Officers", no appointive or elective public official, whether full time or part time, may serve as officer of any private bank, except if the service is incidental to financial assistance provided by government or government owned and controlled corporation or when allowed by law.

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 Circular No. 914, issued by the BSP on 23 June 2016 and entitled "Amendments to Prudential Policy on Loans, Other Credit Accommodations, and Guarantees Granted to Directors, Officers, Stockholders, and their Related Interests (DOSRI), Subsidiaries and Affiliates", 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.

Anti-Money Laundering Law

The Anti-Money Laundering Act of 2001 (Republic Act No. 9160), as amended ("**AMLA**") requires covered institutions such as banks including its subsidiaries and affiliates, to provide for customer identification, keep records and report covered and suspicious transactions.

While the Philippines enacted the AMLA to introduce more stringent anti-money laundering regulations, these regulations did not initially comply with the standards set by the Financial Action Task Force ("**FATF**"). However, following pressure from the FATF, an amendment to AMLA became effective on 23 March 2003. In January 2005, the Philippines was removed from the list of Non-Cooperative Countries and Territories ("**NCCTs**") and the anti-money laundering systems (including strict customer identification, suspicious transaction reporting, bank examinations, and legal capacities to investigate and prosecute money laundering) were all identified to be of a satisfactory nature. Currently, the Philippines is on the "grey list," as the FATF, in news reports, noted a "high level political commitment" from local authorities to address noted deficiencies in its anti-money laundering regime.

Republic Act No. 10168 enacted on 18 June 2012 expanded the AMLA to include the crime of financing terrorism. On 15 February 2013, Republic Act No. 10365 was approved. Among the amendments under Republic Act No. 10365 is the expansion of the coverage of the AMLA, which now talks about "covered persons, natural or juridical." Additions to the enumeration of covered persons include jewellery dealers for transactions in excess of ₱1.0 million; company service providers, or those who form companies for third parties, hold positions as directors or corporate secretaries for third parties, provide business addresses or engage in correspondence or act as nominee shareholder for others. Likewise, the following persons were added to the list: persons (a) who manage their client's money, security or other assets, or (b) who manage bank or securities accounts, or (c) who organise funds for the creation, operation or management of companies, or (d) who create, operate or manage entities or relationships, or (e) buy and sell business entities.

Money laundering is committed by any person who, knowing that any monetary instrument or property represents, involves or relates to the proceeds of any unlawful activity defined under the law:

1. transacts said monetary instrument or property;

2. converts, transfers, disposes of, moves, acquires, possesses or uses said monetary instrument or property;

3. conceals or disguises the true nature, source, location, disposition, movement or ownership or of rights with respect to said monetary instrument or property;

4. attempts or conspires to commit money laundering offences referred to in paragraphs (1), (2), and (3);

5. aids, abets, assists in or counsels the commission of the money laundering offences referred to in paragraphs (1), (2) and (3);

6. performs or fails to perform any act as a result of which he facilitates the offence of money laundering referred to in (1), (2) and (3); and

7. knowingly fails to disclose and file with Anti-Money Laundering Council ("**AMLC**") any monetary instrument or property required to be disclosed and filed.

Under the AMLA, banks, as covered persons, are required to report to the AMLC all covered transactions and suspicious transactions within a period of five working days from occurrence thereof, unless the AMLC prescribes a different period not exceeding 15 working days. The Court of Appeals of the Philippines ("**Court of Appeals**"), upon verified ex-parte application by the AMLC and after determination that probable cause exists that any monetary instrument or property is in any way related

to an unlawful activity as defined in the AMLA, has the authority to issue a freeze order which is effective immediately, and which shall not exceed six months depending upon the circumstances of the case. However, 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 is 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. Further, a freeze order or asset preservation order is 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.

Circular No. 495, issued by the BSP on 20 September 2005, as amended by Circular No. 527 issued on 28 April 2006, required all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by 14 October 2007. The said system should, at the 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 AMLA.

BSP Memorandum No. M-2012-017 issued on 4 April 2012, as affirmed by Circular No. 950 issued by the BSP on 15 March 2017, likewise requires all covered banking institutions to comply with the anti-money laundering risk rating system ("**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 anti-money laundering policies and procedures embodied in a money laundering and terrorist financing prevention program duly approved by the board of directors; (c) robust internal controls and audit; and (d) effective implementation. Circular No. 950 further provides for specific requirements on having a risk-based approach to customer identification by covered institutions, an ongoing monitoring of customers, accounts, and transactions, and a policy of non-discrimination against certain types of customers.

In July 2017, Republic Act No. 10927 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. Furthermore, the law provides that: (a) a freeze order issued by the Court of Appeals pursuant to an *ex parte* petition by the AMLC is effective immediately and such effective period 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 is 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 is 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 and will not apply to amounts in the same account in excess of the amount or value of the proceeds of the predicate offense.

Republic Act No. 11521, which took effect on 8 February 2021, further amended the AMLA and adds:

- two new covered persons who are now required to report covered and suspicious transactions to the AMLC: (a) real estate developers and brokers and (b) offshore gaming operators, as well as their service providers, supervised, accredited or regulated by the Philippine Amusement and Gaming Corporation (PAGCOR) or any government agency; and

- two new unlawful activities to be punished, which are: (a) violation of Section 19(a)(3) of the Strategic Trade Management Act (Republic Act No. 10697) ("**STMA**"), which penalizes activities prohibited by, or in contravention of, any orders or regulations issued by the National Security Council-Strategic Trade Management Committee to implement the provisions of the STMA; and (b) tax evasion under Section 254 of the National Internal Revenue Code, as amended, where the deficiency basic tax due in the final assessment is in excess of ₱25.0 million per taxable year, for each tax type covered and there has been a finding of probable cause by the competent authority.

Institutions that are subject to 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 (5) years after their closure.

In general, covered transactions are single transactions in cash or other equivalent monetary instrument involving a total amount in excess of ₱500,000.00 within one banking day. A single cash transaction involving an amount exceeding ₱7.5 million for real estate developers and brokers is a covered transaction under Republic Act No. 11521, while Republic Act No. 10927 states that a single casino cash transaction involving an amount in excess of ₱5.0 million or its equivalent in any other currency is a covered transaction for casinos.

Suspicious transactions are transactions with covered institutions such as a bank, regardless of the amount involved, where any of the following circumstances exists:

1. there is no underlying legal or trade obligation, purpose or economic justification;

2. the customer or client is not properly identified;

3. the amount involved is not commensurate with the business or financial capacity of the client;

4. taking into account all known circumstances, it may be perceived that the transaction is structured to avoid being the subject of reporting requirements under the AMLA;

5. any circumstance relating to the transaction which is observed to deviate from the client's profile or past transaction;

6. the transaction is related to an unlawful activity or offence under AMLA; or

7. similar or analogous transactions to the above.

Failure by any responsible official or employee of a bank to maintain and safely store all records of all transactions of the bank, including closed accounts, for five years from date of transaction/closure of account shall be subject to a penalty of six months to one year imprisonment and/or fine of not less than ₱100,000.00 and not more than ₱500,000.00.

Malicious reporting of a completely unwarranted or false information relative to money laundering transaction against any person is punishable by six months to four years imprisonment and a fine of not less than ₱100,000.00 and not more than ₱500,000.00.

In compliance with the law, banks, their officers and employees are prohibited from communicating directly or indirectly to any person or entity the fact that a report was made to the AMLC and any information relating to such report. A violation of the said rule is deemed a criminal act.

On 18 July 2020, the Anti-Terrorism Act of 2020 (Republic Act No. 11479) (the "**Anti-Terrorism Act**") became effective. The Anti-Terrorism Act repealed the Human Security Act (Republic Act No. 9372) and provided stricter penalties and regulations against the inimical acts of terrorism. Section 35 of the Anti-Terrorism Act authorizes the AMLC, either upon its own initiative or at the request of the Anti-Terrorism Council, to investigate: (a) any property or funds that are in any way related to financing of terrorism or violation of Sections 4, 6, 7, 10, 11, or 12 of the Anti-Terrorism Act; and (b) property or funds of any person or persons in relation to whom there is probable cause to believe that such person or persons are committing or attempting or conspiring to commit, or participating in or facilitating the financing of the aforementioned sections. In this regard, the AMLC is authorised to inquire into or examine deposits and investments with any banking institution or non-bank financial institution and their subsidiaries and affiliates without a court order. It also provides penalties to any person who maliciously, or without authorization, examines deposits, placements, trust accounts, assets, or records in a bank or

financial institution and any employee, official, or a member of the board of directors of a bank or financial institution, who after being duly served with the written order of authorization from the Court of Appeals, refuses to allow the examination of the deposits, placements, trust accounts, assets, and records of a terrorist or an outlawed group of persons, organization, or association.

On 4 July 2023, the Office of the President issued Memorandum Circular No. 33, adopting the National Anti-Money Laundering/Counter-Terrorism Financing/Counter-Proliferation Financing Strategy 2023-2027. This provides seven strategic objectives that will respond to risks and deficiencies of the Philippines' AML/CFT systems. Each objective has action plan items that should be accomplished by the relevant government agencies. This is meant to address the findings of the Asia Pacific Group on Money Laundering and the FATF which, after a twelve-month observation period, placed the Philippines in the Grey List or "Jurisdictions Under Increased Monitoring" for its failure to show tangible and positive progress in addressing all key recommendations of the FATF. Through the reorganization of the National AML/CTF Coordinating Committee and the adoption of the National Anti-Money Laundering/Counter-Terrorism Financing/Counter-Proliferation Financing Strategy 2023-2027, the Philippines government hopes to strengthen existing measures to improve the effectiveness of the Philippines' anti-money laundering, counter-terrorism financing and counter-proliferation financing regime and allow the Philippines to exit the FATF Grey List.

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.

Circular No. 808, issued by the BSP on 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, Circular No. 859 set out the EMV Implementation Guidelines which govern the implementation for debit cards in any card-accepting device/terminal. All cards issued and card-accepting devices are required to be EMV-compliant. Failure to comply with the EMV migration requirement is considered a serious offense and will subject institutions to monetary sanctions provided under relevant provisions of the MORB.

On 22 February 2019, the BSP issued 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. EPFS allow customers to electronically access information on their transactions, move or receive funds from one account to another, or avail of credit, investment, trust, or other banking products and/or services. Transactions can include online loan applications, electronic investment of funds, and the like. Circular No. 1033 requires parties to obtain the approval of the BSP prior to offering EPFS and to meet certain BSP reporting requirements.

On 26 November 2020, the Monetary Board approved the inclusion of digital banks as a distinct classification of banks. Digital banks offer financial products and services that are processed end-to-end through a digital platform and/or electronic channels without any physical branch or sub-branch or branch-lite unit offering financial products and services. On 2 December 2020, the BSP issued Circular No. 1105 which provides the guidelines on establishment of digital banks. While digital banks have no

physical branch or sub-branch or branch-lite unit, digital banks are required to maintain a principal or head office in the Philippines to serve as the main point of contact for stakeholders, including the BSP and other regulators. On 14 September 2022, the BSP issued Circular No. 1154, which clarifies the extent of the applicability of prudential requirements of the BSP to digital banks, and to amend the documentary and licensing requirements for the establishment of digital banks.

On 22 March 2022, pursuant to the accelerated digitalization in the financial industry, the BSP issued Memorandum No. M-2022-016, which provides the controls and processes supporting the operation, connectivity, and endpoint security of Application Programming Interface ("**API**") and the good practices for API management.

On 7 February 2023, the BSP issued Circular No. 1166, or the "Amendments to the Regulations on Electronic Money (E-Money) and the Operations of Electronic Money Issuers ("**EMI**") in the Philippines". The amended guidelines provide amendments to the regulations on E-money and the operations of EMI in the Philippines. Circular No. 1166 provides that banks may offer E-money services subject to prior approval of the BSP under EPFS license and compliance with the prudential criteria and requirements on licensing of EPFS. The guidelines define "E-money" as any electronically-stored monetary value that is:

1. maintained in a non-interest-bearing non-deposit transaction account;

2. denominated in or pegged to Philippine Peso or other foreign currencies;

3. pre-funded by customers to enable payment transactions;

4. accepted as a means of payment by the issuer and by other persons or entities including merchants/sellers;

5. issued against receipt of funds of an amount equal to the monetary value issued;

6. represented by a claim on its issuer; and

7. withdrawable in cash or cash equivalent or transferable to other accounts/instruments that are withdrawable in cash.

Under Circular No. 1166, banks may offer E-money services subject to prior approval of the BSP under an EPFS license. The guidelines also establish minimum requirements for the issuance of e-money and rules on consumer protection. The guidelines provide for minimum disclosure requirements that BSFIs must include in the terms and conditions that customers must acknowledge prior to the availment of e-money services. Further, the guidelines require BSFIs to have sufficient liquidity requirements to meet E-money redemptions and provide minimum amounts for BSFIs with outstanding E-money balance of at least ₱100.0 million and those with outstanding E-money balance below ₱100.0 million.

Circular No. 1166 also requires EMI banks to have minimum capitalization, which is the higher of the bank's required capitalization depending on its bank category or the bank's required capitalization based on EMI category. Large-scale EMI banks are required to have a minimum capital of ₱200.0 million, whereas small-scale EMI banks are required to have a minimum capital of ₱100.0 million.

Violations of the guidelines shall constitute grounds for imposition of sanctions on the BSFI and/or its directors/officers, with either a monetary penalty or a non-monetary penalty as may be authorised by the Monetary Board.

Related Party Transactions

On 1 December 2015, the BSP approved guidelines strengthening oversight and control standards for managing related party transactions ("**RPT**"). The standards were further strengthened through the issuance of Circular No. 969 issued by the BSP on 22 August 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 RPTs 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 MORB, a universal or commercial bank which is part of a conglomerate is required to form an RPT Committee, composed of at least three members of the board of directors, two of whom must be independent directors, including the chairperson. The RPT Committee shall at all times be entirely composed of independent directors and non-executive directors, and independent directors must always comprise a majority of the RPT Committee. In case a member of the RPT Committee has conflict of interest in a particular RPT, such member should refrain from evaluating that particular transaction. The compliance officer or internal auditor may sit as resource persons in the RPT Committee.

The RPT Committee has the duty to ensure that all related parties are continuously identified, RPT 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 RPT 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 RPT policies and procedures.

On 25 April 2019, the SEC issued Memorandum Circular No. 10-2019 regarding the Rules on Material Related Party Transactions for Publicly-Listed Companies ("**SEC MC 10-2019**"). Under SEC MC 10-2019, when the RPTs amount to 10.0 per cent or higher of a company's total assets, it is considered a material RPT and is disclosable and reportable to the SEC.

National Payment Systems Act

On 30 October 2018, the Philippine Congress enacted the National Payment Systems Act (Republic Act No. 11127) (the "**NPSA**"), which seeks to regulate payment systems, recognizing that they are crucial parts of the financial infrastructure of the country. The NPSA defines payment systems as the set of payment instructions, processes, procedures and participants that ensures the circulation of money or movement of funds; and 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 the NPSA, all operators of payment systems ("**OPS**") must register with the BSP. Furthermore, the Philippine SEC can no longer register the charter documents of any operator of a designated payment system ("**DPS**"), 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 NPSA 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 Circular No. 1049 which implements the provisions of the NPSA. It requires banks, acting as payment systems operators, to register with the BSP through notification without having 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, provided that the documents submitted by the bank meet all regulatory requirements.

The BSP implemented the Payment System Oversight Framework ("**PSOF**") on 7 July 2020 through the issuance of Circular No. 1089, which addresses the need for comprehensive regulation over payment systems and other financial market infrastructures through cooperative oversight and periodic assessment.

The PSOF follows a risk-based oversight approach mainly through the designation of payment systems. In the event that the operator of a DPS fails to satisfy regulatory expectations, resulting in a threat to the safety, efficiency, and reliability of the system, the PSOF empowers the BSP to appoint a manager to administer the operation of the DPS. On 14 September 2021, through Circular No. 1126 and pursuant to the PSOF, the BSP mandated the adoption of the Principles for Financial Market Infrastructures ("**PFMI**"). The PFMI is a set of international standards designed to strengthen financial market infrastructures and make them more resilient to financial crises and participant defaults.

In line with the phased-in implementation of NPSA, the BSP issued Circular No. 1127, otherwise known as the Governance Policy for Operators of Payment System on 17 September 2021, which is patterned after its other existing corporate governance standards. It prescribes the regulatory expectations on governance arrangements and standards of OPS as well as the criteria for qualification of its directors and officers.

The BSP issued Circular No. 1138 on 1 March 2022, which establishes the regulatory reporting standards for OPS. The circular requires an OPS to establish a reporting system that will aggregate all pertinent data and produce the reports required by the BSP under both business-as-usual and stressed conditions (i.e., emergency conditions for OPS such as a crisis, national or public health emergencies, weather-related events, or sudden closures of markets and/or clearing agencies the transactions therein are processed through an OPS for eventual settlement) in a timely manner. The circular also specifies sanctions that may be imposed on an OPS for non-compliance with reporting requirements. It also prescribes non-monetary penalties such as the disqualification or suspension of the Chief Executive Officer for at least one (1) month to one (1) year in case of unsubmitted reports. The top official and members of the board may also be disqualified from the industry for further offenses and the Monetary Board will have the power to designate a manager to take over the operations.

On 14 March 2024, the BSP issued Circular No. 1191, entitled "Creation of Manual of Regulations for Payment Systems", which advises of the approval of the creation of the Manual of Regulations for Payment Systems ("**MORPS**") by the Monetary Board on 18 January 2024. The MORPS consolidates and aligns all previous issuances of the BSP on or relating to the NPSA and payment systems.

ENVIRONMENTAL MATTERS

The operations of the businesses of the SM Group are subject to various laws, rules and regulations that have been promulgated for the protection of the environment.

Philippine Environmental Impact Statement System

The Philippine Environmental Impact Statement System established under Presidential Decree No. 1586 (the "**EISS Law**"), which is implemented by the DENR, is the general regulatory framework for any project or undertaking that is either (i) classified as environmentally critical or (ii) is situated in an environmentally critical area. The DENR, through its regional offices or through the EMB-DENR, determines whether a project is environmentally critical or located in an environmentally critical area and possesses all applications for an Environmental Compliance Certificate ("**ECC**").

The law requires an entity that will undertake any such declared environmentally critical project or operate in any such declared environmentally critical area to submit an Environmental Impact Statement ("**EIS**") which is a comprehensive study of the significant impacts of a project on the environment. If the proposed project is environmentally critical or situated in an environmentally critical area, the EIS serves as an application for the issuance of an ECC; otherwise, the EIS serves as an application for the issuance of a Certificate of Non-Coverage. An ECC is a Government certification that, among others, (i) the proposed project or undertaking will not cause significant negative environmental impact; (ii) the proponent has complied with all the requirements of the EISS Law in connection with the project; and (iii) the proponent is committed to implement its approved Environmental Management Plan ("**EMP**") in the EIS. The EMP details the prevention, mitigation, compensation, contingency and monitoring measures to enhance positive impacts and minimize negative impacts and risks of a proposed project or undertaking.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents are also required to establish an Environmental Monitoring Fund ("**EMF**") when an ECC is eventually issued. The EMF is to support the activities of the team monitoring the project proponent's compliance with ECC conditions, its approved EMP, and applicable laws, rules and regulations.

The Clean Water Act

The Clean Water Act (Republic Act No. 9275, the "**Clean Water Act**") and its implementing rules and regulations provide for water quality standards and regulations for the prevention, control, and abatement of pollution of the water resources of the country. The Clean Water Act requires owners or operators of facilities that discharge regulated effluents (such as wastewater from manufacturing plants or other commercial facilities) to secure a discharge permit from the DENR which authorizes the owners and operators to discharge waste and/or pollutants of specified concentration and volumes from their facilities into a body of water or land resource for a specified period of time. The DENR, together with other Government agencies and the different local Government units, is tasked to implement the Clean Water Act and to identify existing sources of water pollutants, as well as strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law.

The Clean Air Act

Pursuant to the Clean Air Act of 1999 (Republic Act No. 8749) and its implementing rules and regulations, enterprises that operate or utilize air pollution sources are required to obtain a Permit to Operate from the DENR with respect to the construction or the use of air pollutants. The issuance of the said permit seeks to ensure that regulations of the DENR with respect to air quality standards and the prevention of air pollution are achieved and complied with by such enterprises.

Other Environmental Laws

Other regulatory environmental laws and regulations applicable to the businesses of SMIC Group include the following:

- The Ecological Solid Waste Management Act of 2000 (Republic Act No. 9003), which provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. The said law prohibits, among others, the transporting and dumping of collected solid wastes in areas other than prescribed centres and facilities. The National Solid Waste Management Commission, together with other Government agencies and the different local Government units, are responsible for the implementation and enforcement of the said law.

- The Code on Sanitation of the Philippines (Presidential Decree No. 856), which provides for sanitary and structural requirements in connection with the operation of certain establishments such as industrial establishments. Under the said law, which is implemented by the Philippine Department of Health, no person, firm, corporation, or entity shall operate any industrial establishment without first obtaining a sanitary permit.

FOREIGN EXCHANGE AND FOREIGN INVESTMENT REGULATIONS

FOREIGN EXCHANGE REGULATIONS

Since 1992, the foreign exchange rules and regulations of the BSP have been liberalised. Under present regulations, as a general rule, foreign exchange may be freely sold and purchased outside the Philippine banking system.

The Manual of Regulations on Foreign Exchange Transactions ("**MORFXT**") provides, among other things, that (i) publicly-guaranteed private sector foreign/foreign currency loans/borrowings require BSP approval, and such loans/borrowings must be registered with the BSP to allow servicing of payments using foreign exchange purchased from within the Philippine banking system (specifically, from AABs/AAB forex corps); (ii) private sector foreign loans/borrowings, that are not publicly-guaranteed and not covered by item (iii) below, require registration with the BSP if these will be ultimately serviced with foreign exchange purchased from within the Philippine banking system (specifically, from AABs/AAB forex corps); and (iii) the following private sector loans do not require prior BSP approval or subsequent registration before their payment may be serviced using foreign exchange purchased from within the Philippine banking system (specifically, AABs/AAB forex corps) if such loans are not publicly-guaranteed and are duly reported to the BSP by the borrower or creditor using prescribed forms – (a) foreign currency loans of resident borrowers from banks operating in the Philippines that are not publicly-guaranteed and are reported by the creditor bank to the BSP, (b) foreign obligations of residents under deferred letters of credit or under documents against acceptance or open account arrangements with a term of more than one (1) year that are not guaranteed by foreign governments/official export credit agencies, and (d) short-term trade loans of resident exporters/importers from OBUs and non-resident non-bank creditors that have been granted under BSP-reported lending programmes, provided certain reports are submitted by the borrower and the creditor OBU to the BSP.

In addition, guarantees for the account of the public sector or similar arrangements which may give rise to actual foreign currency obligations of the public sector to non-residents, as well as those to be issued by government-owned and controlled corporations (excluding public sector banks and non-bank financial institutions with quasi-banking functions) in favour of non-residents, require prior BSP approval. However, the following guarantees for account of non-residents and private sector residents do not require prior BSP approval nor registration but must be reported regularly to the BSP by the AABs as issuer or beneficiary using prescribed forms, to be eligible for servicing using foreign exchange resources of the Philippine banking system: (i) guarantees to be issued by resident banks (including public sector banks) and non-bank financial institutions with quasi-banking functions, in favour of non-residents/residents such as, payment guarantees (e.g., bid bonds, performance bonds, advance payments bonds), and guarantees to secure foreign obligations of residents which do not partake the nature of a foreign loan, (ii) guarantees to be issued by non-resident banks/financial institutions and other non-resident entities to secure Philippine peso loans/foreign currency loans of the private sector from banks operating in the Philippines under item (iii)(a) of the preceding paragraph and non-bank financial institutions with quasi-banking functions. For guarantees that are related to foreign/foreign currency loans/borrowings (except those covered under item (iii)(a) of the preceding paragraph), (i) these must already form part of the loan terms submitted or reported to the BSP; and (ii) in case of a call on such guarantee, the borrower shall (a) notify the BSP at least ten (10) banking days prior to the target date of settlement of the call on the guarantee, to allow servicing using foreign exchange resources of AABs/AAB forex corps; and (b) comply with the pertinent rules covering the underlying obligation (including reportorial requirements).

On the other hand, guarantees or similar arrangements which may give rise to actual obligations of residents to non-residents that are not covered by the preceding paragraph must be (i) registered with the BSP to allow servicing of payments related thereto (e.g., guarantee fees/charges; payments for (a) call on the guarantees; and (b) obligations resulting from such call on the guarantee) using foreign exchange purchased from within the Philippine banking system (specifically, from AABs/AAB forex corps), and (ii) reported regularly to the BSP by the resident obligee using the BSP prescribed form until the contingent obligations are fully extinguished.

For purposes of the foregoing, the Philippine banking system comprises banks operating under Philippine banking laws (principal of which is the General Banking Law of 2000, Republic Act No. 8791) (i.e., AABs) and subsidiaries or affiliates of Philippine banks organised as foreign exchange corporations which buy, own or sell foreign exchange. The Philippine foreign exchange market outside the Philippine banking system comprises the market made by various entities, such as Philippine corporations with foreign currency revenues, non-Philippine banks and individuals and other non-bank entities owning foreign exchange or deposits in foreign currency deposit units (FCDUs).

REGISTRATION OF THE GUARANTEE

Approval from the BSP is not required for the guarantee of offshore borrowings. However, as described above, registration with the BSP will allow a guarantor to access the Philippine banking system to obtain U.S. dollars to service such guarantee obligations; otherwise, the guarantee will have to source the amounts for servicing the guarantee obligations from other sources of U.S. dollars such as the non-banking system or foreign currency revenue streams.

The relevant Parent Guarantor may or may not register the relevant Guarantee with the BSP. See "*Risk Factors – Risks Relating to the Notes and the Guarantees – The Guarantee will not be registered with the BSP.*"

MANAGEMENT

The overall management and supervision of each of SMIC and SM Prime is undertaken by the board of directors (each, a "**Board**"). The executive officers and management team cooperate with the relevant Board by preparing appropriate information and documents concerning SMIC's and SM Prime's respective business operations, financial condition and results of operations for their review.

SMIC

Board of Directors

On 19 March and 24 April 2024, the Board and stockholders of SMIC approved the amendment of the Sixth Article of the Articles of Incorporation of SMIC to increase the number of seats on the Board from eight (8) to nine (9), in recognition of the principles of board diversity and independence of business judgment. SMIC estimates that the application for amendment will be filed on 2 May 2024 and the approval of the SEC will be obtained on 02 June 2024. The increase in the number of seats will be effective from approval of the SEC.

The table below sets forth certain information regarding the members of the Board as of 31 December 2023.

Name	Age	Citizenship	Position
Amando M. Tetangco, Jr..	71	Filipino	Chairman
Teresita T. Sy	73	Filipino	Director
Henry T. Sy, Jr.	70	Filipino	Director
Harley T. Sy.	64	Filipino	Director
Frederic C. DyBuncio	64	Filipino	Director
Tomasa H. Lipana.	75	Filipino	Independent Director
Robert G. Vergara.	63	Filipino	Independent Director
Ramon M. Lopez	64	Filipino	Independent Director

The members of the Board of Directors were elected during the Annual Stockholders' Meeting of SMIC on 26 April 2023.

Amando M. Tetangco, Jr. is the Chairman and Independent Director of the Board of SMIC (as of 16 June 2023). He is also the Vice Chairman and Independent Director of the Board of Directors of SM Prime. He is concurrently an independent director of Belle Corporation, Converge ICT Solutions, Inc. and Shell Pilipinas Corporation. He also currently holds directorates in Manila Hotel, Toyota Motor Philippines, and CIBI Information, Inc. He is also a trustee of St. Luke's Medical Center, Tan Yan Kee Foundation and Foundation for Liberty and Prosperity.

Mr. Tetangco was the third Governor of the BSP and Chairman of the Monetary Board, and served for two consecutive 6-year terms from July 2005 to July 2017. He was a career central banker for over four decades, having joined the Central Bank of the Philippines (the predecessor of BSP) on 25 March 1974. During his term as Governor, he held other government positions, such as the Chairman of the Anti-Money Laundering Council, the Financial Stability Coordination Council, and the Philippine International Convention Center. He was also Vice-Chair of the Agriculture Credit Policy Council; and a member of the Capital Markets Development Council and the Export Development Council. Prior to his first appointment as Governor in 2005, he was Deputy Governor in-charge of the Banking Service Sector, Economic Research and Treasury of the BSP. He was also the Alternate Executive Director of the International Monetary Fund in Washington, D.C. from 1992 to 1994. Before joining the Central Bank, he worked briefly at the Management Services Division of SGV & Co. in 1973 to 1974.

Overseas, he was the country's representative to the ASEAN Central Bank Forum; the Executives' Meeting of East Asia and Pacific Central Banks; the South East Asia Central Banks; the South East Asia, New Zealand and Australia; and the Center for Latin American Monetary Studies. He was the Governor for the Philippines at the International Monetary Fund and the Alternate Governor at the World Bank and the Asian Development Bank. At the Bank for International Settlements, he was Chair of the Meeting of Small Open Economies. He also chaired various international committees – the BIS Asian Consultative Council; the Financial Stability Board Regional Consultative Group for Asia; and the Alliance for Financial Inclusion Steering Committee.

He was conferred the Order of Lakandula with the Rank of Bayani by the President of the Philippines in 2009 and the Order of the Rising Sun, Gold and Silver Star by the Emperor of Japan in 2019. He also received multiple recognition by a number of international organizations as one of the best central bank governors and chosen as MAP Management Man of the Year in 2015.

Mr. Tetangco graduated from Ateneo de Manila University with an AB Economics degree (cum laude), and obtained his Masters in Public Policy and Administration (Development Economics) at the University of Wisconsin at Madison, Wisconsin, USA, as a BSP scholar. He was conferred the Honorary Doctorate in Management by the Asian Institute of Management in 2023. He attended various training programs at different institutions, including the Harvard Business School and the New York Institute of Finance.

Teresita T. Sy is the Vice Chairperson of SMIC and Adviser to the Board of Directors of SM Prime. She also sits as Chairperson of SM Retail. She also holds board positions in several companies within the SM Group. She is also the Chairperson of BDO and serves as the Chairperson and/or Director of various subsidiaries and affiliates of BDO such as BDO Private Bank, Inc. and BDO Foundation, Inc. She also serves as Adviser to the Board of BDO 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, Chairman of SM Prime and Synergy Grid & Development Phils., Inc. He is also the Chairman and Chief Executive Officer of SMDC, Chairman of Pico de Loro Beach and Country Club Inc., Vice Chairman of National Grid Corporation of the Philippines and Chairman of the Board of Synergy Grid & Development Phils., Inc. He previously served as Chairman of SMIC in 2014 and previously served as President and Chief Executive Officer off the 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 Bachelor of Science degree in Management from the De La Salle University.

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.

Frederic C. DyBuncio is the President and Chief Executive Officer of SMIC appointed in 2017. He is also the Vice Chairman of the Board of Atlas Consolidated Mining and Development Corporation. Concurrently, he is the Chairman, President and Chief Executive Officer of 2Go Group, 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 at the Asian Institute of Management.

Tomasa H. Lipana is the Lead 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 Rural Bank of Silay City Inc. Previously, she was an independent director of Goldilocks Bakeshop Inc., Inter-Asia Development Bank, and QBE Seaboard Insurance Philippines, and an appointive Director of Trade and Investment Development Corporation (Philippine Guarantee Corporation, formerly Philippine Export-Import Credit Agency), the single entity in charge of the government guarantee system. 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. and the Sikat Solar Challenge Foundation, 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. Recently, she was bestowed the Accountancy Centenary Recognition of Service Excellence by the Professional Regulation Commission – Board of Accountancy. She also 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 a CPA Board placer.

Robert G. Vergara is an Independent Director of SMIC. He also sits as an Independent Director of Metro Pacific Hospital Holdings, Inc., STI Education Systems Holdings. Inc. and AIG Insurance Philippines, Inc. He is also Chairman and Director of Cabanatuan Electric Corporation. He was appointed President of the Manila Polo Club in August 2023. He is currently the President of Vergara Advisory Management, Inc. founded in May 2018. 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 to 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.

Ramon M. Lopez is currently an Independent Director of SMIC. He also currently serves as an Independent Director of AIC Group of Companies Holding Corporation (a subsidiary of SMIC in the Logistics sector). He is also a Board Trustee and Vice-Chairman of Valenzuela City Polytechnic College that provides education and training for industrial workforce advancement. Mr. Lopez was recently appointed as Chairman of the Governing Board of the Economic Research Institute for ASEAN and East Asia (ERIA). He was also elected as Independent Director in the Boards of unlisted companies, namely New Marketlink Pharmaceutical Corporation; Seedbox Securities Inc., which provides an online financial investment platform; and, Asian Consulting Group (ACG), a tax consulting services/advocacy for SMEs, top corporations in the Asia-Pacific. Mr. Lopez is also a Member of the Board of Advisors in Packworks Venture PTE. LTD., a start-up venture that provides a digital operations systems for micro-entrepreneurs. Mr. Lopez is also a Board Trustee in Bayan Family of Foundations, a non-profit organization providing entrepreneurship education and SMEs/social enterprise development. Mr. Lopez was the former Secretary of the Philippine DTI. He has served for the full term of the administration of former President Rodrigo Roa Duterte. He chaired during his term the DTI institutions such as the Board of Investments, the Philippine Economic Zone Authority, the Export Development Council, Anti-Red Tape Authority Advisory Council, and Philippine International Trading Corp. He also supervised attached agencies such as the Intellectual Property Office of the Philippines, Technical Education and Skills Development Authority, and the Cooperative Development Authority, among others. He received several awards such as the 2016 Nation Builders Award for Government Service and the Philippine Innovation Man of the Year Award in 2017. In 2018, he received from former President Duterte the Presidential Award, Order of Sikatuna, with a rank of Datu, one of the senior honors one can receive in the Philippines. He was also named by People Asia as one of the 2020 People of the Year, for the re-opening of the economy during the pandemic. In June 2022, he was also awarded the Presidential Medal of Merit for his vital role in the Inter-Agency Task Force for the Management of Emerging Infectious Diseases. He also received The Asia CEO Awards 2022 "*Lifetime Contributor of the Year Award*". Mr. Lopez has a Master's Degree in Development Economics 1988 class at Williams College, Massachusetts USA and an AB Degree in Economics (1981) from the University of the Philippines School of Economics.

Senior Management

The table below sets forth the key executive and corporate officers of SMIC as of 31 December 2023.

Name	Age	Citizenship	Position
Jose T. Sio	84	Filipino	Chairman Emeritus
Amando M. Tetangco, Jr.	71	Filipino	Chairman/Independent Director
Teresita T. Sy	73	Filipino	Vice Chairperson
Henry T. Sy, Jr.	70	Filipino	Vice Chairman
Harley T. Sy	64	Filipino	Executive Director
Frederic C. DyBuncio	64	Filipino	President/Chief Executive Officer
Tomasa H. Lipana	75	Filipino	Lead Independent Director
Robert G. Vergara	63	Filipino	Independent Director
Ramon M. Lopez	64	Filipino	Independent Director
Erwin G. Pato	51	Filipino	Treasurer/EVP – Treasury, Finance & Planning
Franklin C. Gomez	54	Filipino	Senior Vice President – Finance/ Corporate Information Officer
Arthur A. Sy	54	Filipino	Senior Vice President – Legal/ Assistant Corporate Secretary/ Alternate Corporate Information Officer
Elizabeth Anne C. Uychaco	68	Filipino	Senior Vice President – Corporate Services, Chief Risk & Compliance Officer
Shiela P. Alarcio	43	Filipino	Chief Audit Executive
Elmer B. Serrano	56	Filipino	Corporate Secretary

Jose T. Sio is the Chairman Emeritus of the Board of SMIC. He is also a Director of China Banking Corporation, Atlas Consolidated Mining and Development Corporation, NLEX Corporation, Ortigas Land Corporation, Trustee of Far Eastern University, Incorporated and Adviser to the Board of Directors of BDO Unibank, Inc., Belle Corporation 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. 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. In June 2022, he received the *Parangal San Mateo* Award from the Philippine Institute of Certified Public Accountants (PICPA) Foundation, Inc. In March 2023, he was honored by the Professional Regulatory Board of Accountancy with the Accountancy Centenary Award of Excellence.

Erwin G. Pato is the Treasurer and Executive Vice President for Treasury, Finance and Planning of SMIC. He is the Chairman of Family Cooperation Health Services Foundation, Inc. (FAMCOHSEF) and currently also a Board Director of SMIC SG Holdings Pte. Ltd. Prior to joining SMIC in January 2020, he was formerly the Head of Treasury of Temasek Holdings Pte Ltd. based in Singapore. He spent over 25 years of Treasury and Finance leadership experience in various industries spanning investment banking, local and regional banks, global consumer finance companies, global industrial companies, and government owned global investment companies. Mr. Pato holds a Bachelor of Arts Degree major in Economics from Ateneo de Manila University.

Franklin C. Gomez is the Senior Vice President for Finance 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 the De La Salle University, Manila.

Arthur A. Sy is the Assistant Corporate Secretary and Senior Vice President for Legal Department of SMIC. He is likewise the Assistant Corporate Secretary of SM Prime, 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 Juris Doctor degree from the Ateneo de Manila University, School of Law.

Elizabeth Anne C. Uychaco is the Senior Vice President for Corporate Services, Chief Risk and Compliance Officer of SMIC, Diversity Officer of SM Group. She is currently a Board Director and Vice Chairperson of Belle Corporation. She is also the Chairperson of the Board of The Neo Group. She is likewise a Board Director of Republic Glass Holdings Corp., Goldilocks Bakeshop, Inc., Brownies Unlimited, Inc., ACE Hardware Philippines, Inc., and Philippines Urban Living Solutions. She is also a Trustee of Asia Pacific College and President and Trustee of Senior Member Social Club. 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 has 18 DBA units in Corporate Finance from Walden University. 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.

Shiela P. Alarcio is the Chief Audit Executive of SMIC. She has served as a member of Board of Trustees of Institute of Internal Auditors-Philippines from 2020-2023. She has more than 22 years of vast experience in financial audit, internal audit, financial and control risks assessment, risk management, review of operations and financial controls, regulatory compliance and fraud investigations. Prior to joining SMIC in 2023, Ms. Alarcio served as the Chief Audit Executive of Monde Nissin Corporation for three (3) years. Ms. Alarcio also worked for seven years as Head of Group Internal Audit of AIA Philippines (previously Philam Life), three years as Head of Internal Audit of Splash Corporation and had a 10 year stint with PricewaterhouseCoopers (PwC) Manila and London where she acquired her deep external audit experience from vast array of clients of various industries. Ms. Alarcio is a Certified Public Accountant, Certified Internal Auditor, a Certified Fraud Examiner and a Certified External Quality Assessor of Internal Audit Activity. Ms. Alarcio has also successfully completed the Certification for Trust Operations and Investment, a Fellow of Life Management Institute Management and a Fellow of Institute of Corporate Directors.

Elmer B. Serrano is the Corporate Secretary of SMIC since November 2014. Atty. Serrano is a practicing lawyer specializing in corporate law and is the Managing Partner and founder of the law firm SERRANO LAW. He has been awarded "Asia Best Lawyer" by the International Financial Law Review (IFLR) after being consistently recognized as a "Highly Regarded-Leading Lawyer" by IFLR and named "Leading Individual" by the Legal 500 Asia Pacific.

Atty. Serrano is the Chairman of Dominion Holdings, Inc. (formerly, BDO Leasing and Finance, Inc.), a director of EEI Corporation and DFNN, Inc. and an Independent Director of Philippine Telegraph and Telephone Corporation and Benguet Corporation. He is also a director of 2GO Group, Inc. He is also the Corporate Information Officer of BDO Unibank, Inc. and serves as the corporate secretary of the bank's subsidiaries and affiliates. Atty. Serrano is also Corporate Secretary of SM Prime, Premium Leisure Corp., Atlas Consolidated Mining and Development Corporation, as well as subsidiaries of DFNN Inc. He is also Corporate Secretary of, or counsel to, prominent financial industry organizations, such as the Bankers Association of the Philippines, the Philippine Payments Management, Inc. and the PDS Group of Companies.

Atty. Serrano is a Certified Associate Treasury Professional and was among the top graduates of the Trust Institute of the Philippines in 2001. Atty. Serrano holds a Juris Doctor degree from the Ateneo de Manila University and a BS Legal Management degree from the same university.

SM PRIME

Board of Directors

The table below sets forth certain information regarding the members of the Board as of 31 December 2023.

Name	Age	Citizenship	Position
Henry T. Sy, Jr.	70	Filipino	Chairman
Amando M. Tetangco, Jr.	71	Filipino	Independent Director
Hans T. Sy	68	Filipino	Director
Herbert T. Sy	67	Filipino	Director
Jorge T. Mendiola	64	Filipino	Director
J. Carlitos G. Cruz	63	Filipino	Independent Director
Darlene Marie B. Berberabe	55	Filipino	Independent Director
Jeffrey C. Lim	62	Filipino	Director

The members of the Board of Directors were elected during the Annual Stockholders' Meeting of SM Prime on 25 April 2023.

Henry T. Sy, Jr. See above.

Amando M. Tetangco, Jr. See above.

Hans T. Sy is the Chairman of the Executive Committee of SM Prime and has been a Director since 1994. He previously held the position of President of SM Prime until September 2016. He also held key positions in several companies engaged in banking, real estate development, mall operations, as well as leisure and entertainment. He is currently Adviser to the Board of SMIC, Chairman of China Banking Corporation, and Chairman of National University. Mr. Sy holds a B.S. Mechanical Engineering degree from De La Salle University.

Herbert T. Sy has been a director of the SM Prime since 1994. He is also an Adviser to the Board of SMIC and is currently the Chairman of Supervalue Inc., Super Shopping Market Inc. and Sanford Marketing Corporation and Director of Alfamart Trading Philippines Inc. and China Banking Corporation. He also sits in the board of several companies within the SM Group and has worked with SM companies engaged in food retail for more than 35 years. He is likewise actively involved in the SM Group's Supermarket Operations, which include acquisition, evaluation and negotiation for potential sites. He holds a Bachelor's degree in Management from De La Salle University.

Jorge T. Mendiola has been a director of SM Prime since 2012. He is also currently a Director of SM Retail, Inc. He started his career with The SM Store as a Special Assistant to the Senior Branch Manager in 1989 and rose to become its President in 2011. He is also currently the Vice Chairman for Advocacy of the Philippine Retailers Association. He received his Master's degree in Business Management from the Asian Institute of Management. He holds an A.B. Economics degree from Ateneo de Manila University.

J. Carlitos G. Cruz was elected as an Independent Director of the Board of Directors of SM Prime in April 2021. He is concurrently an independent director of Transnational Diversified Group, Inc., Federal Land, Inc., Solar Philippines Power Project Holdings, Inc., Asialink Finance Corporation and related companies namely Global Dominion Financing Incorporated, South Asialink Finance Corporation, Global Cebuana Finance Inc., Cebuana Cycle Financing Corp., Surecycle Financing Corp. and Cepat Kredit Financing, Inc., and MarCoPay Inc. and its subsidiaries such as MCP Finance, Inc., MCP Insurance Management and Agency, Inc., and an independent trustee of the MPIC Beneficial Trust Fund. He is also an independent director of Vivant Corporation which is a listed company. He is also a member of the Makati Business Club, Inc. and Management Association of the Philippines. Mr. Cruz joined SGV & Co. (EY Philippines)

in 1981 and was admitted to the partnership in 1995. He was later on appointed Chairman and Managing Partner in 2017 until 2019. Concurrent with his role as SGV Chairman and Managing Partner, he was also Chairman and President of the SGV Foundation. He also became President of Association of Certified Public Accountants in Public Practice or ACPAPP in 2017, and in 2018, assumed the presidency of the ACPAPP Foundation. Mr. Cruz has also been active in supporting the Government's efforts to promote business and trade by participating in Presidential business delegations to various countries, including Thailand during the terms of President Joseph Estrada, President Cory Aquino and President Rodrigo Duterte; Europe and Japan during the term of President Benigno Aquino III; and Russia during the term of President Rodrigo Duterte. Mr. Cruz graduated from the University of Santo Tomas with a Bachelor of Science in Commerce degree. He completed the Advanced Management Program of the Harvard Business School in 2007. He has been conferred with numerous awards, the latest of which is the "*Parangal San Mateo*" from the Philippine Institute of Certified Public Accountants. The award is the highest honor given to a CPA in honor of his significant contributions to the accountancy profession. He was also conferred by the Philippine Regulatory Board of Accountancy as a recipient of the Accounting Centenary Award of Excellence given to the 100 most notable CPAs in Philippine Accounting history.

Darlene Marie B. Berberabe was elected as an Independent Director of the Board of Directors of SM Prime in April 2021. She is a lawyer, management consultant, and academic. She is the Dean of the UP College of Law and holds directorates in Joy-Nostalg Solaris Inc., Palm Concepcion Power Corporation, PA Alvarez, Katapult Digital and UnionDigital Bank. She is also a faculty member of the Philippine Judicial Academy. She is also elected to the Board of Trustees of The Outstanding Women in Nation Service, Philippine Heart Association and University of the Philippines ("**UP**") Law Alumni Foundation. She was an associate lawyer in Quisumbing Torres Law Firm with specialization on labor law. Post law firm, she joined Procter & Gamble Philippines where she was a Senior Counsel and member of the Leadership Team. In 2010, she was appointed by the President of the Republic of the Philippines as the CEO of Pag-IBIG Fund. She was a recipient of a number of awards including Outstanding CEO in Asia by the ADFIAP, Outstanding CEO in the public sector by Asia CEO, one of The Outstanding Women in Nation Service in 2013, and one of the 100 Most Influential Filipino Women in 2014. She graduated with a degree in Philosophy from UP, summa cum laude and class valedictorian of the College of Social Sciences and Philosophy in 1989. She was the first female Philosophy instructor in the same school where she taught for 10 years, and has a Masters in Philosophy. She was a working student and graduated salutatorian of her class in UP Law in 1999.

Jeffrey C. Lim was appointed President of SM Prime in October 2016 and has been reappointed as such since then. He is a member of the SM Prime's Executive Committee. He was elected to the Board of Directors of SM Prime in April 2016. He concurrently holds various board and executive positions in other SM Prime subsidiaries. He previously served as President of SMDC. He is a Certified Public Accountant and holds a Bachelor's degree in Accounting from the University of the East. Prior to joining the SM Group in 1994, he worked for a multi-national company and for SGV & Co.

Senior Management

The table below sets forth the key executive and corporate officers of SMIC as of 31 December 2023.

Name	Age	Citizenship	Position
Henry T. Sy, Jr.	70	Filipino	Chairman
Amando M. Tetangco, Jr.	71	Filipino	Vice Chairman
Jeffrey C. Lim	62	Filipino	President
Teresita T. Sy	73	Filipino	Adviser to the Board
Elizabeth T. Sy	71	Filipino	Adviser to the Board
Edward K. Lee	68	Filipino	Independent Adviser to the Board
John Nai Peng C. Ong	53	Filipino	Chief Finance Officer, Corporate Information Officer and Chief Compliance Officer

Name	Age	Citizenship	Position
Marvin Perrin L. Pe	45	Filipino	Vice President – Internal Audit and Chief Audit Executive
Joana B. Tiangco	39	Filipino	Chief Risk Officer
Steven T. Tan	54	Filipino	President, Malls
Jose Mari H. Banzon.	63	Filipino	President, Residential (Primary)
Glenn D. Ang	60	Filipino	President, SM Smart City
Shirley C. Ong	62	Filipino	EVP, Residential (Leisure)
Antonio Felix L. Ortiga.	45	Filipino	VP, Commercial
Ma. Luisa E. Angeles	65	Filipino	EVP, Hotels and Convention Centers
Elmer B. Serrano	56	Filipino	Corporate Secretary, Alternate Compliance Officer
Arthur A. Sy.	54	Filipino	Assistant Corporate Secretary, Alternate Corporate Information Officer

Elizabeth T. Sy was elected as an Adviser to the Board in April 2012. She serves as a member of the Executive Committee and Trust Committee of the Board of Directors of BDO Private Bank, Inc. She is also the Chairperson and President of SM Hotels and Conventions Corporation where she steers SM's continuous growth in the tourism, leisure and hospitality industry. She is also the Chairman of Nazareth School of National University. Ms. Sy likewise serves as Adviser to the Board of SMIC and Chairman of Pico De Loro Beach and Country Club. She graduated with a degree in Business Administration from Maryknoll College.

Edward K. Lee was elected as an Independent Adviser to the Board last April 2023. He is concurrently the Founder and Chairman of the Board of COL, COL Securities (HK) Limited, CTS Global Equity Group, Inc., Caylum Trading Institute, CloudArch Ventures Group, and COL Investment Management, Inc. Mr. Lee served as a nominee of CTS Global Equity Group, Inc. to the Manila Stock Exchange and presently to the PSE. He was elected as one of the Governors of the Philippine Stock Exchange and was the Chairman of the Computerization committee of the Manila Stock Exchange and PSE in 1994. He went on to become a member of the Board of Directors of A. Soriano Corporation serving for two terms. Mr. Lee was also nominated as a finalist in the 2007 Entrepreneur of the Year Philippines by Ernst & Young. In 2015, he was awarded the Theodore Vail Most Outstanding JA Alumni Awardee. From 2016 to 2019, he was appointed as an official board member of JA Asia Pacific. He took a Bachelor of Science in Industrial Management Engineering at De La Salle University. He was the recipient of the 2023 Lasallian Achievement Award by the De La Salle Alumni Association (DLSAA) and is honoured as the distinguished Master Innovator awardee at the 3rd Mansmith Innovation Awards.

John Nai Peng C. Ong is the Chief Finance Officer, Chief Compliance Officer, Corporate Information Officer and a member of the SM Prime's Executive Committee. He holds various board and executive positions in other SM Prime subsidiaries. He is a Certified Public Accountant and holds a Bachelor of Science degree in Accounting from Ateneo de Zamboanga University. He received his Master in Management from the Asian Institute of Management. Prior to joining the SM Group in 2014, he was an Assurance Partner in SGV & Co.

Marvin Perrin L. Pe is the Vice President for Internal Audit and Chief Audit Executive. He holds a Bachelor of Science degree in Accountancy from Centro Escolar University. He has completed his Masters in Management Degree, with distinction, from the Asian Institute of Management. Mr. Pe is a Certified Public Accountant, Certified Internal Auditor and has a Certification in Control Self-Assessment. Before joining SM Prime, Mr. Pe was an Assurance Partner of SGV & Co.

Joana B. Tiangco is the Chief Risk Officer of SM Prime and has been with SM Prime since 2016. She was formerly a compliance and risk officer of the Bank of the Philippine Islands, where she gained over 10 years' experience in banking, compliance and risk management. Ms. Tiangco holds a Bachelor of Science in Management of Financial Institutions from the De La Salle University-Manila, with various training in areas of management, business continuity, operations and control, AML, corporate governance, insurance, leadership management, ethics and compliance, and sustainability, among others.

Steven T. Tan is the President of SM Supermalls and handles mall properties in the Philippines and China. He took up Business Management at University of Santo Tomas and completed his Masters in Business Administration from Paris School of Management. Mr. Tan began his career in Howard Plaza Hotel at Taipei, Taiwan from 1990 to 1998 and moved to Shanghai, China to form part of the opening team of the Barcelo Grand Hotel. He returned to the Philippines in 2001 to work as Regional Director of Marketing and Communications for FilBarcelo, handling external affairs for the group. In 2004, he joined SM Prime handling mall operations for The Podium and in January 2006, led the launch and operations of SM Mall of Asia.

Jose Mari H. Banzon is the President for Residential (Primary). He holds a Bachelor of Arts degree in Economics and a Bachelor of Science degree in Management of Financial Institutions from De La Salle University. Prior to joining SMDC in 2013, he was executive vice president and general manager of Federal Land, Inc. He had also worked in the corporate banking department of various financial institutions in the Philippines and Hong Kong.

Glenn D. Ang is the President of SM Smart City Infrastructure and Development Corporation. He previously held the position of Senior Vice President for Operations of SM Supermalls where he joined the company since 1992. He is a Certified Public Accountant and holds a Bachelor's degree in Accounting from San Beda University. He received his Post Graduate Certificate in Management Development Program from the Asian Institute of Management. Mr. Ang worked for SGV & Co. prior to joining the SM Group.

Shirley C. Ong is the Business Unit Head for Residential (Leisure). She is also the President/CEO of Highlands Prime Inc., and the President/Chairman of Costa del Hamilo. She is also the Director of the Midlands Golf and Country Club. Before joining the SM Group, she was First Vice President for Business Development of Filinvest Alabang, Inc. from 1995 to 2009. She brings with her over 29 years of experience, 25 years of which has been in various areas of real estate from city development, office/residential, high rise development, residential village development including finance, marketing, sales and property management. She graduated cum laude with a bachelor's degree in Arts, Major in Economics from the University of Sto. Tomas.

Antonio Felix L. Ortiga is the Business Unit Head for Commercial Property Group. He joined the Costa Del Hamilo, Inc. ("**CDHI**") team in 2014, overseeing numerous functions, including Projects, Sales, and Property Operations. Before joining SM Group, he had local and international experience with well-established and recognized companies, spanning industries that include luxury goods and real estate financing. A graduate of Georgetown University's McDonough School of Business in Washington DC, USA with a degree of Bachelor of Science degree in Business Administration, Double Major in Finance and Marketing, Magna Cum Laude, he also completed his Masters of Business Administration with focus on Finance Concentration in 2007 at the Hong Kong University of Science and Technology.

Ma. Luisa E. Angeles is the Business Unit Head for Hotels and Convention Centers. She holds a Bachelor of Science degree in Hotel and Restaurant Administration from the University of the Philippines, Diliman. She has more than 40 years of domestic and international work expertise in the hotel management industry specifically in the field of sales, marketing, revenue management, events handling, operations, project development and management.

RELATED PARTY TRANSACTIONS

In the case of an issuance of Notes by SM Prime SG Holdings, investors should only consider and rely on the disclosure in relation to SM Prime in this Offering Circular (and not any disclosure in relation to SMIC SG Holdings, SMIC or the SM Group). SM Prime is the only Parent Guarantor with respect to any issuance of Notes by SM Prime SG Holdings and SMIC will not provide any guarantee or credit support for Notes issued by SM Prime SG Holdings. Investors should therefore not consider nor rely on any disclosure relating to SMIC SG Holdings, SMIC or the SM Group with respect to any issuance of Notes by SM Prime SG Holdings. For the avoidance of doubt, SMIC is the only Parent Guarantor with respect of any issuance of Notes by SMIC SG Holdings and SM Prime will not provide any guarantee or credit support for Notes issued by SMIC SG Holdings.

SMIC, SM Prime, their respective subsidiaries, shareholders and associates, in the ordinary course of business, have entered into transactions with affiliates and other related parties, principally consisting of advances and sale and purchase of services and/or products.

SMIC

SMIC and its subsidiaries have contractual arrangements and transactions with its associate companies and other related parties. The significant related party transactions are as follows:

- *Cash Placements and Investment in Marketable Securities*

  SMIC has certain bank accounts and cash placements with the Banking Group. Such accounts earn interest at prevailing market rates.

- *Interest-bearing Debt*

  SMIC has certain bank loans and debts with the Banking Group. Such accounts earn interest at prevailing market rates.

- *Receivable Financed*

  SMIC assigned portions of its receivable from sales of condominium and residential units, on without recourse basis, to the Banking Group.

- *Rent*

  SMIC has existing lease agreements for office and commercial spaces with related companies (retail and banking group and other related parties under common stockholders).

- *Royalty and Service Fee Receivable*

  SMIC 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*

  SMIC earns dividend income from certain related parties under common stockholders.

- *Others*

  SMIC, in the normal course of business, has outstanding receivables from and payables to related companies which are unsecured and normally settled in cash. SMIC did not make any provision for impairment loss relating to amounts owed by related parties.

SM PRIME

SM Prime has transactions with related parties such as SMIC, SM Retail, BDO Unibank and China Banking Corporation, among others. These transactions generally comprise rent, service fees, dividend income, cash placement and loans.

- *Rent*

  SM Prime has existing lease agreements for office and commercial spaces with related companies (including the Retail Group, the Banking Group and other affiliates).

- *Other Revenue*

  SM Prime provides management, manpower and other related services to affiliates.

- *Dividend Income*

  SM Prime's equity instruments at fair value through other comprehensive income of certain affiliates earn income upon the declaration of dividends by the investees.

- *Cash Placements and Loans*

  SM Prime has certain bank accounts and cash placements that are maintained with the Banking Group. Such accounts earn interest based on prevailing market interest rates.

  SM Prime also avails of bank loans and long-term debt from the Banking Group and pays interest based on prevailing market interest rates.

  SM Prime also enters into financing arrangements with the Banking Group and there were no assigned receivables on a with recourse basis to the Banking Group in 2023 and 2022.

- *Others*

  SM Prime, in the normal course of business, has outstanding receivables from and payables to related companies as of reporting period which are unsecured and normally settled in cash.

Transactions with related parties are entered into on an arm's length basis. See Note 21 to SMIC's audited consolidated financial statements as of and for the years ended 31 December 2023 and Note 19 to SM Prime's audited consolidated financial statements as of and for the years ended 31 December 2023 for more detailed information.

Receivables from related parties of SMIC totaled ₱4.4 billion (U.S.$79.0 million) as of 31 December 2023 and receivables from related parties of SM Prime totaled ₱3.7 billion (U.S.$66.6 million) as of 31 December 2023.

TAXATION

The information provided below does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Notes. In particular, the information does not consider any specific facts or circumstances that may apply to a particular purchaser. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of Notes, or of any person acquiring, selling or otherwise dealing with Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of Notes. The statements do not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of Notes and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules.

Prospective purchasers of Notes are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Notes, including the effect of any state or local taxes, under the tax laws applicable in the Philippines and each country of which they are residents.

PHILIPPINE TAXATION

The following is a general description of certain Philippine tax aspects of the Notes. It is based on the current provisions of the National Internal Revenue Code of 1997, as amended by Republic Act No. 10963 (or the Tax Reform for Acceleration and Inclusion or TRAIN Law), Republic Act No. 11534 (or the Corporate Recovery and Tax Incentives for Enterprises Act or the CREATE Act) and Republic Act No. 11976 (or the Ease of Paying Taxes Act or the EOPT Act) (the "**Philippine Tax Code**"), the regulations promulgated thereunder and judicial and ruling authorities in force as of the date of this Offering Circular, all of which are subject to changes occurring after such date, which changes could be made on a retroactive basis.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen of the Philippines while 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 stays in 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"; otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not engaged in trade or business within the Philippines". A "resident foreign corporation" is a foreign corporation engaged in trade or business in the Philippines and a "non-resident foreign corporation" is a foreign corporation that is not engaged in trade or business within the Philippines. The term "non-Philippine holders" refers to beneficial owners of the Notes who are (1) non-resident aliens not engaged in trade or business within the Philippines or (2) non-resident foreign corporations.

Documentary Stamp Tax

Under the Philippine Tax Code, a documentary stamp tax is imposed upon every original issue of debt instruments, such as bonds and notes, at the rate of ₱1.50 on each ₱200, 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 proportionate to the ratio of the debt instrument's 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, the property is situated in the Philippines, or where the object of the contract is located or used in the Philippines.

No documentary stamp tax is imposed on the subsequent sale or disposition of the Notes, trading of the Notes in a secondary market or through an exchange as long as such subsequent sale, disposition or trading is not made in the Philippines or in case of the renewal or continuance of the Notes, there is no change in the maturity date or the material terms and conditions of the Notes.

Repayment of the Principal on the Notes

The Issuers' payment of the principal on the Notes to a non-Philippine holder will not subject such non-Philippine holder to taxation in the Philippines by reason solely of the holding of the Notes or the receipt of principal.

Under the current laws and regulations of the Philippines, all payments of principal on the Notes may be paid by the Issuer pursuant to the terms of the Agreements to the Noteholders who are non-residents of the Philippines without being subject to Philippine income, withholding or other taxes and are otherwise free and clear of any other tax, duty, withholding or deduction in the Philippines.

Gains realised from the sale, exchange or retirement of the Notes may be exempt from Philippine income tax, if the Notes are considered Long Term Notes, if sold by non-residents outside the Philippines, or if the holder is qualified for such exemption under an applicable law or tax treaty. The Notes, if considered situated in the Philippines, will not be included in the decedent's gross estate and will thus not be subject to estate tax in the Republic of the Philippines if the deceased at the time of death was a citizen and resident of a foreign country which did not impose a transfer or estate tax of any character in respect of intangible personal property of citizens of the Republic of the Philippines not residing in that foreign country, or if the laws of the foreign country of which the deceased was a citizen and resident at the time of his or her death allow a similar exemption from transfer or estate taxes of every character and description in respect of intangible personal property owned by citizens of the Republic of the Philippines not residing in that foreign country.

Interest on the Notes

Under the Philippine Tax Code, alien individuals and foreign corporations are subject to Philippine income tax on Philippine-sourced income only. It further provides that interest income derived from bonds, notes or other interest-bearing obligations of Philippine residents is Philippine-sourced income subject to Philippine income tax. As the Notes will be issued by the Issuers which are non-resident foreign corporations, interest on the Notes received by non-resident holders from the Issuers should not be subject to Philippine income tax on interest. However, resident Philippine citizens and domestic corporations are subject to tax on their global income. As such, interest income on the Notes paid by the Issuers will form part of a resident Philippine citizen's or a domestic corporation's gross income, which, after being reduced by the applicable deductions, will be subject to the applicable Philippine income tax rates. The net taxable income of resident Philippine citizens is subject to graduated tax rates ranging from 0-35% while the net taxable income is subject to a flat 25% tax rate for domestic corporations and 20% for domestic corporations classified as small and medium enterprises ("**SMEs**"). SMEs are domestic corporations with net taxable income not exceeding ₱5 million and with total assets not exceeding ₱100 million, excluding land on which the particular business entity's office, plant, and equipment are situated during the taxable year for which the tax is imposed.

Any payment made by the Issuers to a Noteholder under the Notes which is attributable to interest on the Notes could be considered as Philippine-sourced income of the Noteholder and accordingly subject to final withholding taxes in the Philippines at the following rates depending on the type and nationality of the Noteholder:

Philippine citizens and resident alien individuals	20%
Non-resident aliens doing business in the Philippines	20%
Non-resident aliens not doing business in the Philippines	25%
Domestic corporations	20%
Resident foreign corporations	20%
Non-resident foreign corporation	25%

If the payment made by the Issuers to a non-resident foreign corporation is in foreign currency and qualifies as interest on foreign loans, the applicable final withholding tax rate is 20%.

The aforementioned final withholding tax rates may be reduced by applicable provisions of tax treaties in force between the Philippines and the tax residence country of the non-resident Noteholder. Most tax treaties to which the Philippines is a party provide for a preferential reduced tax rate of 15% where Philippine-source interest income is paid to a resident of the other contracting state. However, tax treaties would also normally qualify that the preferential reduced tax rates will not apply if the recipient of the interest income, even if considered 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 to such permanent establishment.

Under Condition 8 all payments of principal, premium and interest by or on behalf of the Issuer (or the Parent Guarantor, as the case may be) in respect of the Notes, Receipts and Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of any Tax Jurisdiction, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such Additional Amounts as will result in receipt by the holders of the Notes, Receipts or Coupons of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note, Receipt or Coupon:

(i) to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of such holder having some connection with a Tax Jurisdiction other than the mere holding of the Note, Receipt or Coupon; or

(ii) presented for payment more than 30 days after the Relevant Date (as defined in Condition 8.2) except to the extent that a holder of such Note would have been entitled to such Additional Amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Payment Business Day (as defined in Condition 6.6).

Tax Exempt Status

Noteholders who are exempt from, are not subject to final withholding tax, or are subject to a lower rate of final withholding tax on interest income paid by the Issuer may avail of such exemption or preferential withholding tax rate by submitting the necessary documents. The BIR has prescribed certain procedures for availment of such exemption or preferential withholding tax rate. Assuming the payments to be made by the Issuer are subject to withholding tax, subject to the filing of the Issuer's application and its approval by the BIR, the Issuer will not withhold or will withhold at a reduced rate provided that such holder furnishes the Issuer with the following documents, in form and substance prescribed by the Issuer:

(a) For (1) tax-exempt corporations under Section 30 of the Philippine Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Philippine Tax Code); (2) cooperatives duly registered with the Cooperative Development Authority; and (3) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed "valid, current and subsisting" if it has not been more than 3 years since the date of issuance thereof;

(b) For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Noteholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator;

(c) For all other tax-exempt entities (including, but not limited to, (1) non-stock, non-profit educational institutions; (2) government-owned or -controlled corporations; and (3) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and

international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax;

(d) With respect to tax treaty relief, (1) duly accomplished BIR Form 1901-I, (2) Tax Residency Certificate for the period when the treaty rate is claimed, duly issued by the tax authority of the foreign country in which the income recipient is a resident, (3) bank documents/certificate of deposit/telegraphic transfer/telex/money transfer evidencing payment/remittance of income, (4) if applicable, proof that the Notes in respect of which the interest is paid is not effectively connected with the permanent establishment of the foreign enterprise in the Philippines (e.g., audited financial statements ("**AFS**") or sworn certification signed by a principal officer of the permanent establishment, if the AFS is not available; and

(e) Any other document that the Issuer may require from time to time; (i) a duly notarised declaration and undertaking in the prescribed form, executed by (ii.a) the Corporate Secretary or any authorised representative, who has personal knowledge of the exemption based on his official functions, if the Noteholder purchases Notes for its account, or (ii.b) the Trust Officer, if the Noteholder is a universal bank authorised under Philippine law to perform trust and fiduciary functions and purchase the Notes pursuant to its management of tax-exempt entities (*i.e.,* Employee Retirement Fund, etc.), declaring and warranting that the same Noteholder named in the tax exemption certificate described in (i) above, is specifically exempt from the relevant tax or is subject to a preferential tax rate for the relevant tax, 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 free and harmless against any claims, actions, suits, and liabilities, or any tax or charge resulting from the non-withholding of the required tax; and (iii) if applicable, such other documentary requirements as may be reasonably required by the Issuer, or as may be required under applicable regulations of the relevant taxing or other authorities; 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 Noteholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Issuer.

If the regular rate mentioned above is withheld by the Issuer, instead of the reduced rate, the Noteholder may file a claim for a refund from the BIR following the procedures under Revenue Memorandum Order No. 14-2021. However, because the refund process in the Philippines could be cumbersome, requiring the filing of an administrative claim and the possible filing of a judicial appeal, it may be impractical to pursue such a refund.

Value-Added Tax

Gross sales derived by dealers in securities from the sale of the Notes in the Philippines shall be subject to value-added tax of 12%.

"Dealer in securities" means a merchant of stock or securities, whether an individual partnership or corporation, with an established place of business, regularly engaged in the purchase of securities and their resale to customers, that is, one who as a merchant buys securities and sells them to customers with a view to the gains and profits that may be derived therefrom.

Under the Philippine Tax Code, as amended by the EOPT Act, the term "gross sales" means the total amount of money or its equivalent representing the contract price, compensation, service fee, rental or royalty, including the amount charged for materials supplied with the services and deposits and advanced payments actually or constructively received during the taxable quarter for the services performed or to be performed for another person, which the purchaser pays or is obligated to pay to the seller in consideration of the sale, barter, or exchange of services that has already been rendered by the seller and the use or lease of properties that have already been supplied by the seller, excluding value-added tax and those amounts earmarked for payment to third (3rd) party or received as reimbursement for payment on behalf of another which do not redound to the benefit of the seller as provided under the relevant laws, rules or regulations.

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%

If the net trading gains realised within the taxable year on the sale or disposition of the Notes by banks and non-bank financial intermediaries performing quasi-banking functions are considered as gross receipts derived from sources within the Philippines, such gains shall be subject to gross receipts tax at the rate of 7%.

Sale or Other Disposition of the Notes

Any gain, profit or income from sale or disposition of personal property will generally be considered as Philippine-sourced income only if sold within the Philippines. If the Noteholder is a non-resident foreign corporation, and presumably the situs of any transfer involving the Notes will be facilitated in and take place outside the Philippines, any gain, profit or income from any sale or disposition of the Notes outside the Philippines will generally not be considered as Philippine-sourced income insofar as the Philippine-sourced taxpayers are concerned and thus the receipt by said taxpayers of any gain from sale of the Notes outside the Philippines will not be subject to Philippine tax.

On the other hand, since resident citizens and domestic corporation are subject to Philippine tax on their income whether these are Philippine-sourced income or not, their realisation of any gain, profit or income from sale or disposition of the Notes will generally be subject to Philippine tax. A holder of the Notes will recognise a gain or loss upon the sale or other disposition (including a redemption at maturity or otherwise) of the Notes in an amount equal to the difference between the amount realised from such disposition and such holder's basis in the Notes.

Under Section 32(B)(7)(g) of the Tax Code, gains realised from the sale, exchange or retirement of bonds, debentures and other certificates of indebtedness with a maturity date of more than five years (as measured from the date of issuance of such bonds, debentures or other certificates of indebtedness) ("**Long Term Notes**") are exempt from income tax. The BIR, however, has not had the occasion to confirm whether bonds issued by foreign entities, such as the Notes, may constitute Long Term Notes for purposes of such exemption. In any case, any gain from the sale or exchange of the Notes is not subject to Philippine income tax if the sale or exchange of the Notes by a non-resident holder takes place outside the Philippines.

If the Notes are considered ordinary assets, gains from the sale or disposition of such Notes within the Philippines that are subject to Philippine income tax will be included in the computation of gross income, which, after being reduced by the applicable deductions, is subject to the following graduated tax rates for

Philippine citizens (whether residents or non-residents), or resident foreign individuals or non-resident aliens engaged in trade or business in the Philippines effective 1 January 2023 and onwards:

Not over ₱250,000	0%
Over ₱250,000 but not over ₱400,000	15% of the excess over ₱250,000
Over ₱400,000 but not over ₱800,000	₱22,500 + 20% of the excess over ₱400,000
Over ₱800,000 but not over ₱2,000,000	₱102,500 + 25% of the excess over ₱800,000
Over ₱2,000,000 but not over ₱8,000,000	₱402,500 + 30% of the excess over ₱2,000,000
Over ₱8,000,000	₱2,202,500 + 35% of the excess over ₱8,000,000

For non-resident aliens not engaged in trade or business, the gain from the sale of Notes within the Philippines shall be subject to the 25% final withholding tax.

If the Notes are considered as capital assets of individual Noteholders, gains from the sale or disposition of such Notes shall be subject to the same income tax rates as if the Notes were held as ordinary assets, except that if the gain is realised by an individual who held the Notes for a period of more than twelve (12) months prior to the sale, only 50% of the gain will be recognised and included in the computation of gross income, subject to the applicable deductions. On the other hand, if the Notes were held by an individual for a period of twelve (12) months or less, 100% of the gain will be included in the computation of the taxable income.

Gains derived by domestic or resident foreign corporations on the sale or other disposition of the Notes within the Philippines are included in the computation of gross income. which, after being reduced by the applicable deductions, is subject to a 25% regular corporate income tax for domestic (on income sourced within or outside the Philippines) or resident foreign corporations (on income sourced within the Philippines), or 20% corporate income tax for domestic corporations with total assets not exceeding ₱100.0 million and total net taxable income not exceeding ₱5.0 million. Gains derived by non-resident foreign corporations on the sale or other disposition of the Notes within the Philippines shall form part of their gross income which is subject to a 25% final withholding tax, unless such foreign corporation is entitled to preferential tax treatment pursuant to a tax treaty subject, which preferential tax treatment must be applied for and is subject to the foreign corporation's submission of such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

Estate and Donor's Tax

As the Notes are issued by a corporation organised outside the Philippines, they generally do not have a Philippine situs. Having no Philippine situs, the transfer of the Notes (1) to the estate or heirs of a deceased non-resident alien holder should not be subject to Philippine estate taxes and (2) by way of donation should not be subject to Philippine donor's taxes.

However, the following obligations of a foreign corporation are deemed to have a Philippine situs and are subject to Philippine estate or donor's gift taxes upon their transfer: (1) obligations of a foreign corporation, 85% of the business of which is located in the Philippines, and (2) obligations issued by a foreign corporation, if such obligation has acquired a business situs in the Philippines. The Notes may acquire a Philippine situs if the foregoing circumstances become applicable to the Issuers or the Notes.

If the Notes are deemed to have a Philippine situs, the transfer of the Notes by a deceased Noteholder to his heirs by way of succession shall be subject to a Philippine estate tax at a fixed rate of 6% of the net estate.

If the Notes are deemed to have a Philippine situs, a Noteholder who transfers the Notes by way of gift or donation shall be subject to Philippine donor's tax at the fixed rate of 6% based on the total gifts or donations in excess of ₱250,000 exempt gifts 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 Notes, shall not be collected in respect of intangible property, such as the Notes, (1) if the deceased, at the time 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 (2) 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.

Subject to the qualifications discussed above, in case the Notes are transferred for less than adequate and full consideration in money or money's worth, the amount by which the fair market value of the Notes exceeded the value of the consideration may be deemed a gift and donor's taxes may be imposed on the transferor of the Notes. Transfer of the Notes made in the ordinary course of business (a transaction which is *bona fide*, at arm's length, and free from any donative intent) is considered as made for an adequate and full consideration in money or money's worth.

Taxation outside the Philippines

The tax treatment of a non-resident holder of any of the Notes by jurisdiction outside the Philippines will vary depending on the tax laws applicable to such holder by reason of domicile or business activities and may vary depending upon such holder's situation. Each holder of any of the Notes should consult its own tax adviser as to the particular tax consequences on such holder acquiring, owning and disposing of the Notes, including the applicability and effect of any state, local and national laws.

SINGAPORE TAXATION

The statements below are general in nature and are based on certain aspects of current tax laws in Singapore and administrative guidelines and circulars issued by the Inland Revenue Authority ("**IRAS**") of Singapore and the MAS in force as of the date of this Offering Circular, and are subject to any changes in such laws, administrative guidelines or circulars, or the interpretation of those laws, guidelines or circulars, occurring after such date, which could be made on a retroactive basis. These laws, guidelines and circulars are also subject to various interpretations and the relevant tax authorities or the courts could later disagree with the explanations or conclusions set out below. Neither these statements nor any other statements in this Offering Circular are intended or are to be regarded as advice on the tax position of any holder of the Notes or of any person acquiring, selling or otherwise dealing with the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. The statements below do not purport to be a comprehensive or exhaustive description of all the tax considerations that may be relevant to a decision to subscribe for, purchase, own or dispose of the Notes and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or financial institutions in Singapore which have been granted the relevant Financial Sector Incentive(s) or hold a specified licence) may be subject to special rules or tax rates. Prospective holders of the Notes are advised to consult their own professional tax advisers as to the Singapore or other tax consequences of the acquisition, ownership or disposal of the Notes, including, in particular, the effect of any foreign, state or local tax laws to which they are subject. It is emphasised that none of the Issuers, the Arrangers, the Dealers or any other persons involved in the issuance of the Notes accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of the Notes.

Interest and Other Payments

Subject to the following paragraphs, under Section 12(6) of the Income Tax Act, the following payments are deemed to be derived from Singapore:

(a) any interest, commission, fee or any other payment in connection with any loan or indebtedness or with any arrangement, management, guarantee, or service relating to any loan or indebtedness which is (i) borne, directly or indirectly, by a person resident in Singapore or a permanent establishment in Singapore (except in respect of any business carried on outside Singapore through a permanent establishment outside Singapore or any immovable property situated outside Singapore) or (ii) deductible against any income accruing in or derived from Singapore; or

(b) any income derived from loans where the funds provided by such loans are brought into or used in Singapore.

Such payments, where made to a person not known to the paying party to be a resident in Singapore for tax purposes, are generally subject to withholding tax in Singapore. The rate at which tax is to be withheld for such payments (other than those subject to the 15 per cent. final withholding tax described below) to non-resident persons (other than non-resident individuals) is currently 17 per cent. The applicable rate for non-resident individuals is currently 24 per cent. However, if the payment is derived by a person not resident in Singapore from sources other than from its trade, business, profession or vocation carried on or exercised by such person in Singapore and is not effectively connected with any permanent establishment in Singapore of that person, the payment is subject to a final withholding tax of 15 per cent. The rate of 15 per cent. may be reduced by applicable tax treaties.

However, certain Singapore-sourced investment income derived by individuals from financial instruments is exempt from tax, including:

(a) interest from debt securities derived on or after 1 January 2004;

(b) discount income (not including discount income arising from secondary trading) from debt securities derived on or after 17 February 2006; and

(c) early redemption fee and redemption premium from debt securities derived on or after 15 February 2007,

except where such income is derived through a partnership in Singapore or is derived from the carrying on of a trade, business or profession in Singapore.

In addition, as the Programme is wholly arranged by the following entities holding the relevant licenses (collectively, "**specified licensed entities**"):

(a) any bank or merchant bank licensed under the Banking Act 1970 of Singapore;

(b) any finance company licensed under the Finance Companies Act 1967 of Singapore; or

(c) an entity that holds a Capital Markets Services Licence under the Securities and Futures Act 2001 of Singapore to carry out regulated activities – Advising on Corporate Finance or Dealing in Capital Markets Products – Securities,

any tranche of Notes (the "**Relevant Notes**") issued as debt securities under the Programme during the period from the date of this Offering Circular to (and including) 31 December 2028 would be qualifying debt securities pursuant to the Income Tax Act and the MAS Circular FDD Cir 08/2023 entitled "Qualifying Debt Securities and Primary Dealer Schemes – Extension and Refinements" issued by the MAS on 31 May 2023 (the "**MAS Circular**"), to which the following treatments shall apply:

(a) subject to certain prescribed conditions having been fulfilled (including the submission to the MAS of a return on debt securities in respect of the Relevant Notes in the prescribed format within such period as the MAS may specify and such other particulars in connection with the Relevant Notes as the MAS may require, and the inclusion by the Issuer in all offering documents relating to the Relevant Notes of a statement to the effect that where interest, discount income, early redemption fee or redemption premium from the Relevant Notes is derived by a person who is not resident in Singapore and who carries on any operation in Singapore through a permanent establishment in Singapore, the tax exemption for qualifying debt securities shall not apply if the non-resident person acquires the Relevant Notes using funds from that person's operations through the Singapore permanent establishment), interest, discount income (not including discount income arising from secondary trading), early redemption fee and redemption premium (collectively, the "**Qualifying Income**") from the Relevant Notes, derived by a holder who is not resident in Singapore and who (aa) does not have any permanent establishment in Singapore or (bb) carries on any operation in Singapore through a permanent establishment in Singapore, but the funds used by that person to acquire the Relevant Notes are not obtained from such person's operation through a permanent establishment in Singapore, are exempt from Singapore tax;

(b) subject to certain conditions having been fulfilled (including the submission to the MAS of a return on debt securities in respect of the Relevant Notes in the prescribed format within such period as the MAS may specify and such other particulars in connection with the Relevant Notes as the MAS may require), Qualifying Income from the Relevant Notes derived by any company or body of persons (as defined in the Income Tax Act) in Singapore is subject to income tax at a concessionary rate of 10 per cent. (except for holders who have been granted the relevant Financial Sector Incentive(s) who may be taxed at different rates); and

(c) subject to:

    (i) the relevant Issuer including in all offering documents relating to the Relevant Notes a statement to the effect that any person whose interest, discount income, early redemption fee or redemption premium derived from the Relevant Notes is not exempt from tax shall include such income in a return of income made under the Income Tax Act; and

    (ii) the submission to the MAS of a return on debt securities in respect of the Relevant Notes in the prescribed format within such period as the MAS may specify and such other particulars in connection with the Relevant Notes as the MAS may require,

    payments of Qualifying Income derived from the Relevant Notes are not subject to withholding of tax by the relevant Issuer.

However, notwithstanding the foregoing:

(a) if during the primary launch of any tranche of the Relevant Notes, the Relevant Notes of such tranche are issued to less than four persons and 50 per cent. or more of the issue of such Relevant Notes is beneficially held or funded, directly or indirectly, by related parties of the Issuer, such Relevant Notes would not qualify as "qualifying debt securities"; and

(b) even though a particular tranche of Relevant Notes are "qualifying debt securities", if, at any time during the tenure of such tranche of Relevant Notes, 50 per cent. or more of the issue of such Relevant Notes which are outstanding at any time during the life of the issue is beneficially held or funded, directly or indirectly, by any related party(ies) of the relevant Issuer, Qualifying Income derived from such Relevant Notes held by:

(i) any related party of the relevant Issuer; or

(ii) any other person where the funds used by such person to acquire such Relevant Notes are obtained, directly or indirectly, from any related party of the relevant Issuer,

shall not be eligible for the tax exemption or concessionary rate of tax as described above.

The term "**related party**", in relation to a person, means any other person who, directly or indirectly, controls that person, or is being controlled, directly or indirectly, by that person, or where he and that other person, directly or indirectly, are under the control of a common person.

The terms "**early redemption fee**" and "**redemption premium**" are defined in the Income Tax Act as follows:

"**early redemption fee**", in relation to debt securities, qualifying debt securities or qualifying project debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities; and

"**redemption premium**", in relation to debt securities, qualifying debt securities or qualifying project debt securities, means any premium payable by the issuer of the securities on the redemption of the securities upon their maturity or on the early redemption of the securities.

References to "early redemption fee" and "redemption premium" in this Singapore tax disclosure have the same meaning as defined in the Income Tax Act.

Where interest, discount income, early redemption fee and redemption premium (i.e. the Qualifying Income) is derived from any of the Relevant Notes by any person who is not resident in Singapore and who carries on any operations in Singapore through a permanent establishment in Singapore, the tax exemption available for qualifying debt securities under the Income Tax Act (as mentioned above) shall not apply if such person acquires such Relevant Notes using the funds and profits of such person's operations through a permanent establishment in Singapore. Any person whose interest, discount income, early redemption fee or redemption premium derived from the Relevant Notes is not exempt from tax (including for the reasons described above) shall include such income in a return of income made under the Income Tax Act.

Capital Gains

Any gains considered to be in the nature of capital made from the sale of the Notes will generally not be taxable in Singapore. However, any gains derived by any person from the sale of the Notes which are gains from any trade, business, profession or vocation carried on by that person, if accruing in or derived from Singapore, may be taxable as such gains are considered revenue in nature.

Holders of the Notes who apply or are required to apply Singapore Financial Reporting Standards 109 ("**FRS 109**") or Singapore Financial Reporting Standards (International) 9 ("**SFRS(I) 9**") may for Singapore income tax purposes be required to recognise gains or losses (not being gains or losses in the nature of capital) on the Notes, irrespective of disposal, in accordance with FRS 109 or SFRS(I) 9 (as the case may be) (as modified by the applicable provisions of Singapore income tax law). Please see the section below on "Adoption of FRS 109 or SFRS(I) 9 Treatment for Singapore Income Tax Purposes".

Adoption of FRS 109 or SFRS(I) 9 Treatment for Singapore Income Tax Purposes

Section 34AA of the Income Tax Act requires taxpayers who comply or who are required to comply with FRS 109 or SFRS(I) 9 for financial reporting purposes to calculate their profit, loss or expense for Singapore income tax purposes in respect of financial instruments in accordance with FRS 109 or SFRS(I) 9 (as the case may be), subject to certain exceptions. The IRAS has also issued a circular entitled "Income Tax: Income Tax Treatment Arising from Adoption of FRS 109 – Financial Instruments".

Holders of the Notes who may be subject to the tax treatment under 34AA of the Income Tax Act should consult their own tax advisers regarding the Singapore income tax consequences of their acquisition, holding or disposal of the Notes.

Estate Duty

Singapore estate duty has been abolished with respect to all deaths occurring on or after 15 February 2008.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream or the CMU (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer, the Trustee, any Agent or any of their respective directors, officers, employees, agents, representatives, advisers or affiliates or any person who controls any of them or any other party to the Agency Agreement takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Trustee, any Agent or any of their respective directors, officers, employees, agents, representatives, advisers or affiliates or any person who controls any of them or any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

The applicable Pricing Supplement will specify the Clearing System(s) applicable for each Series.

THE CLEARING SYSTEMS

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream, is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by the Paying Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

CMU

The CMU is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("**CMU Members**") of Exchange Fund Bills and Notes Clearing and Settlement Service securities and capital markets instruments (together, "**CMU Instruments**") which are specified in the CMU Reference Manual as capable of being held within the CMU.

The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all financial institutions regulated by the Hong Kong Monetary Authority, Securities and Futures Commission, Insurance Authority or Mandatory Provident Fund Schemes Authority. For further details on the full range of the CMU's custodial services, please refer to the CMU Reference Manual.

The CMU has an income distribution service which is a service offered by the CMU to facilitate the distribution of interest, coupon or redemption proceeds (collectively, the "income proceeds") by CMU Members who are paying agents to the legal title holders of CMU Instruments via the CMU system. Furthermore, the CMU has a corporate action platform which allows an issuer (or its agent) to make an announcement/notification of a corporate action and noteholders to submit the relevant certification. For further details, please refer to the CMU Reference Manual. An investor holding an interest through an account with either Euroclear or Clearstream in any Notes held in the CMU will hold that interest through the respective accounts which Euroclear and Clearstream, each have with the CMU.

BOOK-ENTRY OWNERSHIP

Bearer Notes

The Issuers may make applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. The Issuers may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a Temporary Bearer Global Note and/or a Permanent Bearer Global Note will be deposited with a common depositary for Euroclear and Clearstream or a sub-custodian for the CMU. Transfers of interests in a Temporary Bearer Global Note or a Permanent Bearer Global Note will be made in accordance with the normal market debt securities operating procedures of the CMU, Euroclear and Clearstream.

Registered Notes

The Issuers may make applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of the Notes to be represented by a Registered Global Note. The Issuers may also apply to have Registered Notes to be represented by a Registered Global Note accepted for clearance through the CMU. Each Registered Global Note will have an International Securities Identification Number ("**ISIN**") and a Common Code. Investors in Notes of such Series may hold their interests in a Registered Global Note through Euroclear, Clearstream or the CMU (if applicable).

Each Registered Global Note will be subject to restrictions on transfer contained in a legend appearing on the front of such Registered Global Note, as set out under "*Subscription and Sale*."

SUBSCRIPTION AND SALE

The Dealers have, in a dealer agreement dated 6 May 2024 as amended and/or supplemented from time to time (the "**Dealer Agreement**"), agreed with the Issuers and the Parent Guarantors a basis on which they or any of them may from time to time agree to subscribe the Notes. The Issuers will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuers will reimburse the Arrangers for agreed expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuers and the Parent Guarantors have agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuers.

The Dealers and certain of their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. In connection with each Tranche of Notes issued under the Programme, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, any of the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuers, the Parent Guarantors or their respective subsidiaries or affiliates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Notes to which a particular pricing supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Notes).

Each of the Dealers and its affiliates may also have performed certain investment banking and advisory services for the Issuers, the Parent Guarantors and/or their respective subsidiaries or affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuers, the Parent Guarantors and/or their respective subsidiaries or affiliates in the ordinary course of their business and receive fees for so acting. In addition to the transactions noted above, each Dealer and its affiliates may engage in other transactions with, and perform services for, the Issuers, the Parent Guarantors or their respective subsidiaries or affiliates in the ordinary course of their business. While each Dealer and its affiliates have policies and procedures to deal with conflicts of interests, any such transactions may cause a Dealer or its affiliates or its clients or counterparties to have economic interests and incentives which may conflict with those of an investor in the Notes. Each Dealer may receive returns on such transactions and has no obligation to take, refrain from taking or cease taking any action with respect to any such transactions based on the potential effect on a prospective investor in the Notes.

The Dealers and/or their respective affiliates which are lenders/financiers and/or agents under the financing arrangements or other existing debt instruments of the SM Group routinely hedge their credit exposure to the SM Group consistent with their customary risk management policies. Typically, the Dealers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the SM Group's securities, including potentially the Notes. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuers and the Parent Guarantors (both as defined in the Offering Circular) in such jurisdiction.

Important Notice to CMIs (including private banks)

This notice to CMIs (including private banks) is a summary of certain obligations the SFC Code imposes on CMIs, which require the attention and cooperation of other CMIs (including private banks). Certain CMIs may also be acting as OCs for the relevant CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuers, a CMI or its group companies would be considered under the SFC Code as having an Association with the Issuers, the CMI or the relevant group company. CMIs should specifically disclose whether their investor clients have any Association when submitting orders for the relevant Notes. In addition, private banks should take all reasonable steps to identify whether their investor clients may have any Associations with the Issuers or any CMI (including its group companies) and inform the relevant Dealers accordingly.

CMIs are informed that, unless otherwise notified, the marketing and investor targeting strategy for the relevant CMI Offering includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals, in each case, subject to the selling restrictions and any MiFID II product governance language or any UK MiFIR product governance language set out elsewhere in this Offering Circular and/or the applicable Pricing Supplement.

CMIs should ensure that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). CMIs should enquire with their investor clients regarding any orders which appear unusual or irregular. CMIs should disclose the identities of all investors when submitting orders for the relevant Notes (except for omnibus orders where underlying investor information may need to be provided to any OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMIs should not place "X-orders" into the order book.

CMIs should segregate and clearly identify their own proprietary orders (and those of their group companies, including private banks as the case may be) in the order book and book messages.

CMIs (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the Issuers. In addition, CMIs (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the relevant Notes. CMIs are informed that a private bank rebate may be payable as stated above and in the applicable Pricing Supplement, or otherwise notified to prospective investors.

The SFC Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make an informed decision. In order to do this, those Dealers in control of the order book should consider disclosing order book updates to all CMIs.

When placing an order for the relevant Notes, private banks should disclose, at the same time, if such order is placed other than on a "principal" basis (whereby it is deploying its own balance sheet for onward selling to investors). Private banks who do not provide such disclosure are hereby deemed to be placing their order on such a "principal" basis. Otherwise, such order may be considered to be an omnibus order pursuant to the SFC Code. Private banks should be aware that placing an order on a "principal" basis may require the relevant affiliated Dealers(s) (if any) to categorise it as a proprietary order and apply the "proprietary orders" requirements of the SFC Code to such order and will result in that private bank not being entitled to, and not being paid, any rebate.

In relation to omnibus orders, when submitting such orders, CMIs (including private banks) that are subject to the SFC Code should disclose underlying investor information in respect of each order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected). Underlying investor information in relation to omnibus orders should consist of:

- The name of each underlying investor;
- A unique identification number for each investor;
- Whether an underlying investor has any "Associations" (as used in the SFC Code);
- Whether any underlying investor order is a "Proprietary Order" (as used in the SFC Code);
- Whether any underlying investor order is a duplicate order.

Underlying investor information in relation to omnibus order should be sent to the Dealers named in the applicable Pricing Supplement.

To the extent information being disclosed by CMIs and investors is personal and/or confidential in nature, CMIs (including private banks) agree and warrant: (A) to take appropriate steps to safeguard the transmission of such information to any OCs; and (B) that they have obtained the necessary consents from the underlying investors to disclose such information to any OCs. By submitting an order and providing such information to any OCs, each CMI (including private banks) further warrants that they and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by any OCs and/or any other third parties as may be required by the SFC Code, including to the Issuers, relevant regulators and/or any other third parties as may be required by the SFC Code, for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. CMIs that receive such underlying investor information are reminded that such information should be used only for submitting orders in the relevant CMI Offering. The relevant Dealer may be asked to demonstrate compliance with their obligations under the SFC Code, and may request other CMIs (including private banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been obtained). In such event, other CMIs (including private banks) are required to provide the relevant Dealer with such evidence within the timeline requested.

Selling Restrictions

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Dealer or its affiliate on behalf of the Issuers and the Parent Guarantors in such jurisdiction.

United States of America

The Notes and the Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States (or, in certain circumstances, to, or for the account or benefit of, U.S. persons) except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Bearer Notes will be issued in accordance with the provisions of U.S. Treasury Regulation or section 1.163-5(c)(2)(i)(D), unless the applicable Pricing Supplement specifies that Notes will be issued in accordance with the provision of U.S. Treasury Regulation or section 1.163-5(c)(2)(i)(C). The applicable Pricing Supplement will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

In the case of a Regulation S Category 1 offering, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not

offered or sold, and it will not offer or sell any Notes and the Guarantees constituting part of its allotment in the United States except in accordance with Rule 903 of Regulation S under the Securities Act, and that accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes and the Guarantees. In addition, until 40 days after the commencement of the offering of any identifiable tranche of such Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act. Each Dealer has represented, and each further Dealer appointed under the Programme will be required to, represent that it has not entered and agrees that it will not enter into any contractual arrangement with any distributor (as such term is defined in Regulation S) with respect to the distribution or delivery of the Notes and the Guarantee, except with its affiliates or with the prior written consent of the relevant Issuer.

In the case of a Regulation S Category 2 offering, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has offered, sold and delivered, and it will offer, sell or deliver such Notes and the Guarantees (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified to the relevant Issuer and each relevant Dealer, by the Principal Paying Agent or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, only in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes and the Guarantees, and it and they have complied and shall comply with the offering restrictions requirement of Regulation S. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes and the Guarantees during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes and the Guarantees within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has represented, and each further Dealer appointed under the Programme will be required to, represent that it has not entered and agrees that it will not enter into any contractual arrangement with any distributor (as such term is defined in Regulation S) with respect to the distribution or delivery of the Notes and the Guarantees, except with its affiliates or with the prior written consent of the relevant Issuer.

Until 40 days after the commencement of the offering of any Series of Notes and the Guarantees, an offer or sale of such Notes and the Guarantees within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

In addition, unless the Pricing Supplement relating to one or more Tranches specifies that the applicable TEFRA exemption is either "TEFRA C" or "TEFRA not applicable," each Dealer represents and agrees in relation to each Tranche of Bearer Notes:

(a) except to the extent permitted under rules in substantially the same form as U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) for purposes of Section 4701 of the U.S. Internal Revenue Code (the "**Code**") (the "**TEFRA D**"):

    (i) it has not offered or sold, and during a 40 day restricted period shall not offer or sell, Bearer Notes to a person who is within the United States or its possessions or to a United States person; and

    (ii) it has not delivered and shall not deliver within the United States or its possessions definitive Bearer Notes that are sold during the restricted period;

(b) it has and throughout the restricted period shall have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Bearer Notes are aware that such Bearer Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by TEFRA D;

(c) if it is a United States person, it is acquiring the Bearer Notes for purposes of resale in connection with their original issuance and if it retains Bearer Notes for its own account, it shall only do so in accordance with the requirements of rules in substantially the same form as U.S. Treas. Reg. §1.163-5(c)(2)(i)(D)(6) for purposes of Section 4701 of the Code; and

(d) with respect to each affiliate that acquires from it Bearer Notes for the purpose of offering or selling such Bearer Notes during the restricted period, it either (i) repeats and confirms the representations contained in (a) through (c) above on behalf of such affiliate or (ii) agrees that it shall obtain from such affiliate for the benefit of the relevant Issuer the representations contained in (a) through (c) above.

Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder, including TEFRA D.

Notes issued pursuant to TEFRA D and any Receipts or Coupons appertaining thereto will bear the following legend:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code"

In addition, to the extent that the Pricing Supplement relating to one or more Tranches of Bearer Notes specifies that the applicable TEFRA exemption is "TEFRA C," under rules in substantially the same form as U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) for purposes of Section 4701 of the Code (the "**TEFRA C**"), Bearer Notes must be issued and delivered outside the United States and its possessions in connection with their original issuance. In relation to each such Tranche, each Dealer represents and agrees that it has not offered, sold or delivered, and shall not offer, sell or deliver, directly or indirectly, Bearer Notes within the United States or its possessions in connection with their original issuance. Further, in connection with the original issuance of Notes in bearer form, each Dealer represents and agrees that it has not communicated, and shall not communicate, directly or indirectly, with a prospective purchaser if either of them is within the United States or its possessions or otherwise involve its U.S. office in the offer or sale of Bearer Notes. Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder, including TEFRA C.

Each issuance of index-, commodity- or currency-linked Notes shall be subject to such additional U.S. selling restrictions as the Relevant Dealer(s) shall agree with the Issuers as a term of the issuance and purchase or, as the case may be, subscription of such Notes. Each Relevant Dealer agrees that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

Prohibition of Sales to EEA Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer represents and agrees that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"); and

(b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area, each Dealer represents and agrees that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the pricing supplement in relation thereto to the public in that Member State except that it may make an offer of such Notes to the public in that Member State:

(a) if the pricing supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, provided that any such prospectus has subsequently been completed by the pricing supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or pricing supplement, as applicable and the Issuers have consented in writing to its use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the Relevant Dealer or Dealers nominated by the Issuers for any such offer; or

(d) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuers or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation, or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression "**offer of Notes to the public**" in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Prohibition of Sales to UK Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer represents and agrees that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or

(ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or

(iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA; and

(b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the applicable Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer represents and agrees that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to the public in the United Kingdom, except that it may make an offer of such Notes to the public in the United Kingdom:

(a) if the Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to Section 86 of the FSMA (a "**Public Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the Financial Conduct Authority, provided that any such prospectus has subsequently been completed by final terms contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable, and the Issuers have consented in writing to its use for the purpose of that Public Offer;

(b) at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;

(c) at any time to fewer than 150, natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom, subject to obtaining the prior consent of the Relevant Dealer or Dealers nominated by the Issuers for any such offer; or

(d) at any time in any other circumstances falling within Section 86 of the FSMA,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuers or any Dealer to publish a prospectus pursuant to Section 85 of the FSMA, or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression "an offer of Notes to the public in relation to any Note means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression "UK Prospectus Regulation" means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018.

United Kingdom

Each Dealer represents, warrants and agrees that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuers;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuers or the Parent Guarantors; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Hong Kong

In relation to each Tranche of Notes issued by the Issuers, each Dealer represents, warrants and agrees that:

(a) it has not offered or sold, and will not offer or sell, in Hong Kong, by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**")), other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued, or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Dealer acknowledges that the Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer represents, warrants and agrees that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Dealer represents and agrees that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Philippines

Each Dealer represents, warrants and agrees that the Notes have not been and will not be registered with the Philippine Securities and Exchange Commission (the "**SEC**") and hence cannot be sold or offered for sale or distribution to the public in the Philippines, except pursuant to transactions that qualify for exemption from the registration requirements of the Securities Regulation Code (the "**SRC**") and the SRC

Implementing Rules and Regulations (the "**SRC IRR**"). Each Dealer represents, warrants and agrees that it has not and will not sell or offer for sale or distribution any Notes in the Philippines, except to persons or entities that are (i) residents of, and organized under the laws of the Philippines and/or licensed to do business in the Philippines, and either (ii) "qualified buyers" as defined in Section. 10.1(l) of the SRC, as amended, or "primary institutional lenders" pursuant to Rule 10.1.4 of the SRC IRR.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE PHILIPPINE SEC UNDER THE PHILIPPINE SRC AND THE SRC RULES. THE ISSUANCE OF THE NOTES, BEING SECURITIES WHICH MAY BE OFFERED EITHER TO QUALIFIED BUYERS OR PRIMARY INSTITUTIONAL LENDERS IN THE REPUBLIC OF THE PHILIPPINES, IS CONSIDERED AN EXEMPT TRANSACTION UNDER SECTION 10.1 (L) OF THE PHILIPPINE SRC OR RULES 10.1.3 AND 10.1.11 OF THE SRC RULES, IN RESPECT OF QUALIFIED BUYERS AND RULE 10.1.4 OF THE SRC RULES, IN RESPECT OF PRIMARY INSTITUTIONAL LENDERS. AS SUCH, THE NOTES ARE NOT REQUIRED TO BE REGISTERED UNDER THE PROVISIONS THEREOF BEFORE THEY CAN BE SOLD OR OFFERED FOR SALE OR DISTRIBUTION IN THE PHILIPPINES. ANY FUTURE SALE OR OFFER OF THE NOTES WITHIN THE PHILIPPINES IS SUBJECT TO THE REGISTRATION REQUIREMENTS UNDER THE SRC UNLESS SUCH OFFER OR SALE IS MADE UNDER CIRCUMSTANCES IN WHICH THE NOTES QUALIFY AS EXEMPT SECURITIES OR QUALIFIES AS AN EXEMPT TRANSACTION UNDER THE SRC. FURTHER, THE OFFER, SALE AND PURCHASE OF THE NOTES ARE SUBJECT TO APPLICABLE REGULATIONS OF THE PHILIPPINE SEC.

The offer or sale of the Notes in the Philippines to (a) "primary institutional lenders" pursuant to (and subject to compliance with the conditions under) Rule 10.1.4 of the 2015 Implementing Rules and Regulations of the SRC, as amended ("**SRC Rules**") or (b) persons who are "qualified buyers" pursuant to Section 10.1(l) of the SRC or Rule 10.1.3 and 10.1.11 of the SRC Rules is exempt from registration. Each of the Joint Lead Managers has represented, warranted and agreed that it has not and will not sell or offer for sale or distribution any Notes in the Philippines except to either "primary institutional lenders" pursuant to (and subject to compliance with the conditions under) Rule 10.1.4 of the SRC Rules or to "qualified buyers" pursuant to Section 10.1(1) of the SRC or Rules 10.1.3 and 10.1.11 of the SRC Rules.

The Issuer has not obtained any confirmation of exemption from the Philippine SEC in respect of any offer or sale of the Notes within the Philippines. Unless such confirmation of exemption in respect of any offer or sale of the Notes is issued by the Philippine SEC, any person claiming exemption under Section 10.1 of the SRC has the burden of proof, if challenged, of showing that it is entitled to the exemption. The Philippine SEC may challenge such exemption anytime.

No securities sold under exempt transactions shall be offered for sale or sold to the public without prior registration. Notwithstanding that a particular class of securities issued under Section 10.1 of the SRC is exempt from registration, the conduct by any person in the purchase, sale, distribution, settlement and other post-trade activities involving such securities, shall comply with the provisions of the SRC, the SRC Rules, and related rules issued by the Philippine SEC. The sale or offer for sale of a security in an exempt transaction shall not be exempt from civil liability and related liabilities and other applicable provisions of the SRC on fraud, among others.

GENERAL INFORMATION

1. **Listing of Notes**: Application has been made to the SGX-ST for permission to deal in and for quotation of any Notes that may be issued pursuant to the Programme and which are agreed at the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. The approval in-principle from, and the admission of any Notes to the Official List of the SGX-ST and quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Issuers, the Parent Guarantors, their subsidiaries, their associated companies, the Programme or the Notes. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained herein. There is no assurance that the application to the Official List of the SGX-ST for the listing of the Notes of any Series will be approved.

   For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes if traded, will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in other currencies).

   So long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuers shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption in the event that any of the Registered Global Note representing such Notes is exchanged for definitive Registered Global Note. In addition, in the event that any of the Registered Global Note representing such Notes is exchanged for definitive Registered Note, an announcement of such exchange will be made by the Issuers through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the paying agent in Singapore.

2. **Authorisations**: The establishment of the Programme was authorised by resolutions of the board of directors of (i) SMIC SG Holdings on 19 March 2024, (ii) SM Prime SG Holdings on 19 March 2024, (ii) SMIC on 8 November 2023 and (iv) SM Prime on 6 November 2023. Each Issuer and Parent Guarantor has agreed to obtain from time to time, as may be necessary, the required consents, approvals and authorisations for the update of the Programme and the issue of Notes under the Programme.

3. **No Material Adverse Change**: Except as disclosed in this Offering Circular, there has been no material adverse change in the financial position of each of SMIC and SM Prime since 31 December 2023.

4. **Litigation**: Except as disclosed in this Offering Circular, each of SMIC and SM Prime is not involved in any litigation or arbitration proceedings that it believes is material in the context of the Notes to be issued under the Programme.

5. **Bearer Notes, Receipts, Coupons and Talons**: Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend on its face: "ANY UNITED STATES PERSON (AS DEFINED IN THE INTERNATIONAL REVENUE CODE OF THE UNITED STATES) WHO HOLDS THIS OBLIGATION MAY BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(J) AND 1287(A) OF THE INTERNAL REVENUE CODE."

6. **Clearing of the Notes**: The Notes to be issued under the Programme may be accepted for clearance through Euroclear and Clearstream. The appropriate ISIN and Common Code in relation to each Tranche will be specified in the applicable Pricing Supplement. If the Notes are to be cleared through any additional or alternative Clearing System, the appropriate information will be specified in the applicable Pricing Supplement.

7. **Available Documents**: For so long as Notes may be issued pursuant to this Offering Circular, the following documents will be available (i) at all reasonable times during normal business hours (being between 10:00 a.m. and 3:00 p.m., Hong Kong time) on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the principal office of the Trustee, being as of the date of this Offering Circular at Level 26, HSBC Main Building, 1 Queen's Road Central, Hong Kong, and the specified office of the Principal Paying Agent and (ii) and (ii) electronically via email, in each case following prior written request and proof of holding and identity to the satisfaction of the Trustee or the Principal Paying Agent, as the case may be:

   (i) the Trust Deed (which includes the form of the Bearer Global Note, Registered Global Note, the Bearer Note and Registered Note in definitive form, the Coupons, the Receipts and the Talons); and

   (ii) the Agency Agreement.

8. **Independent Auditors**: SGV & Co., a member firm of Ernst & Young, independent auditors, have audited each of SMIC's and SM Prime's consolidated financial statements as of and for the years ended 31 December 2021, 2022 and 2023 in accordance with PFRS.

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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, 2023 and 2022, 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, 2023, 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, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2023 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.

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Accounting for Investments in Associate Companies

As at December 31, 2023, the Group's investments in associate companies amounted to ₱350.8 billion, representing 28.6% and 22.1% 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, the significant management judgments and estimates made by the associate companies in determining expected credit loss and valuation of financial instruments that affect the associate's net income, 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 13 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 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 cover the other auditor's scope of work, risk assessment procedures, audit strategy and reporting responsibilities. We discussed with the other auditor their key audit areas, planning and execution of audit procedures, significant areas of estimation and judgment, and results of their work for the year ended December 31, 2023. We reviewed the working papers of the other auditor, focusing on the procedures performed on the review of the testing of the expected credit loss model and valuation of financial instruments. We also obtained the financial information of the associate companies for the year ended December 31, 2023 and recomputed the Group's share in net income for the year ended December 31, 2023.

For investments with indicators of possible impairment, we obtained an understanding of the management's process for evaluating the impairment of investments in associate companies. We involved our internal specialist in evaluating the methodologies and the assumptions used. We compared the key assumptions used, such as revenue growth rate against the historical performance of these associate companies and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically, those that have the most significant effect on the determination of the recoverable amount of investment in associate companies.

Revenue and Cost Recognition from Sale of Real Estate

The Group's real estate revenue recognition process, policies and procedures are significant to our audit because these involve application of significant judgment and estimation in the following areas: (1) assessment of the probability that the entity will collect the consideration from the buyer; (2) determination of the transaction price; (3) application of the output method as the measure of progress in determining revenue from sale of real estate; (4) determination of the actual costs incurred as cost of real estate sold; and (5) recognition of cost to obtain a contract.

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 history with the buyer, age of the outstanding receivables and pricing of the property. Management regularly evaluates the historical sales cancellations and back-outs if it would still support its current threshold of buyer's equity before commencing revenue recognition.

In determining the transaction price, the Group considers whether the selling price of the real estate property includes significant financing component.

In measuring the progress of its performance obligation over time, the Group uses the output method. This method measures progress of work based on physical proportion of work done, including the impact of customized uninstalled materials, 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.

In determining the actual costs incurred to be recognized as cost of real estate sold, the Group estimates costs incurred on materials, labor and overhead which have not yet been billed by the contractor.

The Group identifies sales commissions after contract inception as cost of obtaining a contract. For contracts which qualified for revenue recognition, the Group capitalizes the total sales commissions due to sales agent as cost 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 real estate revenue and cost recognition process.

For the buyer's equity, we evaluated management's basis of the buyer's equity by comparing this to the historical analysis of sales cancellations from buyers with accumulated payments above the collection threshold. We traced the analysis to supporting documents such as notice of sales cancellation.

For the determination of the transaction price of real estate sale, we obtained an understanding of the Group's process in assessing whether a contract contains a financing component and whether that financing component is significant to the contract. We selected sample contracts from the sales contract database and identified their payment terms. We traced these selected contracts to the financing component calculation prepared by management, which covers the calculation on whether the financing component of the Group's contract with customers is significant. For these selected contracts, we traced the underlying data and assumptions used in the financing component calculation such as transaction price, cash discount, payment scheme, payment amortization table, and percentage of completion to the contract provision and projected percentage of completion schedule. We evaluated the Group's application of portfolio approach in the financing component calculation by understanding the rationale and basis of the parameters used (i.e., grouping of performance obligation based on percentage of completion, grouping of contracts based on payment scheme). We test computed the financing component of each portfolio as prepared by management.

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 inspected the certified POC reports prepared by the third-party project managers and assessed their competence, capabilities and objectivity by reference to their qualifications, experience and reporting responsibilities. For selected projects, we conducted ocular inspections, made relevant inquiries and inspected 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. 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 and accomplishment reports, among others.

For the recognition of cost to obtain a contract, we obtained an understanding of the sales commissions process. For selected contracts, we agreed the basis for calculating the sales commissions 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.

Existence and Completeness of Merchandise Inventories

As at December 31, 2023, the merchandise inventories of the Group amounted to ₱38.9 billion, representing 10.8% of the Group's total current assets. 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 11 to the consolidated financial statements.

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Audit Response

We obtained an understanding of the Group's inventory process and performed test of controls for selected stores and warehouses. We observed the conduct of physical inventory count at selected warehouses and stores. We performed test counts and compared the results to the Group's inventory compilation reports to determine if the compilation reports reflect the results of the inventory count. We traced the last documents used for shipping, receiving, and transfers which were obtained during the inventory count observation to the accounting records of sales and purchases. We inspected the reconciliations of the inventory compilation reports with the general ledger account balances and tested the reconciling items. We performed testing, on a sampling basis, of the Group's 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, 2023, 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, 2023 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.

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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 Belinda T. Beng Hui.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
Tax Identification No. 153-978-243
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
BIR Accreditation No. 08-001998-078-2023, October 23, 2023, valid until October 22, 2026
PTR No. 10079907, January 5, 2024, Makati City

February 28, 2024

A member firm of Ernst & Young Global Limited

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31	
	2023	2022
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 21 and 28)	**₱103,745,558**	₱106,561,072
Time deposits (Notes 8, 21 and 28)	**602,466**	8,788,848
Financial assets at fair value through other comprehensive income (FVOCI) (Notes 9, 28 and 29)	**747,840**	534,865
Receivables and contract assets (Notes 10, 21 and 28)	**79,209,522**	84,320,589
Inventories (Note 11)	**117,474,980**	106,368,038
Other current assets (Notes 12, 21 and 28)	**57,690,959**	54,975,998
Total Current Assets	**359,471,325**	361,549,410
Noncurrent Assets		
Financial assets at FVOCI - net of current portion (Notes 9 and 28)	**26,317,778**	25,369,850
Investments in associate companies and joint ventures (Note 13)	**361,324,800**	328,271,536
Time deposits - net of current portion (Notes 8, 21, 28 and 29)	**22,324,681**	24,130,581
Property and equipment (Note 14)	**52,851,633**	47,881,014
Investment properties (Note 15)	**537,067,223**	485,982,301
Right-of-use assets (Note 27)	**48,540,412**	44,138,808
Intangibles (Note 16)	**40,275,568**	40,277,349
Other noncurrent assets (Notes 16, 21 and 28)	**138,045,093**	121,824,791
Total Noncurrent Assets	**1,226,747,188**	1,117,876,230
	₱1,586,218,513	₱1,479,425,640
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 17, 21, 28 and 31)	**₱13,414,239**	₱20,811,524
Accounts payable and other current liabilities (Notes 18, 21, 27 and 28)	**200,169,027**	181,961,708
Income tax payable	**3,649,923**	3,204,714
Current portion of long-term debt (Notes 19, 21, 28 and 31)	**113,528,791**	87,047,213
Total Current Liabilities	**330,761,980**	293,025,159
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 21, 28, 29 and 31)	**374,758,859**	397,849,704
Lease liabilities - net of current portion (Notes 27 and 31)	**32,342,279**	32,236,621
Deferred tax liabilities (Note 26)	**18,129,316**	16,797,862
Tenants' deposits and others (Notes 25, 27, 28 and 29)	**58,025,874**	47,326,283
Total Noncurrent Liabilities	**483,256,328**	494,210,470
Total Liabilities	**814,018,308**	787,235,629

(Forward)

A member firm of Ernst & Young Global Limited

	December 31	
	2023	2022
Equity Attributable to Owners of the Parent Company		
Capital stock (Note 20)	**₱12,261,146**	₱12,261,146
Additional paid-in capital	**71,837,361**	75,839,217
Treasury stock	**(40,912)**	(40,912)
Equity adjustments from common control transactions (Note 20)	**(6,660,472)**	(6,660,472)
Cost of Parent common shares held by subsidiaries	**(25,386)**	(25,386)
Cumulative translation adjustment	**1,587,205**	2,102,782
Fair value changes on cash flow hedges and others	**809,143**	1,610,364
Unrealized gain on financial assets at FVOCI (Note 9)	**11,075,393**	11,823,413
Remeasurement loss on defined benefit asset/obligation (Note 25)	**(3,150,991)**	(1,721,868)
Share in other comprehensive loss of associate companies and joint ventures - net	**(11,376,601)**	(10,763,209)
Retained earnings (Note 20):		
Appropriated	**37,000,000**	37,000,000
Unappropriated	**443,288,813**	375,463,837
Total Equity Attributable to Owners of the Parent	**556,604,699**	496,888,912
Non-controlling Interests	**215,595,506**	195,301,099
Total Equity	**772,200,205**	692,190,011
	₱1,586,218,513	₱1,479,425,640

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		
	2023	2022	2021
REVENUES			
Sales:			
Merchandise	**₱401,725,529**	₱367,318,577	₱294,694,316
Real estate	**42,124,088**	39,046,514	45,116,570
Rent (Notes 15, 21 and 27)	**61,784,742**	49,167,565	29,642,244
Equity in net earnings of associate companies and joint ventures (Note 13)	**44,945,113**	35,825,734	26,768,811
Others (Note 22)	**65,672,415**	61,640,188	35,511,568
	616,251,887	552,998,578	431,733,509
COSTS AND EXPENSES (Notes 11 and 23)	**474,083,864**	435,430,927	352,812,922
OTHER INCOME (CHARGES)			
Interest expense (Notes 21 and 24)	**(24,084,744)**	(21,547,070)	(19,138,771)
Interest income (Notes 21 and 24)	**4,048,278**	3,042,370	2,203,351
Investment impairment reversal (provision) (Note 13)	**320,206**	(787,166)	–
Gain (loss) from fair value changes on derivatives - net	**(30,731)**	866,500	317,743
Foreign exchange gain (loss) - net and others (Note 28)	**396,174**	(2,092)	1,347,350
	(19,350,817)	(18,427,458)	(15,270,327)
INCOME BEFORE INCOME TAX	**122,817,206**	99,140,193	63,650,260
PROVISION FOR INCOME TAX (Note 26)			
Current	**16,209,025**	14,248,182	7,224,482
Deferred	**423,118**	546,638	1,782,037
	16,632,143	14,794,820	9,006,519
NET INCOME	**₱106,185,063**	₱84,345,373	₱54,643,741
Attributable to			
Owners of the Parent (Note 30)	**₱76,989,043**	₱61,653,665	₱40,411,896
Non-controlling interests	**29,196,020**	22,691,708	14,231,845
	₱106,185,063	₱84,345,373	₱54,643,741
Basic/Diluted Earnings Per Common Share Attributable to Owners of the Parent (Note 30)	**₱63.00**	₱50.88	₱33.55

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2023	2022	2021
NET INCOME	**₱106,185,063**	₱84,345,373	₱54,643,741
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified to profit or loss in subsequent periods			
Cumulative translation adjustment	**(1,035,219)**	27,928	2,166,840
Fair value changes on cash flow hedges	**(1,758,911)**	4,608,383	2,014,960
	(2,794,130)	4,636,311	4,181,800
Items not to be reclassified to profit or loss in subsequent periods			
Remeasurement gain (loss) on defined benefit obligation (Note 25)	**(2,503,907)**	(1,274,242)	593,126
Net unrealized gain (loss) on financial assets at FVOCI (Note 9)	**(599,993)**	(2,478,988)	391,870
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	**344,024**	(269,602)	(178,295)
	(2,759,876)	(4,022,832)	806,701
Share in other comprehensive loss of associate companies and joint ventures - net (Note 13)	**(641,624)**	(4,336,268)	(4,184,715)
TOTAL COMPREHENSIVE INCOME	**₱99,989,433**	₱80,622,584	₱55,447,527
Attributable to			
Owners of the Parent	**₱72,881,710**	₱56,987,529	₱40,265,811
Non-controlling interests	**27,107,723**	23,635,055	15,181,716
	₱99,989,433	₱80,622,584	₱55,447,527

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 and 2021

(Amounts in Thousands Except Per Share Data)

	Equity Attributable to Owners of the Parent														
	Capital Stock	Additional Paid-in Capital	Treasury Stock	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment	Fair Value Changes on Cash Flow Hedges	Unrealized Gain on Financial Assets at FVOCI	Remeasurement Loss on Defined Benefit Asset/ Obligation	Share in Other Comprehensive Loss of Associates - Net	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2023	**₱12,261,146**	**₱75,839,217**	**(₱40,912)**	**(₱6,660,472)**	**(₱25,386)**	**₱2,102,782**	**₱1,610,364**	**₱11,823,413**	**(₱1,721,868)**	**(₱10,763,209)**	**₱37,000,000**	**₱375,463,837**	**₱496,888,912**	**₱195,301,099**	**₱692,190,011**
Net income	–	–	–	–	–	–	–	–	–	–	–	**76,989,043**	**76,989,043**	**29,196,020**	**106,185,063**
Other comprehensive loss	–	–	–	–	–	**(515,577)**	**(801,221)**	**(748,020)**	**(1,429,123)**	**(613,392)**	–	–	**(4,107,333)**	**(2,088,297)**	**(6,195,630)**
Total comprehensive income	–	–	–	–	–	**(515,577)**	**(801,221)**	**(748,020)**	**(1,429,123)**	**(613,392)**	–	**76,989,043**	**72,881,710**	**27,107,723**	**99,989,433**
Transactions with non-controlling interests	–	**(4,001,856)**	–	–	–	–	–	–	–	–	–	–	**(4,001,856)**	**174,174**	**(3,827,682)**
Cash dividends - ₱7.50 per share (Note 20)	–	–	–	–	–	–	–	–	–	–	–	**(9,164,067)**	**(9,164,067)**	–	**(9,164,067)**
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	**(7,459,930)**	**(7,459,930)**
Increase in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	**472,440**	**472,440**
As at December 31, 2023	**₱12,261,146**	**₱71,837,361**	**(₱40,912)**	**(₱6,660,472)**	**(₱25,386)**	**₱1,587,205**	**₱809,143**	**₱11,075,393**	**(₱3,150,991)**	**(₱11,376,601)**	**₱37,000,000**	**₱443,288,813**	**₱556,604,699**	**₱215,595,506**	**₱772,200,205**
As at January 1, 2022	₱12,045,829	₱75,827,181	₱–	(₱6,298,551)	(₱25,386)	₱2,253,475	(₱1,201,352)	₱14,289,319	(₱1,026,650)	(₱6,597,174)	₱37,000,000	₱321,337,891	₱447,604,582	₱176,003,603	₱623,608,185
Net income	–	–	–	–	–	–	–	–	–	–	–	61,653,665	61,653,665	22,691,708	84,345,373
Other comprehensive income (loss)	–	–	–	–	–	(150,693)	2,811,716	(2,465,906)	(695,218)	(4,166,035)	–	–	(4,666,136)	943,347	(3,722,789)
Total comprehensive income	–	–	–	–	–	(150,693)	2,811,716	(2,465,906)	(695,218)	(4,166,035)	–	61,653,665	56,987,529	23,635,055	80,622,584
Effect of business combination (Note 5)	215,317	–	(40,912)	(361,921)	–	–	–	–	–	–	–	–	(187,516)	239,695	52,179
Transactions with non-controlling interests	–	12,036	–	–	–	–	–	–	–	–	–	–	12,036	21,245	33,281
Cash dividends - ₱6.25 per share (Note 20)	–	–	–	–	–	–	–	–	–	–	–	(7,527,719)	(7,527,719)	–	(7,527,719)
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	(5,273,377)	(5,273,377)
Increase in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	674,878	674,878
As at December 31, 2022	₱12,261,146	₱75,839,217	(₱40,912)	(₱6,660,472)	(₱25,386)	₱2,102,782	₱1,610,364	₱11,823,413	(₱1,721,868)	(₱10,763,209)	₱37,000,000	₱375,463,837	₱496,888,912	₱195,301,099	₱692,190,011

	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	Fair Value Changes on Cash Flow Hedges	Unrealized Gain on Financial Assets at FVOCI	Remeasurement Loss on Defined Benefit Asset/ Obligation	Share in Other Comprehensive Loss of Associates - Net	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2021	₱12,045,829	₱75,823,506	(₱6,299,797)	(₱25,386)	₱876,050	(₱2,623,849)	₱13,627,808	(₱1,639,759)	(₱2,629,722)	₱37,000,000	₱286,298,019	₱412,452,699	₱160,895,255	₱573,347,954
Net income	–	–	–	–	–	–	–	–	–	–	40,411,896	40,411,896	14,231,845	54,643,741
Other comprehensive income (loss)	–	–	–	–	1,377,425	1,422,497	408,336	613,109	(3,967,452)	–	–	(146,085)	949,871	803,786
Total comprehensive income	–	–	–	–	1,377,425	1,422,497	408,336	613,109	(3,967,452)	–	40,411,896	40,265,811	15,181,716	55,447,527
Effect of business combination (Note 5)	–	–	1,246	–	–	–	–	–	–	–	–	1,246	3,073,712	3,074,958
Realized loss on sale of financial assets at FVOCI (Note 9)	–	–	–	–	–	–	253,175	–	–	–	(253,175)	–	–	–
Transactions with non-controlling interests	–	3,675	–	–	–	–	–	–	–	–	–	3,675	25,466	29,141
Cash dividends - ₱4.25 per share (Note 20)	–	–	–	–	–	–	–	–	–	–	(5,118,849)	(5,118,849)	–	(5,118,849)
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(3,816,245)	(3,816,245)
Increase in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	643,699	643,699
As at December 31, 2021	₱12,045,829	₱75,827,181	(₱6,298,551)	(₱25,386)	₱2,253,475	(₱1,201,352)	₱14,289,319	(₱1,026,650)	(₱6,597,174)	₱37,000,000	₱321,337,891	₱447,604,582	₱176,003,603	₱623,608,185

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱122,817,206**	₱99,140,193	₱63,650,260
Adjustments for:			
Equity in net earnings of associate companies and joint ventures (Note 13)	**(44,945,113)**	(35,825,734)	(26,768,811)
Depreciation and amortization (Notes 14, 15, 16, 23 and 27)	**24,706,691**	23,653,863	20,936,405
Interest expense (Note 24)	**24,084,744**	21,547,070	19,138,771
Provisions (reversal of provisions) - net (Notes 10 and 23)	**4,400,289**	5,099,217	(3,982,227)
Interest income (Note 24)	**(4,048,278)**	(3,042,370)	(2,203,351)
Dividend income (Note 21)	**(911,619)**	(1,177,340)	(586,703)
Investment impairment provision (reversal) (Note 13)	**(320,206)**	787,166	–
Gain on disposal of investments and properties - net	**(66,131)**	(209,206)	(579,680)
Unrealized foreign exchange loss (gain) - net	**44,431**	1,132,078	(484,756)
Loss (gain) on fair value changes on derivatives - net	**30,731**	(866,500)	(317,743)
Income before working capital changes	**125,792,745**	110,238,437	68,802,165
Decrease (increase) in:			
Receivables and contract assets	**(16,882,660)**	(7,501,824)	(5,230,950)
Inventories	**(24,275,052)**	(40,685,904)	(37,303,043)
Other current assets	**(1,436,571)**	(635,950)	(8,465,803)
Increase in:			
Accounts payable and other current liabilities	**14,194,998**	34,081,718	36,543,695
Tenants' deposits and others	**9,233,692**	2,544,753	972,808
Net cash generated from operations	**106,627,152**	98,041,230	55,318,872
Income tax paid	**(15,747,502)**	(13,356,765)	(7,583,481)
Net cash provided by operating activities	**90,879,650**	84,684,465	47,735,391
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Investment properties	**74,855**	84,863	914,962
Property and equipment	**52,738**	241,913	365,861
Investment in associate companies and joint ventures	**–**	50,000	–
Additions to:			
Investment properties (Note 15)	**(68,205,952)**	(33,990,435)	(42,155,574)
Property and equipment (Note 14)	**(12,361,763)**	(9,678,003)	(13,286,055)
Financial assets at FVOCI	**(692,125)**	–	(1,427)
Investments in associate companies and joint ventures (Note 13)	**(288,227)**	(73,500)	(358,120)
Decrease (increase) in:			
Time deposits	**9,857,111**	(27,518,818)	(2,829,397)
Other noncurrent assets	**14,679,276**	8,794,846	14,938,709
Dividends received	**11,240,255**	8,136,996	5,180,690
Interest received	**4,289,389**	2,846,341	2,021,177
Purchase consideration net of cash, from acquisition of subsidiaries (Note 5)	**–**	(88,608)	(5,684,648)
Net cash used in investing activities	**(41,354,443)**	(51,194,405)	(40,893,822)

(Forward)

	Years Ended December 31		
	2023	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt	**₱107,590,529**	₱100,256,801	₱129,529,420
Bank loans	**45,599,966**	66,878,421	53,296,257
Payments of:			
Long-term debt	**(103,343,041)**	(72,630,533)	(92,624,775)
Bank loans	**(52,906,823)**	(73,264,105)	(53,509,929)
Interest	**(22,834,339)**	(19,909,588)	(18,412,696)
Dividends	**(17,335,101)**	(12,714,420)	(9,653,454)
Lease liabilities	**(5,219,712)**	(4,853,925)	(4,692,207)
Acquisition of non-controlling interest in a subsidiary	**(5,169,476)**	–	–
Partial sale of shares in a subsidiary	**1,294,623**	–	–
Net cash provided by (used in) financing activities	**(52,323,374)**	(16,237,349)	3,932,616
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,798,167)**	17,252,711	10,774,185
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(17,347)**	(44,273)	(82,117)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)	**106,561,072**	89,352,634	78,660,566
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	**₱103,745,558**	₱106,561,072	₱89,352,634

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 one of the largest publicly listed companies in the Philippines with interests 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, 2024.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The consolidated financial statements of the Parent Company and its subsidiaries (the Group) are prepared on a historical cost basis, except for derivative financial instruments and financial assets at fair value through other comprehensive income (FVOCI) 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. The Group reclassified certain income and balance sheet accounts in 2022 and 2021 to conform to the 2023 presentation and classification. The reclassification has no impact on the 2022 and 2021 profit or loss and equity of the Group.

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with PFRS.

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			
		2023		2022	
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	Real estate development	**–**	**100**	–	100
Highlands Prime Inc. and Subsidiary	Real estate development	**–**	**100**	–	100
Costa del Hamilo, Inc. 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**	–	100
Tagaytay Resort Development Corp	Real estate development	**–**	**100**	–	100
SM Arena Complex Corporation	Conventions	**–**	**100**	–	100
MOA Esplanade Port, Inc.	Port terminal operations	**–**	**100**	–	100
Premier Clark Complex, Inc.	Real estate development	**–**	**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. and Subsidiary	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
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

(Forward)

Company	Principal Activities	Percentage of Ownership 2023 Direct	2023 Indirect	2022 Direct	2022 Indirect
Rushmore Holdings, Inc.	Real estate development	**–**	**100**	–	100
Prime_Commercial Property Management Corp. and Subsidiaries	Real estate development	**–**	**100**	–	100
Mindpro, Incorporated	Real estate development	**–**	**70**	–	70
A. Canicosa Holdings, Inc.	Real estate development	**–**	**100**	–	100
AD Canicosa Properties, Inc.	Real estate development	**–**	**100**	–	100
Cherry Realty Development Corporation	Real estate development	**–**	**100**	–	100
Supermalls Transport Services, Inc.	Real estate development	**–**	**100**	–	100
SM Smart City Infrastructure and Development Corporation	Real estate development	**–**	**100**	–	100
Britannia Trading Corp. and Subsidiaries	Trading, importing and exporting of goods	**–**	**100**	–	100
Mountain Bliss Resort & Development Corp. and Subsidiary	Real estate development	**100**	**–**	100	–
Intercontinental Development Corporation	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.	Real estate development	**100**	**–**	100	–
Philippines Urban Living Solutions, Inc. (PULSI)	Real estate development	**71**	**–**	71	–
Retail					
SM Retail Inc. (SM Retail) and Subsidiaries	Retail	**77**	**–**	77	–
Others					
Primebridge Holdings, Inc. and Subsidiaries	Investment	**100**	**–**	100	–
Multi-Realty Development Corporation	Investment	**91**	**–**	91	–
Henfels Investments Corporation	Investment	**100**	**–**	99	–
Belleshares Holdings, Inc.	Investment	**99**	**–**	99	–
2GO Group, Inc. (Note 5)	Integrated Supply Chain	**67**	**–**	53	–
Goldilocks Bakeshop, Inc. (Note 5)	Bakery products and other food items	**64**	**–**	74	–
Globalfund Holdings, Inc.	Investment	**100**	**–**	100	–
SMIC SG Holdings Pte. Ltd. *[Singapore]	Investment	**100**	**–**	100	–
Katimak Holdings, Inc. (Note 5)	Investment	**100**	**–**	100	–
Allfirst Renewables Holdings, Inc. (Note 5)	Investment	**89**	**11**	89	11
Philippine Geothermal Production Company, Inc. (PGPC) and Subsidiaries (Note 5)	Development and utilization of minerals, geothermal and other products	**60**	**40**	60	40
AIC Group of Companies Holding Corp. (Airspeed) (Note 5)	Integrated Supply Chain	**51**	**–**	**51**	**–**

*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.

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, 2023 and 2022.

The summarized financial information of SM Prime follows:

Financial Position

	December 31	
	2023	2022
	(In Thousands)	
Current assets	**₱217,455,628**	₱222,008,236
Noncurrent assets	**725,871,947**	652,206,416
Total assets	**₱943,327,575**	₱874,214,652
Current liabilities	**₱172,416,008**	₱145,170,302
Noncurrent liabilities	**372,024,531**	363,892,744
Total liabilities	**₱544,440,539**	₱509,063,046
Total equity	**₱398,887,036**	₱365,151,606
Attributable to:		
Owners of the Parent	**₱396,196,619**	₱363,201,490
Non-controlling interests	**2,690,417**	1,950,116
	₱398,887,036	₱365,151,606

Statements of Income

	Years Ended December 31		
	2023	2022	2021
		(In Thousands)	
Revenues	**₱128,097,541**	₱105,785,635	₱82,315,484
Costs and expenses	**66,818,300**	56,542,322	49,900,933
Other charges	**(11,439,422)**	(10,529,309)	(4,681,026)
Income before income tax	**49,839,819**	38,714,004	27,733,525
Provision for income tax	**8,975,974**	7,970,875	5,822,122
Net income	**40,863,845**	30,743,129	21,911,403
Other comprehensive income (loss)	**(213,165)**	2,910,173	4,180,611
Total comprehensive income	**₱40,650,680**	₱33,653,302	₱26,092,014
Attributable to:			
Owners of the Parent	**₱40,010,501**	₱30,099,799	₱21,786,516
Non-controlling interests	**853,344**	643,330	124,887
Net income	**₱40,863,845**	₱30,743,129	₱21,911,403
Attributable to:			
Owners of the Parent	**₱39,798,392**	₱33,013,181	₱25,968,260
Non-controlling interests	**852,288**	640,121	123,754
Total comprehensive income	**₱40,650,680**	₱33,653,302	₱26,092,014
Dividends paid to non-controlling interests	**₱324,450**	₱144,050	₱129,050

Cash Flows

	Years Ended December 31		
	2023	2022	2021
		(In Thousands)	
Net cash provided by operating activities	**₱61,941,387**	₱34,933,212	₱30,667,161
Net cash used in investing activities	**(66,714,473)**	(52,244,301)	(44,113,678)
Net cash provided by (used in) financing activities	**(5,513,233)**	19,685,743	22,623,545
Effect of exchange rate changes on cash and cash equivalents	**43,039**	(90,424)	(62,790)
Net increase (decrease) in cash and cash equivalents	**(₱10,243,280)**	₱2,284,230	₱9,114,238

3. Summary of Material Accounting Policies, Changes and Improvements

The material accounting policies adopted in the preparation of the consolidated financial statements are summarized below.

Determination of Fair Value of Assets and Liabilities

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 considers 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 are 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 and the fair value hierarchy.

Financial Instruments

Financial Assets

Initial Recognition and Measurement
At initial recognition, financial assets are classified as, and measured at amortized cost, 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 marketplace 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 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 at FVOCI" 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.

Modification of Financial Assets
The Group derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between the carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The Group considers both qualitative and quantitative factors in assessing whether the modification of financial asset is substantial or not. The Group considers the following factors in its assessment:

- Change in currency;
- Introduction of an equity feature;
- Change in counterparty; and
- Asset no longer qualified as "solely payment for principal and interest".

The Group also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Group considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid, net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased

or originated credit-impaired financial assets) and recognizes a modification gain or loss in profit or loss.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a new financial asset. Accordingly, the date of the modification is considered as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for expected credit loss (ECL) measurement purposes, unless the new financial asset is deemed to be originated as credit impaired.

Impairment
The Group recognizes an allowance for 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.

To calculate ECLs, the Group uses the provision matrix for rent and other receivables, vintage approach for receivables from sales of real estate (billed and unbilled) and general approach (low credit risk simplification) for treasury assets.

Under the provision matrix, ECLs are calculated based on lifetime ECLs. Changes in credit risk are not tracked, instead, a loss allowance based on lifetime ECLs adjusted for forward-looking factors specific to the debtors and the economic environment is recognized.

Under the vintage approach, ECLs are calculated based on the cumulative loss rates of given real estate receivable pool. The probability of default is derived from the historical data of a homogenous portfolio that share the same origination period. Information on the number of loan defaults for fixed time intervals is utilized to create the probability model. It allows the evaluation of the loan activity from origination period to the end of the contract period. Macroeconomic indicators such as forward-looking data on inflation rate are also considered. The probability of default is applied to the loss estimate which is the difference between the contractual cash flows due and the amount expected to be received, including the cost of repossession of the subject real estate property and other related costs. In calculating the recovery rates, collections and/or cash from the resale of foreclosed real estate properties, net of direct costs to obtain and sell the real estate properties, are considered such as commission, cost of refurbishment, payment required under Maceda law, and cost to complete for incomplete units. As these are future cash flows, these are discounted to the time of default using the appropriate effective interest rate.

The Group considers a financial asset in default when contractual payments are 120 days past due or when sales are cancelled, supported by a notarized cancellation letter. 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.

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 presented under "Other current liabilities", 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.

The calculation of amortized cost considers 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.

Exchange or Modification of Financial Liabilities

The Groups considers both qualitative and quantitative factors in assessing whether a modification of financial liabilities is substantial or not. The terms are considered substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial liability. However, under certain circumstances, modification or exchange of a financial liability may still be considered substantial, even where the present value of the cash flows under the new terms is less than 10% different from the present value of the remaining cash flows of the original financial liability. There may be situations where the modification of the financial liability is so fundamental that immediate derecognition of the original financial liability is appropriate (e.g., restructuring a financial liability to include an embedded equity component).

When the exchange or modification of the existing financial liability is not considered as substantial, the Group recalculates the gross carrying amount of the financial liability as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR and recognizes a modification gain or loss in profit or loss.

If modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the modification is not accounted for as an extinguishment, any costs or fees incurred are adjusted to the carrying amount of the financial instrument and amortized over the remaining term of the modified financial instrument.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is 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 remeasured 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 "Fair value changes on cash flow hedges and others" 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.

Merchandise Inventories
Merchandise inventories' costs are primarily determined using the weighted average method.

Current Portion of Land and Development and Condominium and Residential Units for Sale
The 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. The current portion of land and development and condominium and residential units for sale includes 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,
- planning and design, and site preparation, as well as professional fees, property transfer taxes, construction overhead and others.

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.

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	4–8 years
Furniture, fixtures and office equipment	3–10 years
Machinery and equipment	2–10 years
Leasehold improvements	5–20 years or term of the lease, whichever is shorter
Transportation equipment	5–15 years
Vessels in operation, excluding drydocking cost, and vessel equipment and improvements	30–35 years
Containers and reefer vans	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.

Investment Properties

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.

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 leasehold improvements	5–40 years or term of the lease, whichever is shorter
Building equipment, furniture and others	3–15 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.

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 "Costs and 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.

Acquisitions/Disposal 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/received shall be recognized as equity reserve, presented as "Additional Paid-in Capital".

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.

Impairment of Nonfinancial Assets

The carrying value of nonfinancial assets (property and equipment, investment properties, investments in associate companies and joint ventures, right-of-use (ROU) assets, and 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.

Revenue and Cost Recognition

Revenue from contracts with customers is recognized when control of the goods or services is 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 shall be met before revenue is recognized:

Sale of Merchandise Inventories. Revenue from sale of goods is recognized when the transfer of control is turned over to the buyer and the performance obligation is satisfied. The performance obligation is generally satisfied when customers purchase the goods. Payment of the transaction price is due immediately at the point of sale.

Revenue and Cost from Sales 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 is 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 the 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 and time elapsed. This is based on the monthly project accomplishment report prepared by 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 sales of real estate, under trade receivables, is accounted for as unbilled revenue from sales of real estate and presented under "Receivables and contract assets".

Any excess of collections over the total of recognized installment real estate receivables is included in contract liabilities.

Information about the Group'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 in cash or under a financing scheme commences upon signing of the "contract to sell" with the customer. The financing scheme includes payment of a certain percentage of the contract price spread over a specified period at a fixed monthly amount with the remaining balance payable in full at the end of the period either through cash or external financing. The amount due for collection based on the amortization schedule 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. These include costs of land, land development costs, building costs, professional fees, depreciation and permits and licenses. These costs are allocated to the saleable area, with the portion allocable to the sold area being recognized as costs of real estate sold while the portion allocable to the unsold area being recognized as part of real estate inventories. In addition, the Company recognizes as an asset only 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 sales 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 sales 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 sales 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 the 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 in Real estate inventories − Land and development (current portion) and Condominium, residential units and subdivision lots for sale.

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 percentage of completion (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 are 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.

Sales - Processed Food and Others and Sales - Food and Beverage. Revenues from sales of processed food, beverage and others are recognized when the transfer of control is turned over to the buyer and the performance obligation is satisfied. The performance obligation is generally satisfied when customers purchase the goods and/or delivery is made to customers, as in the case of steam, processed food and beverage. Payment of the transaction price is due immediately at the point of sale and/or within 15 to 30 days.

Shipping and Logistics Revenues. Revenues from shipping and logistics services are recognized when rendered and/or when export/import cargoes are received by the shipper or consignee. Shipping revenues include fees for ancillary services such as wharfage, arrastre, stevedoring and other related services.

Rent. Revenues are 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 Event Tickets. Revenues are 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. Revenues are recognized upon delivery of the securities to and confirmation of the sale by the broker.

Dividends. Revenues are recognized when the Group's right as a shareholder to receive payment is established.

Royalty and Service Fees. Revenues and/or expenses are recognized when earned and/or incurred, in accordance with the terms of the agreements.

Interest. Revenues are recognized when interest accrues, considering the effective yield.

Costs and expenses. Costs and expenses are recognized 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. Any subsequent reversal of the provision is recognized in the same line item in profit or loss where the expense was initially recognized.

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). Revenues, 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.

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 financial year, except for the adoption of new standards effective in 2023. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, the adoption of these new standards did not have a significant impact on the consolidated financial statements.

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

  - Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
  - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

  The amendments to the Practice Statement provide non-mandatory guidance.

- Amendments to PAS 8, *Definition of Accounting Estimates*

  The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments also clarify that a change in input or in a measurement technique is considered a change in accounting estimate if it does not result from the correction of prior period errors.

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

  The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

- Amendments to PAS 12, *International Tax Reform - Pillar Two Model Rules*

  The amendments introduce a mandatory exception in PAS 12 from recognizing and disclosing deferred tax assets and liabilities related to Pillar Two income taxes.

  The amendments clarify that PAS 12 applies to income taxes arising from tax laws enacted or substantively enacted to implement the Global Anti-Base Erosion Model Rules (GLoBE Rules or Pillar Two Model Rules) published by the Organization for Economic Cooperation and Development (OECD), including those that implement qualified domestic minimum top-up taxes. Such tax legislation, and the income taxes arising from it, are referred to as 'Pillar Two legislation' and 'Pillar Two income taxes', respectively.

  The temporary exception from recognition and disclosure of information about deferred taxes and the requirement to disclose the application of the exception, apply immediately and retrospectively upon adoption of the amendments in June 2023.

  Disclosures relating to the current portion of income tax relating to Pillar Two income taxes before the legislation became effective, are required for annual reporting periods beginning on or after January 1, 2023.

  The Pillar Two Model Rules apply to multinational enterprises (MNEs) with annual consolidated revenues in excess of Euro 750 million. The Group is in scope for Pillar Two Model Rules, however, it has yet to apply the temporary exception to recognize and disclose deferred tax assets and liabilities related to Pillar Two income taxes in 2023 because the Group's entities are operating in jurisdictions in which the Pillar Two legislation is not yet in effect. The Group is monitoring developments in the enactment of these legislations. The Group will disclose known or reasonably estimable information that will help users of the Group's financial statements to understand the impact of Pillar Two income taxes in the Group's consolidated financial statements in which the Pillar Two legislation has been enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1*, Classification of Liabilities as Current or Noncurrent*

  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or noncurrent. The amendments clarify:

  - What is meant by a right to defer settlement;
  - That a right to defer must exist at the end of the reporting period;
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right; and

- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective on or after January 1, 2024 to be applied retrospectively.

- Amendments to PFRS 16*, Lease Liability in a Sale and Leaseback*

  The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction such that the gain or loss that relates to the right of use retained is not recognized.

  The amendments are effective on or after January 1, 2024 and must be applied retrospectively, with early adoption permitted.

- Amendments to PAS 7 and PFRS 7*, Disclosures: Supplier Finance Arrangements*

  The amendments specify disclosure requirements which are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on liabilities, cash flows and exposure to liquidity risk.

  The amendments are effective on or after January 1, 2024, early adoption permitted.

Effective beginning on or after January 1, 2025

- 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.

  On December 15, 2021, the Financial and Sustainability Reporting Standards Council (FSRSC) amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the International Accounting Standards Board (IASB).

- Amendments to PAS 21*, Lack of exchangeability*

  The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking.

  The amendments are effective on or after January 1, 2025, with early adoption 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 a transfer to an associate or joint venture involves a business as defined in PFRS 3. 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 associates or joint ventures.

On January 13, 2016, the Financial and Sustainability Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the 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.

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.

The Group's revenue recognition process includes the assessment of the probability of the Group collecting the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating the probability of collection, the Group considers the significance of the buyer's initial payments in relation to the contract price.

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.

Determining the Transaction Price for Sales of Real Estate. The Group determines whether a contract contains a significant financing component using the portfolio approach by considering (1) the difference between the amount of promised consideration and the cash selling price of the promised goods or services; and (2) the expected length of time from when the entity transfers the promised goods or services to the time the customer pays for those goods or services at the prevailing effective interest rate. The Group applied the practical expedient and did not adjust for the effect of financing component when the difference between the time of transfer of the promised goods or services to the time the customer pays for these goods or services is one year or less. The Group determined that its contracts for the sale of real estate do not contain a significant financing component.

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. Management has determined that it is acting as principal in these sales transactions. Accordingly, 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. 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.

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 over 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 13).

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 13).

Determining Taxable Profit, Tax Bases, Unused Tax Losses, Unused Tax Credits and Tax Rates. Upon adoption of the Philippine Interpretation on IFRIC-23, *Uncertainty over Income Tax Treatments,* the Group has assessed whether it has any uncertain tax position. The Group applies significant judgment in identifying uncertainties over its income tax treatments. The Group determined based on its assessment, in consultation with its tax counsel, that it is probable that its income tax treatments (including those for its subsidiaries) will be accepted by the taxation authorities.

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 Group recognizes revenue for real estate sales over time in consideration of the following (a) the Group's performance does not create an asset with an alternative use, and; (b) the Group has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on the Group's ability to direct the promised property for another use is substantive. The property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred. In addition, under the current legal framework, the customer is contractually obliged to make payments to the Group for performance completed to date.

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.

Provision for ECL of Receivables and Contract Assets (referred also in the consolidated financial statements as "Unbilled revenue from sales 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 sales 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 Note 11 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 2023, 2022 and 2021, 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 aggregate cost, hence, the Group did not recognize any impairment loss.

Estimated Useful Life of Property and Equipment and Investment Properties (except for ROU Assets). 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 14 and 15 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 using key assumptions 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 and to choose a suitable discount rate in order to calculate the present value of those cash flows. See Note 13 for related balances.

Impairment of Goodwill and Trademarks, Brand Names and Copyright 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. There is no impairment on other nonfinancial assets for each of the three years in the period ended December 31, 2023. See Notes 14, 15 and 27 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. In estimating the fair value of the acquiree's identifiable assets and liabilities, the Group used judgments, valuation methods and key assumptions such as the list prices, current replacement and reproduction cost and adjustment factors by reference to relevant market data. See Note 5 for related balances.

Fair Value of Previously Held Interest in an Acquiree. A business combination that is achieved in stages requires the Group to remeasure its previously held interest in the acquiree at its fair value at acquisition date and recognize any resulting gain or loss in profit or loss. The determination of fair value of the previously held interest involves judgment, estimations and assumptions. See Note 5 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

Allfirst Equity Holdings, Inc. (Allfirst). In April 2022, the BOD and stockholders of the Parent Company approved its merger with Allfirst, a related party, with the Parent Company as the surviving entity. Allfirst is the holding company for Philippine Geothermal Production Company, Inc. (PGPC).

PGPC operates the Tiwi and Mak-Ban steam fields. Tiwi is the first commercial-scale geothermal steam field development in Southeast Asia, followed by Mak-Ban, both in operation since 1979. These two steam fields generate geothermal steam sufficient to produce approximately 300 MW of electricity. In addition to its two producing steam fields, PGPC has several other greenfield concession areas for geothermal steam production which it will develop moving forward.

In August 2022, SMIC received approval from the SEC for its acquisition of 81% stake of related parties in Allfirst. This transaction brings SMIC's ownership in PGPC to 100%. The Parent Company and Allfirst 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 financial statements.

Under the pooling of interests method:

- The assets and liabilities of the combining entities are reflected at their carrying amounts;
- No adjustments are made to reflect fair values, or recognize any new assets or liabilities at the date of the combination except those necessary to harmonize 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 always been combined only for the period that the entities were under common control.

AIC Group of Companies Holding Corp. (Airspeed). In August 2022, the Parent Company acquired additional 10.0 million common shares of Airspeed increasing its equity interest in Airspeed to 51.0% from 35.0% previously. Airspeed is primarily engaged in international and domestic freight forwarding, port to port and cargo handling, packing and crafting, and warehousing services.

Beginning September 1, 2022, Airspeed became a subsidiary of SMIC in accordance with PFRS 3, *Business Combinations*. The transaction was accounted for as a step acquisition.

The fair value of the net identifiable assets acquired amounted to ₱645.1 million. The cash flows from this acquisition follow:

	Fair Value
	(In Thousands)
Cash acquired	₱317,280
Purchase consideration transferred	(405,888)
Net	(₱88,608)

Goodwill of ₱302.7 million was recognized for this acquisition, representing the value of synergies expected to arise from the business combination.

From the date of acquisition, Airspeed's revenues and net income amounting to ₱461.7 million and ₱34.9 million, respectively, formed part of the consolidated statements of income. If the combination had taken place at the beginning of the year, the Group's consolidated revenues and net income attributable to parent would have been ₱554.8 billion and ₱61.7 billion, respectively.

2GO Group, Inc. (2GO). In April and June 2021, the Parent Company acquired additional 551.4 million common shares of 2GO increasing its equity interest in 2GO to 52.9% from 30.5% previously. 2GO is the largest integrated supply chain operator in the Philippines offering shipping, freight forwarding, warehousing, and express delivery services.

Beginning June 1, 2021, 2GO became a subsidiary of SMIC in accordance with PFRS 3, *Business Combinations*. The transaction was accounted for as a step acquisition. The fair value of the identifiable assets and liabilities as at the date of acquisition follows:

	Fair Value
	(In Thousands)
Cash and cash equivalents	₱2,101,999
Receivables and contract assets	4,192,282
Merchandise inventories (Note 11)	516,155
Other current assets	2,699,758
Investments in associate companies and joint ventures (Note 13)	260,037
Property and equipment (Note 14)	9,919,064
Right-of-use assets (Note 27)	786,597
Other noncurrent assets	1,008,558
Total identifiable assets	21,484,450

(Forward)

	Fair Value
	(In Thousands)
Bank loans	₱3,036,500
Accrued payable and other current liabilities	7,206,250
Long-term debt - net of current portion	3,984,077
Deferred tax liabilities	1,257,749
Other noncurrent liabilities	1,071,851
Total identifiable liabilities	16,556,427
Net identifiable assets	4,928,023
Non-controlling interests (proportionate share in 2GO's net identifiable assets)	(2,352,991)
Fair value of previously held interest	(1,484,612)
Goodwill arising from the acquisition (Note 16)	3,602,620
Purchase consideration transferred	₱4,693,040

The cash flows from this acquisition follow:

Cash acquired	₱2,101,999
Purchase consideration transferred	(4,693,040)
Net	(₱2,591,041)

At the date of the acquisition, the fair value of 2GO's receivables approximates its carrying amount. The receivables comprise mainly of trade and nontrade receivables carried at cost. These are not subject to interest and generally on 30- to 60-day terms while nontrade receivables are collectible on demand. The fair value of the property and equipment was determined using the current replacement cost. The fair value measurement is classified as level 3 with unobservable inputs.

The goodwill of ₱3.6 billion represents the value of synergies expected to arise from the business combination.

From the date of acquisition, 2GO's revenues and net loss amounting to ₱8.8 billion and ₱962.7 million, respectively, formed part of the consolidated statements of income. If the combination had taken place at the beginning of the year, the Group's consolidated revenues and net income attributable to parent would have been ₱434.8 billion and ₱38.4 billion, respectively.

Goldilocks Bakeshop, Inc. (GBI). In August 2021, the Parent Company acquired additional 224.5 million common shares of GBI increasing its equity interest in GBI to 74.1% from 34.1% previously. GBI is primarily engaged in the purchase and sale, manufacture and production, import and export, and distribution of food items such as cakes, pastries, bread and candies on wholesale, retail or franchising; operation of restaurants, refreshment parlors or food outlets; and serving, arranging and catering food, drinks and refreshments.

Beginning August 1, 2021, GBI became a subsidiary of SMIC in accordance with PFRS 3, *Business Combinations*. The transaction was accounted for as a step acquisition. The fair value of the identifiable assets and liabilities as at the date of acquisition follows:

	Fair Value
	(In Thousands)
Cash and cash equivalents	₱945,964
Time deposits	210,925
Receivables and contract assets	330,036
Merchandise inventories (Note 11)	564,858
Other current assets	502,915
Financial assets	1,406
Investments in associate companies and joint ventures (Note 13)	249,157
Property and equipment (Note 14)	2,563,094
Right-of-use assets (Note 27)	912,876
Other noncurrent assets	471,983
Total identifiable assets	6,753,214
Accrued payable and other current liabilities	2,233,095
Deferred tax liabilities	338,599
Other noncurrent liabilities	1,435,383
Total identifiable liabilities	4,007,077
Net identifiable assets	2,746,137
Non-controlling interests (proportionate share in GBI's net identifiable assets)	(720,721)
Fair value of previously held interest	(931,874)
Goodwill arising from the acquisition (Note 16)	2,946,029
Purchase consideration transferred	₱4,039,571

The cash flows from this acquisition follow:

Cash acquired	₱945,964
Purchase consideration transferred	(4,039,571)
Net	(₱3,093,607)

At the date of the acquisition, the fair value of GBI's receivables approximates the carrying amount. GBI's receivables comprise mainly of trade and nontrade receivables, royalties and advances carried at cost. These are not subject to interest with trade receivables generally on 15- to 30- day terms while nontrade receivables and royalties are collectible on demand. Advances consist of salary loans due within 1 year and other cash advances that are subject to liquidation within 1 to 2 weeks. The fair value of the property and equipment was determined using the market approach and current replacement cost. The fair value measurement is classified as level 3 with unobservable inputs.

The goodwill of ₱2.9 billion represents the value of synergies expected to arise from the business combination.

From the date of acquisition, GBI's revenues and net income amounting to ₱5.0 billion and ₱114.8 million, respectively, formed part of the consolidated statements of income. If the combination had taken place at the beginning of the year, the Group's consolidated revenues and net income attributable to parent would have been ₱433.9 billion and ₱38.6 billion, respectively.

The Group remeasured its previously held interest in AIC, 2GO and GBI at acquisition-date fair value. The key assumptions used in determining the acquisition-date fair value of the property and equipment of GBI include list prices, current replacement cost and reproduction cost.

Included in Costs and expenses is the remeasurement loss recognized for AIC at ₱310.2 million in 2022 and 2GO at ₱4.9 billion and GBI at ₱2.4 billion in 2021, representing the loss from remeasuring the Group's equity interest in AIC, 2GO and GBI before the business combination to fair value, in accordance with PFRS 3, *Business Combinations.*

6. Segment Information

The Group has identified four reportable operating segments as follows: property, retail, banking and portfolio investments.

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 banking segment includes the Group's equity in net earnings in BDO and China Banking Corporation (China Bank).

The portfolio investments segment includes 2GO, PGPC, Neo subsidiaries and associates, Atlas Consolidated Mining and Development Corporation (Atlas), Belle, GBI and others.

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 Results by Segment

	Year Ended December 31, 2023						
	Property	Retail	Banking	Portfolio Investments	Others	Eliminations	Consolidated
				(In Thousands)			
Revenues:							
External customers	₱119,003,867	₱413,996,266	₱39,267,571	₱41,828,015	₱2,156,168	₱–	₱616,251,887
Revenues from contracts with customers	42,124,088	401,725,529	–	–	–	–	443,849,617
Merchandise sales	–	401,725,529	–	–	–	–	401,725,529
Real estate sales	42,124,088	–	–	–	–	–	42,124,088
Rent	58,103,708	1,267,910	–	2,413,124	–	–	61,784,742
Equity in net earnings of associate companies and joint ventures	2,162,611	1,942,814	39,267,571	1,636,117	(64,000)	–	44,945,113
Others	16,613,460	9,060,013	–	37,778,774	2,220,168	–	65,672,415
Inter-segment	15,552,645	606,204	–	689,550	4,424,419	(21,272,818)	–
	₱134,556,512	₱414,602,470	₱39,267,571	₱42,517,565	₱6,580,587	(₱21,272,818)	₱616,251,887

	Year Ended December 31, 2023						
	Property	**Retail**	**Banking**	**Portfolio Investments**	**Others**	**Eliminations**	**Consolidated**
				(In Thousands)			
Segment results:							
Income before income tax	**₱50,336,108**	**₱28,751,653**	**₱39,267,571**	**₱9,082,093**	**(₱4,620,219)**	**₱–**	**₱122,817,206**
Provision for income tax	**9,015,084**	**6,685,451**	**–**	**800,769**	**130,839**	**–**	**16,632,143**
Net income after tax	**₱41,321,024**	**₱22,066,202**	**₱39,267,571**	**₱8,281,324**	**(₱4,751,058)**	**₱–**	**₱106,185,063**
Net income attributable to:							
Owners of the Parent	**₱20,506,629**	**₱15,267,128**	**₱38,193,589**	**₱7,752,065**	**(₱4,730,368)**	**₱–**	**₱76,989,043**
Non-controlling interests	**20,814,395**	**6,799,074**	**1,073,982**	**529,259**	**(20,690)**	**–**	**₱29,196,020**

	Year Ended December 31, 2022						
	Property	Retail	Banking	Portfolio Investments	Others	Eliminations	Consolidated
				(In Thousands)			
Revenues:							
External customers	₱98,244,792	₱377,327,567	₱30,984,018	₱43,677,737	₱2,764,464	₱–	₱552,998,578
Revenues from contracts with customers	39,046,514	367,318,577	–	–	–	–	406,365,091
Merchandise sales	–	367,318,577	–	–	–	–	367,318,577
Real estate sales	39,046,514	–	–	–	–	–	39,046,514
Rent	45,918,158	1,146,228	–	2,103,179	–	–	49,167,565
Equity in net earnings of associate companies and joint ventures	1,720,116	1,224,260	30,984,018	1,866,350	30,990	–	35,825,734
Others	11,560,004	7,638,502	–	39,708,208	2,733,474	–	61,640,188
Inter-segment	13,611,294	483,551	–	634,029	3,999,125	(18,727,999)	–
	₱111,856,086	₱377,811,118	₱30,984,018	₱44,311,766	₱6,763,589	(₱18,727,999)	₱552,998,578
Segment results:							
Income before income tax	₱39,061,734	₱25,928,619	₱30,984,018	₱8,218,200	(₱5,052,378)	₱–	₱99,140,193
Provision for income tax	8,001,682	6,006,064	–	681,419	105,655	–	14,794,820
Net income after tax	₱31,060,052	₱19,922,555	₱30,984,018	₱7,536,781	(₱5,158,033)	₱–	₱84,345,373
Net income attributable to:							
Owners of the Parent	₱15,372,433	₱13,937,923	₱30,148,855	₱7,345,911	(₱5,151,457)	₱–	₱61,653,665
Non-controlling interests	15,687,619	5,984,632	835,163	190,870	(6,576)	–	22,691,708

	Year Ended December 31, 2021						
	Property	Retail	Banking	Portfolio Investments	Others	Eliminations	Consolidated
				(In Thousands)			
Revenues:							
External customers	₱79,552,631	₱303,188,794	₱23,395,467	₱23,167,504	₱2,429,113	₱–	₱431,733,509
Revenues from contracts with customers	45,116,570	294,694,316	–	–	–	–	339,810,886
Merchandise sales	–	294,694,316	–	–	–	–	294,694,316
Real estate sales	45,116,570	–	–	–	–	–	45,116,570
Rent	26,218,182	1,093,378	–	2,327,765	2,919	–	29,642,244
Equity in net earnings of associate companies and joint ventures	1,187,419	527,733	23,395,467	1,757,788	(99,596)	–	26,768,811
Others	7,030,460	6,873,367	–	19,081,951	2,525,790	–	35,511,568
Inter-segment	9,423,189	2,108	–	–	2,384,449	(11,809,746)	–
	₱88,975,820	₱303,190,902	₱23,395,467	₱23,167,504	₱4,813,562	(₱11,809,746)	₱431,733,509
Segment results:							
Income before income tax	₱28,165,056	₱14,180,061	₱23,395,467	₱4,662,195	(₱6,752,519)	₱–	₱63,650,260
Provision for income tax	5,942,800	3,261,945	–	(165,445)	(32,781)	–	9,006,519
Net income after tax	₱22,222,256	₱10,918,116	₱23,395,467	₱4,827,640	(₱6,719,738)	₱–	₱54,643,741
Net income attributable to:							
Owners of the Parent	₱11,317,533	₱7,697,477	₱22,768,902	₱5,366,643	(₱6,738,659)	₱–	₱40,411,896
Non-controlling interests	10,904,723	3,220,639	626,565	(539,003)	18,921	–	14,231,845

In 2023, 2022 and 2021, no single customer accounted for 10% or more of consolidated revenues. The Group's revenues are substantially earned within the Philippines.

The disaggregation of revenues is as indicated in the consolidated statements of income and in the operating results by segment report above.

7. Cash and Cash Equivalents

This account consists of:

	2023	2022
	(In Thousands)	
Cash on hand and in banks (Note 21)	**₱22,918,721**	₱26,887,562
Temporary investments (Note 21)	**80,826,837**	79,673,510
	₱103,745,558	₱106,561,072

Cash in banks and investments earn interest at the prevailing rates. The tenure of temporary investments varies depending on the immediate cash requirements of the Group (see Note 24).

8. Time Deposits

This account consists of time deposits as follows:

	2023	2022
	(In Thousands)	
Current	**₱602,466**	₱8,788,848
Noncurrent	**22,324,681**	24,130,581
	₱22,927,147	₱32,919,429

The time deposits bear interest ranging from 0.1% to 6.1% in 2023 and 1.3% to 4.5% in 2022.

Time deposits with various maturities within one year were used as collateral for some credit lines.

Interest earned from time deposits is disclosed in Note 24.

9. Financial Assets at FVOCI

This account consists of:

	2023	2022
	(In Thousands)	
Shares of stock		
Listed	**₱25,505,874**	₱25,146,102
Unlisted	**1,534,894**	736,813
Club shares	**24,850**	21,800
	27,065,618	25,904,715
Less current portion	**747,840**	534,865
Noncurrent portion	**₱26,317,778**	₱25,369,850

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 as financial assets at FVOCI, as the Group considers these investments to be strategic in nature.

10. **Receivables and Contract Assets**

This account consists of:

	2023	2022
	(In Thousands)	
Trade:		
Real estate buyers*	**₱132,187,696**	₱114,017,297
Third-party tenants	**10,714,323**	11,254,451
Shipping and logistics**	**2,753,168**	4,212,664
Related-party tenants (Note 21)	**533,448**	511,274
Others	**2,922,100**	3,299,623
Royalty and service fees (Note 21)	**2,980,499**	2,277,578
Dividends (Note 21)	**1,003,114**	708,809
	153,094,348	136,281,696
Less allowance for ECL	**3,284,523**	3,031,584
	149,809,825	133,250,112
Less noncurrent portion of receivables from real estate buyers (Note 16)	**70,600,303**	48,929,523
Current portion	**₱79,209,522**	₱84,320,589

* *Includes unbilled revenue from sales of real estate of ₱114.9 billion and ₱100.2 billion as at December 31, 2023 and 2022, respectively.*

** *Includes contract assets representing shipping and logistics services delivered but not yet invoiced of ₱616.8 million and ₱730.1 million as at December 31, 2023 and 2022, respectively.*

The terms and conditions of these receivables follow:

- Receivables from sales of real estate pertain mostly to sale of condominium and residential units at various terms of payment that are not subject to interest. Portions of these receivables have been assigned to local banks: on without recourse basis, ₱4.1 billion and nil as at December 31, 2023 and 2022, respectively (Note 21), and on with recourse basis, ₱0.2 billion and ₱1.2 billion as at December 31, 2023 and 2022, respectively. The corresponding liability from the assignment of receivables with recourse bears interest at 5.0% to 6.5% and 3.8% to 5.0% as at December 31, 2023 and 2022, respectively.

  The transaction price allocated to the remaining performance obligations totaling ₱38.1 billion and ₱25.4 billion as at December 31, 2023 and 2022, respectively, are expected to be recognized over the construction period ranging from one to five years.

- Trade receivables from tenants, shipping and logistics, royalty and service fee receivables are not subject to interest and are normally collectible on 30- to 90-day terms.

- Dividends receivables are not subject to interest and are normally collectible within the next financial year.

Allowance for ECL is provided for receivables from sales of real estate, receivables from tenants, shipping and logistics, and other receivables which were identified to be impaired based on specific and collective assessment. The movements in this account follow:

	2023	2022
	(In Thousands)	
Balance at beginning of year	**₱3,031,584**	₱2,237,119
Provisions - net of writeoff (Note 23)	**252,939**	794,465
Balance at end of year	**₱3,284,523**	₱3,031,584

The aging of receivables follows:

	2023	2022
	(In Thousands)	
Neither past due nor impaired	**₱138,195,908**	₱121,546,146
Past due but not impaired:		
Less than 30 days	**3,804,623**	4,199,730
31-90 days	**3,299,648**	2,327,871
91-120 days	**1,197,760**	1,707,216
Over 120 days	**3,311,886**	3,469,149
Impaired	**3,284,523**	3,031,584
	₱153,094,348	₱136,281,696

Receivables other than those identified as impaired, are assessed as good and collectible.

11. Inventories

This account consists of:

	2023	2022
	(In Thousands)	
Real estate inventories	**₱77,892,908**	₱70,506,503
Merchandise inventories	**38,869,576**	34,653,094
Processed food and others	**712,496**	1,208,441
	₱117,474,980	₱106,368,038

Inventories are stated at cost as at December 31, 2023 and 2022.

Merchandise Inventories
The movements in this account follow:

	2023	2022
	(In Thousands)	
Balance at beginning of year	**₱34,653,094**	₱29,026,924
Purchases	**298,618,735**	276,234,410
Total goods available for sale	**333,271,829**	305,261,334
Less cost of merchandise sales	**294,402,253**	270,608,240
Balance at end of year	**₱38,869,576**	₱34,653,094

Real Estate Inventories
The movements in this account follow:

	Land and Development	Condominium, Residential Units and Subdivision Lots for Sale	Total
		(In Thousands)	
Balance as at January 1, 2022	₱37,229,527	₱19,351,999	₱56,581,526
Development cost incurred	27,956,439	–	27,956,439
Cost of real estate sold	(11,153,550)	(5,745,018)	(16,898,568)
Transfers	(12,643,521)	12,643,521	–
Reclassifications (Notes 15 and 27)	2,204,897	–	2,204,897
Translation adjustment and others	187,069	475,140	662,209
Balance as at December 31, 2022	₱43,780,861	₱26,725,642	₱70,506,503
Development cost incurred	**22,141,007**	**–**	**22,141,007**
Cost of real estate sold	**(13,166,921)**	**(3,494,522)**	**(16,661,443)**
Transfers	**(1,902,929)**	**1,902,929**	**–**
Reclassifications (Notes 15 and 27)	**1,807,712**	**–**	**1,807,712**
Translation adjustment and others	**98,608**	**521**	**99,129**
Balance as at December 31, 2023	**₱52,758,338**	**₱25,134,570**	**₱77,892,908**

Real estate inventories include land and development, and condominium, residential units and subdivision lots for sale.

Contract fulfillment assets included in land and development represent the unamortized portion of land cost of ₱1.8 billion and ₱1.0 billion as at December 31, 2023 and 2022, respectively.

The estimated cost to complete the projects amounted to ₱103.6 billion and ₱106.9 billion as at December 31, 2023 and 2022, respectively.

There is no allowance for inventory write-down as at December 31, 2023 and 2022.

The details of cost of sales and services follow:

	2023	2022	2021
		(In Thousands)	
Cost of sales:			
Merchandise	**₱294,402,253**	₱270,608,240	₱222,300,384
Real estate	**16,661,443**	16,898,568	18,687,157
Processed food and others	**11,601,340**	15,401,706	7,993,598
Cost of shipping, logistics and other services	**13,646,560**	12,743,249	6,271,009
	₱336,311,596	₱315,651,763	₱255,252,148

12. **Other Current Assets**

This account consists of:

	2023	2022
	(In Thousands)	
Prepaid taxes and other prepayments	**₱20,539,740**	₱19,881,090
Bonds and deposits	**10,845,768**	11,143,581
Input tax	**7,226,317**	5,846,949
Receivables from banks	**7,207,447**	5,732,802
Nontrade receivables	**6,233,033**	8,296,364
Derivative assets (Note 29)	**3,167,911**	1,617,864
Uniform and supplies inventory	**1,724,324**	1,573,029
Accrued interest receivable (Note 21)	**325,863**	566,974
Others	**420,556**	317,345
	₱57,690,959	₱54,975,998

- 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 not subject to interest and are applied to progress billings depending on the percentage of project accomplishment.

- Nontrade receivables include advances for future purchases and marketing support. These are normally collected within the next financial year (see Note 24).

- Receivables from banks are not subject to interest and are normally collectible on 30- to 90-day terms.

- Input tax represents VAT paid to suppliers that can be claimed as credit against future output VAT liabilities without prescription.

- Accrued interest receivable relates mostly to time deposits and is normally collected within the next financial year.

13. **Investments in Associate Companies and Joint Ventures**

The movements in this account follow:

	2023	2022
	(In Thousands)	
Balance at beginning of year	**₱328,271,536**	₱305,072,026
Additions	**288,227**	73,500
Disposal	**(1,186,682)**	(13,742)
Business combination (Note 5)	**–**	(535,945)
Equity in net earnings	**44,945,113**	35,825,734
Dividends received and others	**(10,622,941)**	(7,089,942)
Share in other comprehensive loss of associate companies	**(641,624)**	(4,336,268)
Reversal of (provision for) impairment loss	**320,206**	(740,000)
Translation adjustment	**(49,035)**	16,173
Balance at end of year	**₱361,324,800**	₱328,271,536

** Investment in associate companies amounted to ₱350.8 billion and ₱318.5 billion as at December 31, 2023 and 2022, respectively.*

The Group regularly performs tests for impairment of its investments comparing the expected cash flows against the carrying values. In 2023, ₱320.2 million of the ₱740.0 million provision for impairment loss recognized in 2022 was reversed relative to the disposal of the Group's investment in GPay.

The recoverable amount of investments in associate companies is determined based on the fair value less costs of disposal and/or value-in-use calculations using the cash flow projections from the financial budgets approved by senior management.

The calculation of value-in-use is sensitive to the following assumptions:

a. *Revenues.* Revenue forecasts are management's best estimates considering factors such as index growth to market, customer projections and economic factors. The revenue growth rates used in the cash flow projections ranged from 3.3% to 5.9%.

b. *Pre-tax discount rates*. Discount rates reflect the current market assessment of the risks 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 entity for which future estimates of cash flows have not been adjusted. Pre-tax discount rates applied to cash flow projections ranged from 8.2% to 15.2% and 9.9% to 12.2% as at December 31, 2023 and 2022, respectively.

The associate companies and joint ventures of the Group follow:

Company	Percentage of Ownership 2023 Gross	2023 Effective	2022 Gross	2022 Effective	Principal Activities
Associates					
Amazing Philippines Digital Economy Corp.	**35**	**18**	35	18	Digital customer service and selling platform
Andwil Corporation	**50**	**20**	50	20	Retail
Asia-Pacific Computer Technology Center, Inc.	**42**	**42**	42	42	Investment
Atlas	**34**	**34**	34	34	Mining
BDO	**47**	**45**	47	45	Financial services
Belle	**27**	**27**	27	27	Real estate development and tourism
China Bank	**23**	**23**	23	23	Financial services
CityMall Commercial Centers, Inc.	**34**	**34**	34	34	Real estate development and tourism
Clarmil Manufacturing Incorporated	**42**	**27**	42	31	Bakery products and other food items
Ecco Philippines, Inc.	**50**	**39**	50	39	Retail
Fast Retailing Philippines, Inc.	**25**	**19**	25	19	Retail
Feihua Real Estate (Chongqing) Company Ltd. (FHREC)	**50**	**25**	50	25	Real estate development
Fitness Health & Beauty Holdings Corp.	**40**	**31**	40	31	Retail
GPAY Network, PH, Inc. (GPay)	**-**	**-**	35	35	Providing electronic money through electronic instruments
MCC Transport Philippines, Inc.	**33**	**22**	33	18	Integrated supply chain
Neo Associates [(a)]	**34**	**34**	34	34	Real estate development
Ortigas Land Corporation	**40**	**20**	40	20	Real estate development
PLC	**5**	**5**	5	5	Gaming
Premier Shoes Distribution Corp.	**49**	**38**	49	38	Retail
Sodexo Benefits and Rewards Services Philippines, Inc.	**40**	**40**	40	40	Retail
Three Bears Group Holdings Corporation	**35**	**23**	35	26	Bakery products and other food items
Watsons Personal Care Stores (Philippines), Inc.	**40**	**31**	40	31	Retail
Win With Love, Inc.	**33**	**13**	33	13	Retail
YCO Global Cloud Centers Holdings, Inc.	**10**	**10**	-	-	Data center
Joint Ventures					
Kerry Logistics (Phils), Inc.	**63**	**33**	63	26	Integrated supply chain
Metro Rapid Transit Service, Inc.	**51**	**25**	51	25	Transportation
ST 6747 Resources Corporation	**50**	**25**	50	25	Real estate development
Waltermart Mall [(b)]	**51**	**25**	51	25	Shopping mall 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., WM Development Inc. and WM Shopping Center Management Inc.

BDO

The condensed financial information of the Group's material associate, BDO, follows:

	2023	2022
	(In Millions)	
Total assets	**₱4,477,661**	₱4,074,708
Total liabilities	**3,959,107**	3,613,251
Total equity	**518,554**	461,457
Proportion of the Group's ownership	**45%**	45%
	234,743	209,046
Goodwill and others	**26,669**	26,800
Carrying amount of the Group's investment	**₱261,412**	₱235,846

	2023	2022	2021
		(In Millions)	
Interest income	**₱240,196**	₱169,071	₱144,879
Interest expense	**(53,809)**	(19,839)	(13,533)
Other expenses - net	**(112,827)**	(91,998)	(88,491)
Net income after tax	**73,560**	57,234	42,855
Other comprehensive loss	**(1,799)**	(9,861)	(5,810)
Total comprehensive income	**₱71,761**	₱47,373	₱37,045
Group's share in net income	**₱34,314**	₱26,684	₱20,019
Group's share in other comprehensive loss	**(₱843)**	(₱5,599)	(₱5,405)

The aggregate comprehensive income of associates and joint ventures that are not individually material follows:

	2023	2022	2021
		(In Millions)	
Share in net income	**₱10,631**	₱9,142	₱6,750
Share in other comprehensive income	**201**	1,263	1,220
Share in total comprehensive income	**₱10,832**	₱10,405	₱7,970

The fair value of investments in associate companies which are listed in the PSE follows:

	2023	2022
	(In Thousands)	
BDO	**₱344,083,211**	₱278,929,105
China Bank	**18,685,792**	16,626,418
Belle	**3,047,547**	3,177,784
Atlas	**4,279,075**	4,412,417
PLC	**16,669,846**	12,568,534

These investments are categorized as Level 1 in the fair value hierarchy.

14. Property and Equipment

The movements in this account follow:

	Land	Buildings and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Vessels in Operation	Containers and Reefer Vans	Construction in Progress	Total
						(In Thousands)						
Cost												
As at January 1, 2022	₱1,729,542	₱19,822,198	₱2,660,943	₱10,030,976	₱11,784,685	₱17,301,482	₱24,970,861	₱1,196,937	₱8,503,113	₱371,936	₱4,968,379	₱103,341,052
Additions	–	677,187	266,706	933,079	717,278	860,925	1,574,090	51,805	464,728	915	4,131,290	9,678,003
Effect of business combination (Note 5)	–	21,616	–	16,984	38,000	12	140	54,148	–	–	–	130,900
Reclassifications	(9,948)	58,852	(1,966,055)	216,471	579,419	3,855,706	4,964,147	443,187	7,027,236	1,253,911	(4,276,055)	14,294,963
Translation adjustment	–	–	–	–	–	(160,203)	–	–	–	–	(52,448)	(212,651)
Disposals/retirements	(800)	(123,520)	(323,995)	(574,911)	(508,219)	(401,475)	(1,202,034)	(88,822)	(1,287,520)	(1,727)	–	(4,513,023)
As at December 31, 2022	1,718,794	19,892,747	3,349,277	10,622,599	12,611,163	21,456,447	30,307,204	1,657,255	14,707,557	1,625,035	4,771,166	122,719,244
Additions	**–**	**697,001**	**201,286**	**1,614,927**	**1,059,198**	**851,219**	**2,347,796**	**67,955**	**762,647**	**34**	**4,759,700**	**12,361,763**
Reclassifications	**–**	**762,184**	**(443,822)**	**26,868**	**(39,013)**	**2,268,988**	**427,755**	**98,278**	**(13,530)**	**301**	**(3,406,915)**	**(318,906)**
Disposals/retirements	**–**	**(579,239)**	**(143,433)**	**(410,945)**	**(849,258)**	**(170,268)**	**(260,104)**	**(100,567)**	**(102,792)**	**(21,660)**	**–**	**(2,638,266)**
As at December 31, 2023	**₱1,718,794**	**₱20,772,693**	**₱2,963,308**	**₱11,853,449**	**₱12,782,090**	**₱24,406,386**	**₱32,822,651**	**₱1,722,921**	**₱15,353,882**	**₱1,603,710**	**₱6,123,951**	**₱132,123,835**
Accumulated Depreciation and Amortization												
As at January 1, 2022	₱–	₱7,790,965	₱1,903,039	₱8,120,807	₱10,337,850	₱9,896,786	₱18,020,851	₱737,640	₱1,077,060	₱44,531	₱–	₱57,929,529
Depreciation and amortization	–	787,373	233,359	726,437	785,672	1,374,376	1,471,704	112,868	1,010,940	59,037	–	6,561,766
Reclassifications	–	(698,684)	802,480	106,132	(642,658)	1,434,083	4,941,874	453,730	7,020,331	1,308,505	–	14,725,793
Translation adjustment	–	–	–	–	–	(54,499)	–	–	–	–	–	(54,499)
Disposals/retirements	–	(122,875)	(315,148)	(565,611)	(480,809)	(397,026)	(1,110,122)	(84,699)	(1,245,888)	(2,181)	–	(4,324,359)
As at December 31, 2022	–	7,756,779	2,623,730	8,387,765	10,000,055	12,253,720	23,324,307	1,219,539	7,862,443	1,409,892	–	74,838,230
Depreciation and amortization	–	**922,703**	**226,928**	**1,307,897**	**767,376**	**1,501,025**	**1,479,149**	**86,398**	**961,991**	**48,134**	–	**7,301,601**
Reclassifications	–	**19,324**	**(587,914)**	**(280,871)**	**262,420**	**(83,810)**	**275,569**	**102,087**	–	–	–	**(293,195)**
Disposals/retirements	–	**(544,403)**	**(140,809)**	**(403,861)**	**(822,584)**	**(181,623)**	**(256,732)**	**(99,970)**	**(102,792)**	**(21,660)**	–	**(2,574,434)**
As at December 31, 2023	**₱–**	**₱8,154,403**	**₱2,121,935**	**₱9,010,930**	**₱10,207,267**	**₱13,489,312**	**₱24,822,293**	**₱1,308,054**	**₱8,721,642**	**₱1,436,366**	**₱–**	**₱79,272,202**
Net Book Value												
As at December 31, 2023	**₱1,718,794**	**₱12,618,290**	**₱841,373**	**₱2,842,519**	**₱2,574,823**	**₱10,917,074**	**₱8,000,358**	**₱414,867**	**₱6,632,240**	**₱167,344**	**₱6,123,951**	**₱52,851,633**
As at December 31, 2022	1,718,794	12,135,968	725,547	2,234,834	2,611,108	9,202,727	6,982,897	437,716	6,845,114	215,143	4,771,166	47,881,014

As at December 31, 2023 and 2022, a passenger cargo-ship was used as collateral for a subsidiary's long-term debt (see Note 19).

15. Investment Properties

The movements in this account follow:

	Land Held for Future Development	Land and Improvements	Buildings and Leasehold Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)			
Cost						
As at January 1, 2022	₱82,118,174	₱83,225,124	₱284,850,141	₱48,301,269	₱76,809,546	₱575,304,254
Additions	3,207,518	2,382,608	2,360,096	2,389,145	23,651,068	33,990,435
Effect of business combination	–	168,530	15,912	639,737	528,338	1,352,517
Reclassifications (Note 11)	(1,461,375)	2,221,280	26,542,114	4,033,427	(32,511,422)	(1,175,976)
Translation adjustment	–	14,239	344,383	27,723	84,967	471,312
Disposals	(17,590)	(299,145)	(156,421)	(46,618)	–	(519,774)
As at December 31, 2022	83,846,727	87,712,636	313,956,225	55,344,683	68,562,497	609,422,768
Additions	**4,442,123**	**11,637,554**	**2,421,367**	**3,121,210**	**46,583,698**	**68,205,952**
Reclassifications (Note 11)	**(89,781)**	**2,683,563**	**24,423,632**	**2,482,213**	**(31,251,512)**	**(1,751,885)**
Translation adjustment	**–**	**(61,972)**	**(1,756,871)**	**(170,289)**	**(391,352)**	**(2,380,484)**
Disposals	**(3,594)**	**(312,626)**	**(109,550)**	**(530,451)**	–	**(956,221)**
As at December 31, 2023	**₱88,195,475**	**₱101,659,155**	**₱338,934,803**	**₱60,247,366**	**₱83,503,331**	**₱672,540,130**
Accumulated Depreciation, Amortization and Impairment Loss						
As at January 1, 2022	₱–	₱2,916,480	₱76,571,597	₱32,050,803	₱–	₱111,538,880
Depreciation and amortization	–	364,563	8,386,686	3,386,346	–	12,137,595
Reclassifications	–	(560)	(41,940)	(26,795)	–	(69,295)
Translation adjustment	–	7,652	71,693	15,935	–	95,280
Disposals	–	(161,310)	(60,358)	(40,325)	–	(261,993)
As at December 31, 2022	–	3,126,825	84,927,678	35,385,964	–	123,440,467
Depreciation and amortization	**–**	**265,404**	**9,071,500**	**3,983,725**	**–**	**13,320,629**
Reclassifications	**–**	**45**	**4,475**	**9,427**	**–**	**13,947**
Translation adjustment	**–**	**(42,708)**	**(431,780)**	**(86,870)**	**–**	**(561,358)**
Disposals	**–**	**(301,936)**	**(65,033)**	**(373,809)**	**–**	**(740,778)**
As at December 31, 2023	**₱–**	**₱3,047,630**	**₱93,506,840**	**₱38,918,437**	**₱–**	**₱135,472,907**
Net Book Value						
As at December 31, 2023	**₱88,195,475**	**₱98,611,525**	**₱245,427,963**	**₱21,328,929**	**₱83,503,331**	**₱537,067,223**
As at December 31, 2022	83,846,727	84,585,811	229,028,547	19,958,719	68,562,497	485,982,301

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱60.4 billion, ₱47.9 billion and ₱28.5 billion in 2023, 2022 and 2021, respectively. The corresponding direct operating expenses amounted to ₱33.4 billion, ₱25.3 billion and ₱18.9 billion in 2023, 2022 and 2021, respectively.

Construction in progress includes construction costs incurred for new shopping malls, commercial building and redevelopment of existing malls amounting to ₱82.0 billion and ₱67.1 billion as at December 31, 2023 and 2022, respectively.

Portions of investment properties located in China amounting to ₱1.5 billion and ₱1.6 billion as at December 31, 2023 and 2022, respectively, are used as collateral to secure domestic borrowings (see Note 19).

The outstanding construction contracts with various contractors amounted to ₱78.4 billion and ₱79.5 billion as at December 31, 2023 and 2022, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of works.

Interest capitalized to the construction of investment properties amounted to ₱5.8 billion and ₱4.8 billion as at December 31, 2023 and 2022, respectively. Capitalization rates used range from 2.3% to 5.4% in 2023 and 2.4% to 5.2% in 2022.

As at December 31, 2023, the fair value of substantially all investment properties amounting to ₱2.1 trillion 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. Management also believes that the carrying values of additions to investment properties subsequent to the most recent valuation date approximate their fair values. In conducting the appraisal, the independent appraisers mainly used the Market Approach and 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 significant assumptions used in the valuation are discount rates and capitalization rates of 8.0% to 9.0% with an average growth of 5.0%. Fair values based on market approach were assessed using sales comparison approach.

These investment properties are categorized as Level 3 in the fair value hierarchy since valuation is based on unobservable inputs.

The Group has no restriction on the realizability of its investment properties.

16. Intangibles and Other Noncurrent Assets

Intangible Assets
This account consists of:

	2023	2022
	(In Thousands)	
Goodwill	**₱34,320,712**	₱34,320,712
Less accumulated impairment loss	**172,213**	172,213
Net book value	**34,148,499**	34,148,499
Trademarks, brand names and copyright	**6,127,069**	6,128,850
	₱40,275,568	₱40,277,349

Goodwill is attributable mainly to SM Prime, Supervalue, Inc., Neo Subsidiaries, Waltermart Supermarket, Incorporated, 2GO, GBI and PGPC (see Note 5).

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. In 2022, the carrying amount of ₱857.8 million has been fully amortized and taken up in profit or loss.

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:

a. *Revenue.* Revenue forecasts are management's best estimates considering factors such as index growth to market, customer projections and economic factors. Revenue growth rates used in the cash flow projections ranged from 2.1% to 4.4%.

b. *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 12.4% to 18.1% and 12.1% to 18.4% as at December 31, 2023 and 2022, respectively.

Fair value less cost of disposal. The fair values of the CGUs were computed based on available market price for quoted instruments less cost of disposal.

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 2023 and 2022 to materially exceed its recoverable amount.

Other Noncurrent Assets
This account consists of:

	2023	2022
	(In Thousands)	
Receivables from real estate buyers* (Note 10)	**₱70,600,303**	₱48,929,523
Bonds and deposits	**50,388,596**	53,671,037
Deferred tax assets (Note 26)	**6,462,108**	5,209,746
Derivative assets (Note 29)	**3,611,478**	8,508,965
Deferred input VAT	**1,559,521**	1,941,985
Escrow fund (Notes 12 and 21)	**843,732**	621,490
Land use rights	**282,333**	324,770
Defined benefit asset (Note 25)	**110,831**	129,034
Others	**4,186,191**	2,488,241
	₱138,045,093	₱121,824,791

** Pertains to the noncurrent portion of unbilled revenue from sales of real estate.*

- Bonds and deposits include deposits for its leased properties as well as deposits to contractors and suppliers relative to various construction projects and service contracts.

- 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.

- Escrow fund consists mainly of 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, and by SM Prime as required by the Department of Human Settlements and Urban Development in connection with the incentive compliance provisions of the Urban Development and Housing Act.

17. Bank Loans

This account consists of:

	2023	2022
	(In Thousands)	
Parent Company:		
U.S. dollar-denominated loans	**₱415,275**	₱–
Peso-denominated loans	**4,200,000**	9,995,000
Subsidiaries:		
China yuan renminbi-denominated loans	**2,288,964**	2,422,524
Peso-denominated loans	**6,510,000**	8,394,000
	₱13,414,239	₱20,811,524

The interest rates of Peso-denominated loans ranged from 4.0% to 6.9% in 2023 and 2.0% to 7.9% in 2022. The U.S. dollar-denominated loans bear an interest rate of 6.2%. The China yuan renminbi-denominated loans bear the China Loan Prime Rate (LPR) in 2023 and 2022.

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:

	2023	2022
	(In Thousands)	
Trade	**₱116,681,582**	₱100,815,157
Accrued expenses	**23,778,417**	22,405,137
Nontrade	**17,528,203**	14,766,974
Tenants' and customers' deposits*	**14,595,837**	13,703,779
Payables to government agencies	**7,046,388**	7,437,350
Payable arising from acquisition of land	**4,502,475**	4,548,755
Accrued interest (Note 21)	**3,690,975**	3,614,442
Lease liabilities (Note 27)	**2,977,457**	3,152,827
Dividends payable	**2,486,420**	3,197,523
Subscriptions payable	**1,966,477**	1,966,477
Gift checks redeemable and others	**4,914,796**	6,353,287
	₱200,169,027	₱181,961,708

* *Includes unearned revenues from shipping and logistics of ₱54.1 million and ₱48.9 million as at December 31, 2023 and 2022, respectively, and unearned revenues from sales of real estate of ₱7.0 billion and ₱5.5 billion as at December 31, 2023 and 2022, respectively.*

- Trade payables primarily consist of liabilities to suppliers and contractors. These are not subject to interest and are normally settled on 30-to 60-day terms.

- Accrued expenses pertain to costs and expenses which are normally settled within twelve months. Details follow:

	2023	2022
	(In Thousands)	
Payable to contractors	**₱9,400,962**	₱7,979,543
Marketing and advertising and others	**9,907,485**	10,765,314
Utilities	**3,123,796**	2,495,739
Co-loading termination cost	**896,956**	713,297
Salaries and wages	**449,218**	451,244
	₱23,778,417	₱22,405,137

- Nontrade payables, accrued interest, subscriptions payable and others are expected to be settled within the next financial year.

- Tenants' deposits refer to security deposits received from tenants normally at the time of signing lease contracts. These deposits may be returned to the tenants at lease termination, net of unpaid rental, penalties and/or cost of repairs for any damage on the leased properties. Customers' deposits mainly represent the excess of collections from real estate buyers over the related revenue recognized based on POC and the non-refundable reservation fees from prospective real estate buyers which are applied to the receivable when the reservation is converted to sales. In 2023 and 2022, unearned revenue from sales of real estate recognized in profit or loss amounted to ₱2.1 billion and ₱4.3 billion, respectively.

- Payables to government agencies mainly consist of output tax which is normally settled within the next financial year.

- Payable arising from acquisition of land is expected to be settled within the next financial year.

- Gift checks are redeemable at face value.

19. Long-term Debt

This account consists of:

	December 31, 2023					December 31, 2022
	Availment	Maturity	Interest Rate/Term	Security	Amount	Amount
					(In Thousands)	
Parent Company						
U.S. dollar-denominated*	June 2014 - August 2023	June 2024 - August 2028	Fixed 4.9%-6.2%; ROP reference rate + margin; Three-Month SOFR + margin; semi-annual and quarterly	Unsecured	**₱35,159,950**	₱42,326,896
GBP-denominated*	April 2023 - July 2023	April 2025 - July 2028	Fixed 4.2%-5.3%; quarterly	Unsecured	**6,403,683**	–
Peso-denominated	September 2017 - March, 2023	April 2024 - May 2031	Fixed 3.4%-5.2%; Three-Month PHP BVAL + margin; Two-year PHP BVAL + margin; semi-annual and quarterly	Unsecured	**65,156,900**	76,124,350
Subsidiaries						
U.S. dollar-denominated*	April 2019 - June 2022	February 2024 - June 2027	LIBOR + spread; SOFR + spread; semi-annual and quarterly	Unsecured	**₱84,350,144**	₱91,062,847
China yuan renminbi-denominated**	May 2021 - December 2023	April 2026 - June 2037	Fixed 3.7%; LPR; annually	Secured	**10,590,461**	9,665,493
Peso-denominated***	September 2014 - December 2023	April 2024 - April 2032	Fixed 3.9%-7.0%; BVAL + margin	Unsecured/ Secured	**288,983,232**	268,425,993
					490,644,370	487,605,579
Less debt issue cost					**2,356,720**	2,708,662
					488,287,650	484,896,917
Less current portion					**113,528,791**	87,047,213
					₱374,758,859	₱397,849,704

BVAL – Bloomberg Valuation
ROP – Republic of the Philippines
LIBOR – London Interbank Offered Rate
SOFR – Secured Overnight Financing Rate
**Hedged against foreign exchange and interest rate risks using derivative instruments (see Note 24)*
*** Secured by portions of investment properties located in China (see Note 15)*
****Secured by portions of property and equipment (see Note 14)*

Debt Issue Cost

The movements in unamortized debt issue cost follow:

	2023	2022
	(In Thousands)	
Balance at beginning of year	**₱2,708,662**	₱2,672,016
Additions	**829,466**	1,134,632
Amortization and others	**(1,181,408)**	(1,097,986)
Balance at end of year	**₱2,356,720**	₱2,708,662

Repayment Schedule
The repayment schedule of long-term debt as at December 31, 2023 follows:

	Gross Debt	Debt Issue Cost	Net
		(In Thousands)	
Within 1 year	₱114,321,218	₱792,427	₱113,528,791
Over 1 year to 5 years	336,187,107	1,461,477	334,725,630
Over 5 years	40,136,045	102,816	40,033,229
	₱490,644,370	₱2,356,720	₱488,287,650

Covenants
The long-term debt of the Group is covered with certain covenants including adherence to financial ratios. As at December 31, 2023 and 2022, the Group is in compliance with the terms of its debt covenants with the exception of 2GO, which is covered with a waiver from its creditor bank.

20. **Equity**

Capital Stock

a. Common stock

	Number of Shares	
	2023	2022
Authorized - ₱10 par value per share	**2,790,000,000**	2,790,000,000
Issued and subscribed	**1,226,114,578**	1,226,114,578

As at December 31, 2023 and 2022, 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

(Forward)

Date of SEC Approval	Authorized Shares	Number of Shares Issued	Issue/Offer Price
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
August 1, 2022 (merger)		21,531,471	904
August 3, 2022		240	10

The total number of shareholders of the Company is 1,242 and 1,251 as at December 31, 2023 and 2022, respectively.

b. Redeemable preferred shares

	Number of Shares	
	2023	2022
Authorized - ₱10 par value per share	**10,000,000**	10,000,000

There are no issued and subscribed preferred shares as at December 31, 2023 and 2022.

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.
- Merger of the Parent Company with Allfirst in August 2022.

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

(Forward)

	Date of BOD Approval	Amount
Reversal	November 8, 2017	(₱27,800,000)
Addition	November 8, 2017	28,800,000
Reversal	November 10, 2021	(37,000,000)
Addition	November 10, 2021	37,000,000

Retained earnings appropriated as at December 31, 2023 is intended for the payment of certain long-term debts and new investments as follows:

	Timeline	Amount
		(In Thousands)
Debt service	2024	₱27,000,000
Investments	2024	10,000,000
		₱37,000,000

- Unappropriated

  The Parent Company's cash dividend declarations in 2023 and 2022 follow:

Declaration Date	Record Date	Payment Date	Per Share	Total
				(In Thousands)
April 26, 2023	May 11, 2023	May 25, 2023	₱7.50	₱9,165,175
April 27, 2022	May 13, 2022	May 26, 2022	6.25	7,528,643

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱393.8 billion and ₱335.3 billion as at December 31, 2023 and 2022, 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 ₱43.8 billion, ₱34.5 billion and ₱30.4 billion as at December 31, 2023, 2022 and 2021, 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 Group has a policy that requires approval of related party transactions by the Related Party Transactions Committee of the BOD when these breach certain limits and/or when these are not of a usual nature.

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).

- Royalty and Service Fees

  The Parent Company and SM Retail receive service fees from retail entities under common stockholders for management, consultancy, manpower and other services. In addition to service fees, the Parent Company also receives royalty fees from certain related parties.

- 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 CCC which has been collected in full as of December 31, 2022.

- 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			
	2023	2022	2021	**2023**	2022	Terms	Conditions
			(In Thousands)				
Banking Group							
Cash placement and investment in marketable securities	**₱–**	₱–	₱–	**₱112,090,550**	₱121,312,088	Interest-bearing	Unsecured; no impairment
Interest receivable	**–**	–	–	**122,166**	242,663	–	–
Interest income	**3,115,199**	2,084,329	1,186,798	**–**	–	–	–
Interest-bearing debt	**–**	–	–	**63,521,896**	67,368,704	Interest-bearing	Unsecured
Interest payable	**–**	–	–	**365,746**	352,951	–	–
Interest expense	**3,045,964**	2,753,606	2,388,269	**–**	–	–	–
Rent receivable	**–**	–	–	**162,982**	148,221	Noninterest-bearing	Unsecured; no impairment
Rent income	**1,307,951**	1,142,575	692,948	**–**	–	–	–
Receivable financed	**4,130,907**	–	358,861	**–**	–	Without recourse	Unsecured
Dividends receivable	**–**	–	–	**40,386**	150,403	Noninterest-bearing	Unsecured; no impairment
Royalty and service fee receivable	**–**	–	–	**8,458**	8,441	Noninterest-bearing	Unsecured; no impairment
Royalty and service fee income	**116,740**	124,260	47,481	**–**	–	–	–
Escrow fund	**–**	–	–	**841,272**	621,490	Interest-bearing	Unsecured; no impairment
Retail and Other Entities							
Rent receivable	**–**	–	–	**370,466**	363,053	Noninterest-bearing	Unsecured; no impairment
Rent income	**2,378,131**	1,945,309	1,062,811	**–**	–	–	–
Royalty and service fee receivable	**–**	–	–	**2,851,529**	2,234,281	Noninterest-bearing	Unsecured; no impairment
Royalty and service fee income	**2,468,686**	2,056,294	1,642,340	**–**	–	–	–
Nontrade receivable	–	–	–	**87,007**	142,128	Noninterest-bearing	Unsecured; no impairment
Nontrade payable	–	–	–	**1,166,297**	941,000	Noninterest-bearing	Unsecured
Interest income	–	237,830	352,192	**–**	–	–	–
Dividends receivable	–	–	–	**746,019**	357,400	–	–

Terms and Conditions of Transactions with Related Parties

Outstanding balances at yearend are unsecured and are normally settled in cash. 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 2023, 2022 and 2021 consist of short-term employee benefits amounting to ₱4.1 billion, ₱3.7 billion and ₱3.2 billion, respectively, and post-employment benefits amounting to ₱543.5 million, ₱536.4 million and ₱503.0 million, respectively.

22. Other Revenues

This account consists of:

	2023	2022	2021
		(In Thousands)	
Sales - processed food and others	**₱19,964,099**	₱24,604,593	₱12,810,015
Shipping, logistics and other services	**16,725,516**	14,111,385	5,656,887
Cinema and event ticket sales and others	**9,027,668**	4,216,516	498,924
Royalty and service fees	**7,756,655**	5,520,394	4,537,522
Food and beverage	**2,339,039**	1,786,358	611,751
Dividends	**911,619**	1,177,340	586,703
Others	**8,947,819**	10,223,602	10,809,766
	₱65,672,415	₱61,640,188	₱35,511,568

Others include membership revenues, sponsorship income and related items, commission income as well as miscellaneous income from the various business operations of the Group.

23. Costs and Expenses

This account consists of:

	2023	2022	2021
		(In Thousands)	
Cost of sales and services (Note 11)	**₱336,311,596**	₱315,651,763	₱255,252,148
Personnel cost (Note 21)	**34,201,813**	29,580,662	25,176,009
Depreciation and amortization (Notes 14, 15, 16 and 27)	**22,745,157**	21,740,973	19,799,590
Utilities	**15,133,643**	13,491,008	10,002,523
Taxes and licenses	**10,759,774**	8,442,897	8,664,108
Outside services	**10,521,569**	7,178,570	6,538,377
Marketing and selling	**9,517,534**	7,279,896	6,763,396
Supplies	**5,552,948**	2,565,154	1,938,985
Provisions (reversal of provisions) - net	**4,400,289**	5,099,217	(3,982,227)
Rent (Note 27)	**3,716,298**	3,323,087	1,200,679
Repairs and maintenance	**2,767,583**	2,410,096	1,769,627
Pension (Note 25)	**1,489,654**	1,270,890	1,253,169
Transportation and travel	**1,273,496**	1,127,112	772,406
Insurance	**1,107,341**	1,030,217	877,686
Data processing	**1,097,338**	1,089,862	827,128
Professional fees	**761,705**	720,865	277,106
Communications	**556,082**	480,584	364,341
Entertainment, representation and amusement	**494,347**	433,405	434,988
Donations	**363,177**	422,070	208,482
Management and royalty fees (Note 21)	**360,897**	371,672	173,467
Remeasurement loss (Note 5)	–	310,152	7,358,144
Others	**10,951,623**	11,410,775	7,142,790
	₱474,083,864	₱435,430,927	₱352,812,922

Others mainly consist of dues and subscriptions, commissions and bank charges.

24. Interest Income and Interest Expense

The sources of interest income and interest expense follow:

	2023	2022	2021
		(In Thousands)	
Interest income on:			
Cash in banks and temporary investments (Note 7)	**₱2,878,312**	₱1,664,890	₱933,399
Time deposits and other noncurrent assets (Notes 8 and 16)	**840,991**	1,174,464	797,300
Others (Note 12)	**328,975**	203,016	472,652
	₱4,048,278	₱3,042,370	₱2,203,351
Interest expense on:			
Long-term debt (Note 19)	**₱20,939,063**	₱18,330,649	₱16,210,283
Lease liabilities (Note 27)	**1,999,342**	2,029,583	2,002,343
Bank loans (Note 17)	**1,076,593**	1,152,710	859,702
Others	**69,746**	34,128	66,443
	₱24,084,744	₱21,547,070	₱19,138,771

25. Pension Benefits

The Group has funded defined benefit pension plans covering all regular and permanent employees.

Net benefit expense (included under "Costs and Expenses") consists of:

	2023	2022	2021
		(In Thousands)	
Current service cost	**₱1,360,559**	₱1,301,442	₱1,330,146
Net settlement loss (gain)	**(241)**	(238)	2,573
Net interest cost	**286,686**	211,071	120,256
Past service cost - curtailment	**10,245**	(1,931)	(14,120)
	₱1,657,249	₱1,510,344	₱1,438,855
Pension expense (Note 23)	**₱1,489,654**	₱1,270,890	₱1,253,169
Cost of sales and services (Note 23)	**167,595**	239,454	185,686

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 January 1, 2022	₱10,785,621	₱6,946,217	₱–	₱3,839,404
Net benefit expense (Note 23):				
Current service cost	1,134,684	–	–	1,134,684
Settlement gain	(238)	–	–	(238)
Net interest cost	616,437	385,348	487	231,576
	1,750,883	385,348	487	1,366,022
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(629,290)	–	629,290
Actuarial changes arising from:				
Changes in financial assumptions	337,384	–	–	337,384
Changes in demographic assumptions	(89,477)	–	–	(89,477)
Experience adjustment	82,702	–	–	82,702
Others	–	–	(487)	(487)
	330,609	(629,290)	(487)	959,412
Reclassifications from defined benefit assets	487,604	1,057,443	–	(569,839)
Personnel transfers	72,559	38,624	–	33,935
Actual contributions	–	893,372	–	(893,372)
Benefits paid	(1,032,300)	(1,025,000)	–	(7,300)
Transfer to related parties	7,688	7,688	–	–
Other adjustments	291,739	152,739	–	139,000
As at December 31, 2022	12,694,403	7,827,141	–	4,867,262
Net benefit expense (Note 23):				
Current service cost	**1,314,769**	**–**	**–**	**1,314,769**
Settlement gain	**(241)**	**–**	**–**	**(241)**
Net interest cost	**997,397**	**707,658**	**146**	**289,885**
Past service cost - curtailment	**10,245**	**–**	**–**	**10,245**
	2,322,170	**707,658**	**146**	**1,614,658**
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	**–**	**(334,406)**	**–**	**334,406**
Actuarial changes arising from:				
Changes in financial assumptions	**2,115,492**	**–**	**–**	**2,115,492**
Changes in demographic assumptions	**(15,510)**	**–**	**–**	**(15,510)**
Experience adjustment	**12,364**	**–**	**–**	**12,364**
Others	**–**	**–**	**(105)**	**(105)**
	2,112,346	**(334,406)**	**(105)**	**2,446,647**
Reclassifications from defined benefit assets	**1,657,205**	**1,741,593**	**–**	**(84,388)**
Personnel transfers	**84,227**	**(42,534)**	**–**	**126,761**
Actual contributions	**–**	**2,044,189**	**–**	**(2,044,189)**
Benefits paid	**(971,728)**	**(948,288)**	**–**	**23,440**
Transfer to related parties	**49,762**	**49,136**	**–**	**626**
Other adjustments	**35,261**	**5,406**	**(17)**	**29,838**
As at December 31, 2023	**₱17,983,646**	**₱11,048,895**	**₱24**	**₱6,934,775**

- 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 January 1, 2022	₱2,741,508	₱3,566,963	₱71,818	(₱753,637)
Net benefit expense (Note 23):				
Current service cost	166,758	–	–	166,758
Net interest cost	88,378	111,836	2,953	(20,505)
Past service cost - curtailment	(1,931)	–	–	(1,931)
	253,205	111,836	2,953	144,322
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(184,558)	–	184,558
Actuarial changes arising from:				
Changes in financial assumptions	(24,672)	–	–	(24,672)
Changes in demographic assumptions	18,998	–	–	18,998
Experience adjustment	173,154	–	–	173,154
Others	–	–	(37,208)	(37,208)
	167,480	(184,558)	(37,208)	314,830
Reclassifications from defined benefit liabilities	(920,684)	(1,253,538)	–	332,854
Personnel transfers	(140,110)	(87,700)		(52,410)
Actual contributions	–	105,869	–	(105,869)
Benefits paid	(135,908)	(135,875)	–	(33)
Transfer from the plan	(20,323)	(11,232)	–	(9,091)
Amount not recognized due to asset limit	–	–	37,571	37,571
Other adjustments	–	–	(37,571)	(37,571)
As at December 31, 2022	1,945,168	2,111,765	37,563	(129,034)
Net benefit expense (Note 23):				
Current service cost	**45,790**	–	–	**45,790**
Net interest cost	**28,480**	**34,285**	**2,606**	**(3,199)**
	74,270	**34,285**	**2,606**	**42,591**
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	**–**	**(14,261)**	**–**	**14,261**
Actuarial changes arising from:				
Changes in financial assumptions	**77,177**	**–**	**–**	**77,177**
Changes in demographic assumptions	**(2,647)**	**–**	**–**	**(2,647)**
Experience adjustment	**(24,997)**	**–**	**–**	**(24,997)**
Others	**–**	**–**	**(6,534)**	**(6,534)**
	49,533	**(14,261)**	**(6,534)**	**57,260**
Reclassifications from defined benefit liabilities	**(1,618,909)**	**(1,707,328)**	**–**	**88,419**
Personnel transfers	**(118,848)**	**7,913**	**–**	**(126,761)**
Actual contributions	**–**	**47,540**	**–**	**(47,540)**
Benefits paid	**(29,580)**	**(27,301)**	**–**	**(2,279)**
Transfer from the plan	**(10,964)**	**(13,243)**	**–**	**2,279**
Amount not recognized due to asset limit	**–**	**–**	**33,660**	**33,660**
Other adjustments	**(1,189)**	**(5,406)**	**(33,643)**	**(29,426)**
As at December 31, 2023	**₱289,481**	**₱433,964**	**₱33,652**	**(₱110,831)**

The principal assumptions used in determining the pension obligations of the Group follow:

	2023	2022
Discount rate	**5.9% - 6.5%**	5.1% - 7.4%
Future salary increases	**3.0% - 10.0%**	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:

	2023	2022
	(In Thousands)	
Cash and cash equivalents	**₱279,604**	₱203,812
Investment in debt and other securities	**1,378,149**	1,806,677
Investment in common trust funds	**4,123,140**	4,089,437
Investment in equity securities	**337,371**	480,191
Investment in government securities	**5,287,958**	3,314,714
Others	**76,637**	44,075
	₱11,482,859	₱9,938,906

- 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 3.0% to 7.8% and 2.9% to 8.0% in 2023 and 2022, respectively. These have maturities from October 2024 to August 2033 and February 2023 to December in 2023 and 2022, 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 2.7% to 8.6% and 2.1% to 11.9% in 2023 and 2022, respectively. These bonds have maturities from October 2024 to August 2033 and May 2023 to April 2028 in 2023 and 2022, 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:

	2023	2022
	(In Thousands)	
Balances:		
Cash and cash equivalents	**₱279,604**	₱203,812
Investment in common trust funds	**4,123,141**	4,089,437
Transactions:		
Interest income from cash and cash equivalents	**6,010**	1,005
Net income (loss) from investment in common trust funds	**216,672**	(135,180)

The Group expects to contribute about ₱2.0 billion to its Pension Plan in 2024.

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, 2023 and 2022, with all other assumptions held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)
2023		
Discount rates	**50**	**(₱2,165,326)**
	(50)	**2,408,090**
Future salary increases	**100**	**2,623,065**
	(100)	**(2,356,199)**
No attrition rate	**–**	**2,025,162**
2022		
Discount rates	50	(₱872,168)
	(50)	996,350
Future salary increases	100	1,171,032
	(100)	(1,031,713)
No attrition rate	–	1,376,099

The average duration of the Group's defined benefit obligation is 4 to 22 years in 2023 and 2022.

The maturity analysis of the undiscounted benefit payments follows:

	2023	2022
	(In Thousands)	
Year 1	**₱3,638,125**	₱3,905,116
Year 2	**1,265,115**	1,260,971
Year 3	**1,313,298**	1,672,538
Year 4	**1,351,925**	1,898,062
Year 5	**1,848,886**	1,915,450
Year 6 -10	**15,029,376**	13,995,475

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:

	2023	2022
	(In Thousands)	
Deferred tax assets:		
Lease liabilities	**₱9,514,938**	₱10,107,139
Unamortized past service cost and defined benefit liability	**2,246,111**	1,660,618
NOLCO	**2,025,739**	1,083,853
Provision for doubtful accounts and others	**1,595,198**	1,246,439
Excess of fair values over cost of investment properties	**973,652**	723,543
MCIT	**589,637**	544,532
Accrued leases	**78,715**	195,576
	17,023,990	15,561,700
Deferred tax liabilities:		
Unrealized gross profit on sales of real estate	**11,190,690**	8,896,471
ROU assets	**8,059,156**	8,680,073
Appraisal increment on investment property	**4,326,473**	4,494,557
Capitalized interest	**3,169,365**	3,259,706
Trademarks and brand names	**1,470,771**	1,470,771
Excess of fair values over cost of equity instruments	**55,262**	39,368
Unamortized past service cost and defined benefit asset	**13,467**	38,371
Others	**406,014**	270,499
	28,691,198	27,149,816
Net deferred tax liabilities	**₱11,667,208**	₱11,588,116

The net deferred tax assets and liabilities are presented in the consolidated balance sheets as follows:

	2023	2022
	(In Thousands)	
Deferred tax assets (Note 16)	**₱6,462,108**	**₱5,209,746**
Deferred tax liabilities	**18,129,316**	**16,797,862**
	(₱11,667,208)	**(₱11,588,116)**

The unrecognized deferred tax assets from the deductible temporary differences and carryforward benefits of NOLCO and MCIT amounted to ₱3.5 billion and ₱3.4 billion as at December 31, 2023 and 2022, respectively.

Corporate Recovery and Tax Incentives for Enterprises Act
On March 26, 2021, the President of the Philippines signed into law Republic Act No. 11534, Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, which took effect on April 11, 2021. The CREATE Act introduces reforms to the corporate income tax and incentive systems by implementing changes to the current tax regulations. Some of these changes, which became effective beginning July 1, 2020, are as follows:

- Reduction in the RCIT rate from 30% to 20% for entities with net taxable income not exceeding ₱5.0 million and with total assets not exceeding ₱100.0 million (excluding the value of land on which the business entity's office, plant and equipment are situated);
- Reduction in the RCIT from 30% to 25% for all other corporations;
- Reduction in the MCIT rate from 2% to 1% of gross income for 3 years or until June 30, 2023; and
- Repeal of the imposition of 10% improperly accumulated earnings tax (IAET).

The Group recognized in its consolidated financial statements as at and for the year ended December 31, 2021, a reduction in Provision for income tax (current and deferred), Deferred tax on comprehensive income directly charged to Equity and Deferred tax liabilities - net amounting to ₱1.1 billion, ₱17.9 million, and ₱1.1 billion, respectively, pertaining to the one-time impact of CREATE for the year ended December 31, 2020.

The reconciliation between the statutory tax rates and the Group's effective tax rate on income before income tax follows:

	2023	2022	2021
Statutory income tax rate	**25%**	25%	25%
Income tax effect of reconciling items:			
Equity in net earnings of associate companies and joint ventures	**(9)**	(9)	(11)
Interest income subjected to final tax	**(1)**	(1)	(1)
Others	**(1)**	–	1
Effective income tax rate	**14%**	15%	14%

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 follow:

	2023	2022
		(In Millions)
Within one year	**₱9,454**	₱13,150
Over one year to five years	**19,239**	23,231
Over five years	**4,078**	6,310
	₱32,771	₱42,691

As Lessee. The Group leases certain parcels of land where some of its malls are situated as well as retail store, office spaces, warehouses, containers, reefer vans, ISO tanks, cargo handling equipment, transportation equipment and container yards. The terms of the lease are for periods ranging from one 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:

	December 31, 2023		
	Land Use Rights	**Retail Stores, Office Spaces, Warehouses and Others**	**Total**
		(In Thousands)	
Cost			
As at beginning of year	**₱26,917,044**	**₱30,106,402**	**₱57,023,446**
Additions	**10,558**	**3,561,726**	**3,572,284**
Translation adjustment	**(460,661)**	–	**(460,661)**
Reclassifications (Note 11)	**5,708,623**	**(40,779)**	**5,667,844**
Retirements	**(10,558)**	**(806,440)**	**(816,998)**
As at end of year	**32,165,006**	**32,820,909**	**64,985,915**
Accumulated Depreciation and Amortization			
As at beginning of year	**2,368,428**	**10,516,210**	**12,884,638**
Depreciation and amortization	**718,839**	**3,365,765**	**4,084,604**
Translation adjustment	**(23,937)**	–	**(23,937)**
Reclassifications	**3,282**	**(98,804)**	**(95,522)**
Retirements	**(2,147)**	**(402,133)**	**(404,280)**
As at end of year	**3,064,465**	**13,381,038**	**16,445,503**
Net Book Value	**₱29,100,541**	**₱19,439,871**	**₱48,540,412**

	December 31, 2022		
	Land Use Rights	Retail Stores, Office Spaces and Warehouses	Total
		(In Thousands)	
Cost			
As at beginning of year	₱26,952,441	₱27,339,351	₱54,291,792
Additions	1,138,124	3,710,101	4,848,225
Effect of business combination (Note 5)	106,771	6,249	113,020
Translation adjustment	(1,280,292)	30,309	(1,249,983)
Retirements	–	(979,608)	(979,608)
As at end of year	26,917,044	30,106,402	57,023,446

(Forward)

	December 31, 2022		
	Land Use Rights	Retail Stores, Office Spaces and Warehouses	Total
		(In Thousands)	
Accumulated Depreciation and Amortization			
As at beginning of year	₱1,589,882	₱7,862,232	₱9,452,114
Depreciation and amortization	775,944	3,306,691	4,082,635
Translation adjustment	2,602	4,273	6,875
Reclassifications	–	76,558	76,558
Retirements	–	(733,544)	(733,544)
As at end of year	2,368,428	10,516,210	12,884,638
Net Book Value	₱24,548,616	₱19,590,192	₱44,138,808

The rollforward analysis of lease liabilities follows:

	2023	2022
	(In Thousands)	
As at beginning of year	**₱35,389,448**	₱33,691,435
Additions	**3,572,284**	4,848,225
Interest expense (Note 24)	**1,999,342**	2,029,583
Concessions	–	(6,098)
Terminations	**(491,683)**	(319,772)
Payments	**(5,219,712)**	(4,853,925)
Reclassification and others	**70,057**	–
As at end of year	**35,319,736**	35,389,448
Less current portion (Note 18)	**2,977,457**	3,152,827
Noncurrent portion	**₱32,342,279**	₱32,236,621

Following are the amounts recognized in the consolidated statements of income:

	2023	2022
	(In Thousands)	
Depreciation of ROU assets	**₱4,084,604**	₱4,082,635
Interest expense on lease liabilities	**1,999,342**	2,029,583

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 assets portfolio.

Management exercises significant judgment in determining whether these extension and termination options are reasonably certain to be exercised.

The future minimum lease payables under the non-cancellable leases follow:

	2023	2022
	(In Millions)	
Within one year	**₱5,047**	₱4,920
Over one year to five years	**12,484**	13,641
Over five years	**40,606**	43,729
	₱58,137	₱62,290

Included in "Tenants' deposits and others" in the consolidated balance sheets are Tenant's deposits of ₱23.7 billion and ₱22.4 billion as at December 31, 2023 and 2022, 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 at FVOCI, nontrade 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 and cross-currency swaps were designated by the Group under cash flow hedge accounting. Furthermore, the Group applied rollover hedging strategy to some of its currency forward contracts whereby the maturity of the hedging instrument is intentionally shorter than the maturity of the hedged item, and there is an

expectation that on expiry of the original hedging instrument it will be replaced by a new hedging instrument with similar characteristics of the instrument being replaced.

As at December 31, 2023 and 2022, after considering the effect of the swaps, approximately 78.8% and 79.1%, 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)
2023	**100**	**(₱190.2)**
	50	**(95.1)**
	(100)	**190.2**
	(50)	**95.1**
2022	100	(₱160.2)
	50	(80.1)
	(100)	160.2
	(50)	80.1

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:

	2023		2022	
	US$	**Php**	US$	Php
		(In Thousands)		
Current assets:				
Cash and cash equivalents	**$23,811**	**₱1,318,435**	$110,236	₱6,146,210
Receivables and contract assets	**1,333**	**73,815**	2,732	152,311
Noncurrent assets:				
Time deposits	**350,000**	**19,379,500**	345,034	19,237,383
Other noncurrent assets	**–**	**–**	17,000	947,835
Total assets	**375,144**	**20,771,750**	475,002	26,483,739
Current liabilities:				
Bank loans	**7,500**	**415,275**	–	–
Accounts payable and other current liabilities	**4,062**	**224,921**	4,650	259,257
Current portion of long-term debt	**349,983**	**19,378,549**	–	–
Noncurrent liabilities:				
Long-term debt - net of current portion	**4,966**	**274,978**	434,458	24,223,206
Total liabilities	**366,511**	**20,293,723**	439,108	24,482,463
Net	**$8,633**	**₱478,027**	$35,894	₱2,001,276

As at December 31, 2023 and 2022, approximately 27.6% and 28.6%, respectively, of the Group's borrowings, net of debt issue cost, are denominated in foreign currency.

The Group recognized net foreign exchange gain of ₱328.7 million, ₱209.0 million and ₱790.1 million in 2023, 2022 and 2021, 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, 2023	**₱55.370**
December 31, 2022	55.755
December 31, 2021	50.999

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)
2023	**₱1.50**	**₱12.9**
	1.00	**8.6**
	(1.50)	**(12.9)**
	(1.00)	**(8.6)**
2022	₱1.50	₱53.8
	1.00	35.9
	(1.50)	(53.8)
	(1.00)	(35.9)

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:

	2023	2022
	(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	**₱101,671,685**	₱104,545,323
Current portion of time deposits	**602,466**	8,788,848

The maturity profile of the Group's financial liabilities follows:

	2023			
	Less than 1 Year	**1 to 5 Years**	**More than 5 Years**	**Total**
		(In Thousands)		
Bank loans	**₱13,414,239**	**₱–**	**₱–**	**₱13,414,239**
Accounts payable and other current liabilities*	**175,538,851**	**–**	**–**	**175,538,851**
Long-term debt (including current portion)**	**156,852,506**	**384,720,189**	**46,019,727**	**587,592,422**
Derivative liabilities**	**10,496**	**306,585**	**–**	**317,081**
Tenants' deposits**	**96,023**	**23,450,038**	**315,851**	**23,861,912**
Other noncurrent liabilities***	**–**	**9,834,890**	**2,304,661**	**12,139,551**
	₱345,912,115	**₱418,311,702**	**₱48,640,239**	**₱812,864,056**

**Excluding nonfinancial liabilities of ₱10.0 billion.*
***Based on estimated future cash flows.*
****Excluding nonfinancial liabilities amounting to ₱20.8 billion.*

	2022			
	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
		(In Thousands)		
Bank loans	₱20,811,524	₱–	₱–	₱20,811,524
Accounts payable and other current liabilities*	157,445,676	–	–	157,445,676
Long-term debt (including current portion)**	100,888,369	295,992,179	148,727,650	545,608,198
Derivative liabilities**	459,320	294,403	–	753,723
Tenants' deposits**	187,177	3,066,376	19,107,547	22,361,100
Other noncurrent liabilities***	–	3,371,317	5,335,747	8,707,064
	₱279,792,066	₱302,724,275	₱173,170,944	₱755,687,285

**Excluding nonfinancial liabilities of ₱10.6 billion.*
***Based on estimated future cash flows.*
****Excluding nonfinancial liabilities amounting to ₱15.4 billion.*

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 sales 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, 2023 and 2022, 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.

	2023			2022		
	High Quality	**Standard Quality**	**Total**	High Quality	Standard Quality	Total
			(In Thousands)			
Cash and cash equivalents (excluding cash on hand)	**₱101,671,685**	**₱–**	**₱101,671,685**	₱104,545,323	₱–	₱104,545,323
Time deposits including noncurrent portion	**22,927,147**	**–**	**22,927,147**	32,919,429	–	32,919,429
Financial assets at FVOCI	**25,530,724**	**1,534,894**	**27,065,618**	25,167,902	736,813	25,904,715
Receivables and contract assets - net (including noncurrent portion of receivables from real estate buyers)*	**86,090,325**	**7,966,598**	**94,056,923**	61,877,471	8,441,661	70,319,132
Advances and other receivables - net (includes nontrade receivables, bonds and deposits, receivable from banks, notes receivable and accrued interest receivable under "Other current assets" account in the consolidated balance sheets)**	**24,377,006**	**–**	**24,377,006**	25,535,428	–	25,535,428
Escrow fund	**843,732**	**–**	**843,732**	621,490	–	621,490
Derivative assets (including noncurrent portion)	**6,779,389**	**–**	**6,779,389**	10,126,829	–	10,126,829
	₱268,220,008	**₱9,501,492**	**₱277,721,500**	₱260,793,872	₱9,178,474	₱269,972,346

**Excluding non-financial assets of ₱44.3 billion and ₱51.2 billion as at December 31, 2023 and 2022, respectively.*
***Excluding non-financial assets of ₱235.1 million and ₱204.3 million as at December 31, 2023 and 2022, 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)
2023	**+1.63%**	**₱507.6**
	-1.63%	**(507.6)**
2022	+2.44%	₱670.3
	-2.44%	(670.3)

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

	2023	2022
	(In Thousands)	
Bank loans	**₱13,414,239**	₱20,811,524
Long-term debt (current and noncurrent)	**488,287,650**	484,896,917
Less:		
Cash and cash equivalents (excluding cash on hand)	**(101,671,685)**	(104,545,323)
Time deposits (current and noncurrent)	**(22,927,147)**	(32,919,429)
Net interest-bearing debt (a)	**377,103,057**	368,243,689
Total equity	**772,200,205**	692,190,011
Net interest-bearing debt and total equity (b)	**₱1,149,303,262**	₱1,060,433,700
Gearing ratio - net (a/b)	**33%**	35%

Gross Gearing Ratio

	2023	2022
	(In Thousands)	
Bank loans	**₱13,414,239**	₱20,811,524
Long-term debt	**488,287,650**	484,896,917
Total interest-bearing debt (a)	**501,701,889**	505,708,441
Total equity	**772,200,205**	692,190,011
Total interest-bearing debt and total equity (b)	**₱1,273,902,094**	₱1,197,898,452
Gearing ratio - gross (a/b)	**39%**	42%

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:

	December 31, 2023				
	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	**₱25,505,874**	**₱25,505,874**	**₱25,505,874**	**₱–**	**₱–**
Unlisted shares of stock	**1,534,894**	**1,534,894**	**–**	**–**	**1,534,894**
Club shares	**24,850**	**24,850**	**–**	**24,850**	**–**
Derivative assets	**6,779,389**	**6,779,389**	**–**	**6,779,389**	**–**
	33,845,007	**33,845,007**	**25,505,874**	**6,804,239**	**1,534,894**
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	**22,324,681**	**22,657,988**	**–**	**22,657,988**	**–**
	₱56,169,688	**₱56,502,995**	**₱25,505,874**	**₱29,462,227**	**₱1,534,894**
Liabilities Measured at Fair Value					
Derivative liabilities	**₱317,081**	**₱317,081**	**₱–**	**₱317,081**	**₱–**
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	**374,758,859**	**362,191,802**	**–**	**–**	**362,191,802**
Tenants' deposits and others*	**36,941,440**	**35,731,981**	**–**	**–**	**35,371,981**
	411,700,299	**397,923,783**	**–**	**–**	**397,923,783**
	₱412,017,380	**₱398,240,864**	**₱–**	**₱317,081**	**₱398,240,864**

**Excluding nonfinancial liabilities of ₱20.8 billion and noncurrent derivative liabilities of ₱306.6 million.*

	December 31, 2022				
	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	₱25,146,102	₱25,146,102	₱25,146,102	₱–	₱–
Unlisted shares of stock	736,813	736,813	–	–	736,813
Club shares	21,800	21,800	–	21,800	–
Derivative assets	10,126,829	10,126,829	–	10,126,829	–
	36,031,544	36,031,544	25,146,102	10,148,629	736,813
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	24,130,581	24,301,426	–	24,301,426	–
	₱60,162,125	₱60,332,970	₱25,146,102	₱34,450,055	₱736,813
Liabilities Measured at Fair Value					
Derivative liabilities	₱753,723	₱753,723	₱–	₱753,723	₱–
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	397,849,704	388,216,528	–	–	388,216,528
Tenants' deposits and others*	31,592,352	29,501,687	–	–	29,501,687
	429,442,056	417,718,215	–	–	417,718,215
	₱430,195,779	₱418,471,938	₱–	₱753,723	₱417,718,215

**Excluding nonfinancial liabilities of ₱15.4 billion and noncurrent derivative liabilities of ₱294.4 million.*

There were no transfers into and out of Levels 1, 2 and 3 fair value measurements as at December 31, 2023 and 2022.

The fair values of unlisted shares of stock classified under Level 3 were determined through the income valuation approach. This valuation approach assumes that the value of any asset can be estimated by ascertaining the amount and timing of future cash flows or earnings that are generated by that asset. As at December 31, 2023 and 2022, the Group's unlisted shares of stock were valued using discount rates of 17.2% to 18.2% and 20.4% to 21.4%, respectively.

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:

	2023	2022
Time deposits (noncurrent portion)	**2.2% - 3.9%**	3.1% - 4.0%
Tenants' deposits	**2.1% - 6.9%**	2.7% - 6.9%

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 0.02% to 8.3% and 3.1% to 8.4% as at December 31, 2023 and 2022, 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 8.2% to 8.3% and 7.4% to 8.5% as at December 31, 2023 and 2022, 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:

	2023	2022
	(In Thousands)	
Balance at beginning of year	**₱9,373,106**	(₱1,709,480)
Net changes in fair value during the year	**(1,194,648)**	11,819,742
Fair value on settled derivatives	**(1,716,150)**	(737,156)
	₱6,462,308	₱9,373,106

Derivative Instruments Accounted for as Cash Flow Hedges

As at December 31, 2023, 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:

	Notional Amount	Agreed Equivalent	Fair Value	Interest Rate	Foreign Exchange Rate	Maturity
		(In Thousands)				
Parent						
Cross Currency Swaps	$280,000	₱14,751,000	₱876,193	5.4% - 5.8%	₱51.15 - ₱56.20	2024 - 2025
Cross Currency Swaps	£90,700	6,298,557	334,506	5.7% - 5.8%	68.52 - 70.49	2025 - 2028
SM Prime						
Cross Currency Swaps	$150,000	₱7,276,500	₱1,096,049	3.6% - 3.7%	₱48.50 - ₱48.52	2024
Cross Currency Swaps	286,000	¥1,919,208	962,344	3.9% - 4.0%	¥6.69 - ¥6.72	2024
Principal Only Swaps	270,000	¥1,753,285	281,166	–	¥6.38 - ¥6.68	2026 - 2027
Foreign Exchange Forward Swaps	800,000	₱44,725,405	108,803	–	₱53.94 - ₱60.39	2024 - 2026
Interest Rate Swaps	670,000	–	2,803,247	2.3% - 2.6%	–	2025 - 2026

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 ₱592.0 million, ₱995.0 million and ₱216.0 million gain in 2023, 2022 and 2021, respectively.

30. EPS Computation

	Years Ended December 31		
	2023	2022	2021
	(In Thousands Except Per Share Data)		
Net income attributable to owners of the Parent (a)	**₱76,989,043**	₱61,653,665	₱40,411,896
Weighted average number of common shares outstanding (b)	**1,222,023**	1,211,846	1,204,583
Basic/Diluted EPS (a/b)	**₱63.00**	₱50.88	₱33.55

31. **Change in Liabilities Arising From Financing Activities**

	2023			2022		
	Bank Loans (Note 17)	**Long-term Debt** (Note 19)	**Lease Liabilities** (Note 27)	Bank Loans (Note 17)	Long-term Debt (Note 19)	Lease Liabilities (Note 27)
			(In Thousands)			
Balance at beginning of year	**₱20,811,524**	**₱484,896,917**	**₱35,389,448**	₱27,167,173	₱445,325,439	₱33,691,435
Availments	**45,599,966**	**107,590,529**	**3,572,284**	66,878,421	100,256,801	4,848,225
Payments	**(52,906,823)**	**(103,343,041)**	**(5,219,712)**	(73,264,105)	(72,630,533)	(4,853,925)
Cumulative translation adjustment on cash flow hedges	**(86,678)**	**(1,609,567)**	**–**	5,535	2,229,038	–
Foreign exchange movement	**(3,750)**	**408,406**	**–**	–	9,718,606	–
Business combination (Note 5)	**–**	**–**	**–**	24,500	22,183	–
Others	**–**	**344,406**	**1,577,716**	–	(24,617)	1,703,713
Balance at end of year	**₱13,414,239**	**₱488,287,650**	**₱35,319,736**	₱20,811,524	₱484,896,917	₱35,389,448

There are no non-cash changes in accrued interest and dividends payable. Others include debt accretion and debt issue cost amortization.

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INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
SM Prime Holdings, Inc.
7/F MOA Square
Seashell Lane cor. Coral Way
Mall of Asia Complex
Brgy. 76 Zone 10, CBP 1-A, Pasay City
Metro Manila, Philippines

Opinion

We have audited the consolidated financial statements of SM Prime Holdings, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2023 and 2022, 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, 2023, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2023 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 Company 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.

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Real Estate Revenue and Cost Recognition

The Company's real estate revenue recognition process, policies and procedures are significant to our audit because these involve application of significant judgment and estimation in the following areas: (1) assessment of the probability that the entity will collect the consideration from the buyer; (2) determination of the transaction price; (3) application of the output method as the measure of progress in determining revenue from sale of real estate; (4) determination of the actual costs incurred as cost of real estate sold; and (5) recognition of cost to obtain a contract.

In evaluating whether collectability of the amount of consideration is probable, the Company 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 history with the buyer, age of the outstanding receivables and pricing of the property. Management regularly evaluates the historical sales cancellations and back-outs if it would still support its current threshold of buyer's equity before commencing revenue recognition.

In determining the transaction price, the Company considers whether the selling price of the real estate property includes significant financing component.

In measuring the progress of its performance obligation over time, the Company uses the output method. This method measures progress of work based on physical proportion of work done, including the impact of customized uninstalled materials, on the real estate project which requires technical determination by the Company'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.

In determining the actual costs incurred to be recognized as cost of real estate sold, the Company estimates costs incurred on materials, labor and overhead which have not yet been billed by the contractor.

The Company identifies sales commissions after contract inception as cost of obtaining a contract. For contracts which qualified for revenue recognition, the Company capitalizes the total sales commissions due to sales agent as cost to obtain a contract and recognizes the related commissions payable. The Company uses percentage of completion (POC) method in amortizing sales commissions consistent with the Company's revenue recognition policy.

The disclosures related to the Company's revenue recognition are included in Note 3 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Company's real estate revenue and cost recognition process.

For the buyer's equity, we evaluated management's basis of the buyer's equity by comparing this to the historical analysis of sales cancellations from buyers with accumulated payments above the collection threshold. We traced the analysis to supporting documents such as notice of sales cancellation.

For the determination of the transaction price of real estate sale, we obtained an understanding of the Company's process in assessing whether a contract contains a financing component and whether that financing component is significant to the contract. We selected sample contracts from the sales contract database and identified their payment terms. We traced these selected contracts to the financing component calculation prepared by management, which covers the calculation on whether the financing component of the Company's contract with customers is significant. For these selected contracts, we traced the underlying data and assumptions used in the financing component calculation such as transaction price, cash discount, payment scheme, payment amortization table, and percentage of completion to the contract provision and projected percentage of completion schedule. We evaluated the Company's application of portfolio approach in the financing component calculation by understanding the rationale and basis of the parameters used (i.e., grouping of performance obligation based on percentage of completion, grouping of contracts based on payment scheme). We test computed the financing component of each portfolio as prepared by management.

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 inspected the certified POC reports prepared by the third-party project managers and assessed their competence, capabilities and objectivity by reference to their qualifications, experience and reporting responsibilities. For selected projects, we conducted ocular inspections, made relevant inquiries and inspected 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 Company's cost accumulation process. 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 and accomplishment reports, among others.

For the recognition of cost to obtain a contract, we obtained an understanding of the sales commissions process. For selected contracts, we agreed the basis for calculating the sales commissions 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.

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, 2023, 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, 2023 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Company'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 based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company to cease to continue as a going concern.

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- 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 Company 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 Juan Miguel P. Machuca.

SYCIP GORRES VELAYO & CO.

Juan Miguel P. Machuca
Partner
CPA Certificate No. 116998
Tax Identification No. 226-074-253
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
BIR Accreditation No. 08-001998-140-2021, April 27, 2021, valid until April 26, 2024
PTR No. 10079963, January 6, 2024, Makati City

February 19, 2024

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SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2023	2022
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 19, 26 and 27)	**₱31,816,802**	₱42,060,082
Receivables and contract assets (Notes 7, 14, 19, 26 and 27)	**76,952,202**	82,560,354
Real estate inventories (Note 8)	**77,886,781**	70,500,025
Equity instruments at fair value through other comprehensive income (FVOCI) (Notes 9, 26 and 27)	**747,840**	534,865
Derivative assets (Notes 26 and 27)	**2,247,073**	585,576
Prepaid expenses and other current assets (Note 10)	**27,804,930**	25,767,334
Total Current Assets	**217,455,628**	222,008,236
Noncurrent Assets		
Equity instruments at FVOCI - net of current portion (Notes 9, 19, 26 and 27)	**19,570,212**	17,077,198
Investment properties (Notes 12, 17, 25 and 27)	**545,074,746**	489,266,042
Investments in associates and joint ventures (Note 13)	**32,431,195**	30,578,320
Property and equipment (Notes 11 and 25)	**1,554,990**	1,399,840
Deferred tax assets - net (Note 24)	**1,492,359**	931,366
Derivative assets - net of current portion (Notes 26 and 27)	**3,276,971**	6,752,744
Other noncurrent assets (Notes 7, 14, 19, 23, 26 and 27)	**122,471,474**	106,200,906
Total Noncurrent Assets	**725,871,947**	652,206,416
	₱943,327,575	₱874,214,652
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Notes 15, 26 and 27)	**₱4,288,964**	₱5,422,524
Accounts payable and other current liabilities (Notes 16, 19, 26 and 27)	**99,077,428**	88,122,597
Current portion of long-term debt (Notes 17, 19, 26 and 27)	**67,746,351**	50,839,776
Derivative liabilities (Notes 26 and 27)	**7,423**	19,496
Income tax payable	**1,295,842**	765,909
Total Current Liabilities	**172,416,008**	145,170,302
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 17, 19, 26 and 27)	**294,622,256**	296,134,836
Tenants' and customers' deposits - net of current portion (Notes 16, 25, 26 and 27)	**25,301,504**	23,799,162
Liability for purchased land - net of current portion (Notes 16, 26 and 27)	**539,959**	1,129,719
Deferred tax liabilities - net (Note 24)	**12,458,096**	11,140,040
Derivative liabilities - net of current portion (Notes 26 and 27)	**265,013**	294,403
Other noncurrent liabilities (Notes 16, 23, 26 and 27)	**38,837,703**	31,394,584
Total Noncurrent Liabilities	**372,024,531**	363,892,744
Total Liabilities	**544,440,539**	509,063,046

	December 31	
	2023	2022
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 18 and 28)	**₱33,166,300**	₱33,166,300
Additional paid-in capital - net (Notes 5 and 18)	**38,159,900**	38,124,193
Cumulative translation adjustment	**2,556,139**	3,435,171
Net fair value changes of equity instruments at FVOCI (Note 9)	**16,938,503**	14,232,514
Net fair value changes on cash flow hedges (Note 27)	**1,079,094**	2,984,605
Remeasurement loss on defined benefit obligation (Note 23)	**(1,062,437)**	(928,882)
Retained earnings (Note 18):		
Appropriated	**42,200,000**	42,200,000
Unappropriated	**266,143,815**	232,972,284
Treasury stock (Notes 18 and 28)	**(2,984,695)**	(2,984,695)
Total Equity Attributable to Equity Holders of the Parent	**396,196,619**	363,201,490
Non-controlling Interests	**2,690,417**	1,950,116
Total Equity	**398,887,036**	365,151,606
	₱943,327,575	₱874,214,652

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

	Years Ended December 31		
	2023	2022	2021
REVENUE			
Rent (Notes 12, 19 and 25)	**₱72,113,957**	₱58,243,913	₱34,694,185
Real estate sales	**42,040,409**	39,046,514	45,116,120
Others (Notes 19 and 20)	**13,943,175**	8,495,208	2,505,179
	128,097,541	105,785,635	82,315,484
COSTS AND EXPENSES (Notes 19, 21 and 23)	**66,818,300**	56,542,322	49,900,933
INCOME FROM OPERATIONS	**61,279,241**	49,243,313	32,414,551
OTHER INCOME (CHARGES)			
Interest expense (Notes 7, 15, 17, 19, 22, 26 and 27)	**(13,963,271)**	(11,465,787)	(9,357,616)
Interest and dividend income (Notes 6, 7, 9, 14, 19 and 22)	**2,185,156**	1,775,740	1,025,066
Others - net (Notes 12, 13, 16, 17 and 27)	**338,693**	(839,262)	3,651,524
	(11,439,422)	(10,529,309)	(4,681,026)
INCOME BEFORE INCOME TAX	**49,839,819**	38,714,004	27,733,525
PROVISION FOR INCOME TAX (Note 24)			
Current	**8,211,259**	6,783,913	2,816,720
Deferred	**764,715**	1,186,962	3,005,402
	8,975,974	7,970,875	5,822,122
NET INCOME	**₱40,863,845**	₱30,743,129	₱21,911,403
Attributable to:			
Equity holders of the Parent (Notes 18 and 28)	**₱40,010,501**	₱30,099,799	₱21,786,516
Non-controlling interests (Note 18)	**853,344**	643,330	124,887
	₱40,863,845	₱30,743,129	₱21,911,403
Basic/Diluted earnings per share (Note 28)	**₱1.387**	₱1.043	₱0.755
Dividend per share (Note 18)	**₱0.237**	₱0.097	₱0.082

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2023	2022	2021
NET INCOME	**₱40,863,845**	₱30,743,129	₱21,911,403
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified to profit or loss in subsequent periods:			
Unrealized gain (loss) due to changes in fair value of financial assets at fair value through other comprehensive income (Note 9)	**2,705,989**	(475,854)	1,247,699
Remeasurement gain (loss) on defined benefit obligation (Note 23)	**(134,611)**	(383,448)	38,020
	2,571,378	(859,302)	1,285,719
Items that may be reclassified to profit or loss in subsequent periods:			
Cumulative translation adjustment	**(879,032)**	351,987	1,558,745
Net fair value changes on cash flow hedges (Note 27)	**(1,905,511)**	3,417,488	1,336,147
	(213,165)	2,910,173	4,180,611
TOTAL COMPREHENSIVE INCOME	**₱40,650,680**	₱33,653,302	₱26,092,014
Attributable to:			
Equity holders of the Parent (Note 18)	**₱39,798,392**	₱33,013,181	₱25,968,260
Non-controlling interests	**852,288**	640,121	123,754
	₱40,650,680	₱33,653,302	₱26,092,014

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021

(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent											
	Capital Stock (Notes 18 and 28)	Additional Paid-in Capital - Net (Notes 5 and 18)	Cumulative Translation Adjustment	Net fair value changes of equity instruments at fair value through other comprehensive income (FVOCI) (Note 9)	Net Fair Value Changes on Cash Flow Hedges (Note 27)	Remeasurement Loss on Defined Benefit Obligation (Note 23)	Retained Earnings (Note 18)		Treasury Stock (Notes 18 and 28)	Total	Non-controlling Interests (Note 18)	Total Equity
							Appropriated	Unappropriated				
At January 1, 2023	**₱33,166,300**	**₱38,124,193**	**₱3,435,171**	**₱14,232,514**	**₱2,984,605**	**(₱928,882)**	**₱42,200,000**	**₱232,972,284**	**(₱2,984,695)**	**₱363,201,490**	**₱1,950,116**	**₱365,151,606**
Net income for the year	–	–	–	–	–	–	–	**40,010,501**	–	**40,010,501**	**853,344**	**40,863,845**
Other comprehensive income (loss)	–	–	**(879,032)**	**2,705,989**	**(1,905,511)**	**(133,555)**	–	–	–	**(212,109)**	**(1,056)**	**(213,165)**
Total comprehensive income (loss) for the year	–	–	**(879,032)**	**2,705,989**	**(1,905,511)**	**(133,555)**	–	**40,010,501**	–	**39,798,392**	**852,288**	**40,650,680**
Cash dividends (Note 18)	–	–	–	–	–	–	–	**(6,844,378)**	–	**(6,844,378)**	–	**(6,844,378)**
Cash dividends received by a subsidiary (Note 18)	–	–	–	–	–	–	–	**5,408**	–	**5,408**	–	**5,408**
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	**(324,450)**	**(324,450)**
Additional investment of non-controlling interest (Note 2)	–	–	–	–	–	–	–	–	–	–	**201,000**	**201,000**
Sale of non-controlling interest (Note 2)	–	**35,707**	–	–	–	–	–	–	–	**35,707**	**11,463**	**47,170**
At December 31, 2023	**₱33,166,300**	**₱38,159,900**	**₱2,556,139**	**₱16,938,503**	**₱1,079,094**	**(₱1,062,437)**	**₱42,200,000**	**₱266,143,815**	**(₱2,984,695)**	**₱396,196,619**	**₱2,690,417**	**₱398,887,036**
At January 1, 2022, as previously presented	₱33,166,300	₱38,056,016	₱3,083,184	₱14,708,368	(₱432,883)	(₱548,643)	₱42,200,000	₱205,671,557	(₱2,984,695)	₱332,919,204	₱1,441,569	₱334,360,773
Effect of common control business combination (Note 5)	–	44,330	–	–	–	–	–	–	–	44,330	3,277	47,607
At January 1, 2022, as adjusted	33,166,300	38,100,346	3,083,184	14,708,368	(432,883)	(548,643)	42,200,000	205,671,557	(2,984,695)	332,963,534	1,444,846	334,408,380
Net income for the year	–	–	–	–	–	–	–	30,099,799	–	30,099,799	643,330	30,743,129
Other comprehensive income (loss)	–	–	351,987	(475,854)	3,417,488	(380,239)	–	–	–	2,913,382	(3,209)	2,910,173
Total comprehensive income (loss) for the year	–	–	351,987	(475,854)	3,417,488	(380,239)	–	30,099,799	–	33,013,181	640,121	33,653,302
Cash dividends (Note 18)	–	–	–	–	–	–	–	(2,801,286)	–	(2,801,286)	–	(2,801,286)
Cash dividends received by a subsidiary (Note 18)	–	–	–	–	–	–	–	2,214	–	2,214	–	2,214
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(144,050)	(144,050)
Sale of non-controlling interest (Note 2)	–	23,847	–	–	–	–	–	–	–	23,847	9,199	33,046
At December 31, 2022	₱33,166,300	₱38,124,193	₱3,435,171	₱14,232,514	₱2,984,605	(₱928,882)	₱42,200,000	₱232,972,284	(₱2,984,695)	₱363,201,490	₱1,950,116	₱365,151,606

	Equity Attributable to Equity Holders of the Parent											
	Capital Stock (Notes 18 and 28)	Additional Paid-in Capital - Net (Notes 5 and 18)	Cumulative Translation Adjustment	Net fair value changes of equity instruments at FVOCI (Note 9)	Net Fair Value Changes on Cash Flow Hedges (Note 27)	Remeasurement Gain (Loss) on Defined Benefit Obligation (Note 23)	Retained Earnings (Note 18) Appropriated	Retained Earnings (Note 18) Unappropriated	Treasury Stock (Notes 18 and 28)	Total	Non-controlling Interests (Note 18)	Total Equity
At January 1, 2021	₱33,166,300	₱38,022,913	₱1,524,439	₱13,460,669	(₱1,769,030)	(₱587,796)	₱42,200,000	₱186,251,267	(₱2,984,695)	₱309,284,067	₱1,433,561	₱310,717,628
Net income for the year	–	–	–	–	–	–	–	21,786,516	–	21,786,516	124,887	21,911,403
Other comprehensive income (loss)	–	–	1,558,745	1,247,699	1,336,147	39,153	–	–	–	4,181,744	(1,133)	4,180,611
Total comprehensive income for the year	–	–	1,558,745	1,247,699	1,336,147	39,153	–	21,786,516	–	25,968,260	123,754	26,092,014
Cash dividends (Note 18)	–	–	–	–	–	–	–	(2,368,097)	–	(2,368,097)	–	(2,368,097)
Cash dividends received by a subsidiary	–	–	–	–	–	–	–	1,871	–	1,871	–	1,871
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(129,050)	(129,050)
Sale of non-controlling interest (Note 2)	–	33,103	–	–	–	–	–	–	–	33,103	13,304	46,407
At December 31, 2021	₱33,166,300	₱38,056,016	₱3,083,184	₱14,708,368	(₱432,883)	(₱548,643)	₱42,200,000	₱205,671,557	(₱2,984,695)	₱332,919,204	₱1,441,569	₱334,360,773

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱49,839,819**	₱38,714,004	₱27,733,525
Adjustments for:			
Depreciation and amortization (Notes 11, 12, 21 and 25)	**13,656,773**	12,487,763	10,816,869
Interest expense (Notes 7, 15, 17, 19 and 22)	**13,963,271**	11,465,787	9,357,616
Interest and dividend income (Notes 6, 7, 9, 14, 19 and 22)	**(2,185,156)**	(1,775,740)	(1,025,066)
Equity in net earnings of associates and joint ventures (Note 13)	**(2,162,611)**	(1,720,116)	(1,187,419)
Loss (gain) on:			
Disposal of property and equipment and investment properties (Notes 11 and 12)	**148,140**	105,701	(551,974)
Unrealized foreign exchange and fair value changes on derivatives - net	**76,370**	826,854	(623,782)
Operating income before working capital changes	**73,336,606**	60,104,253	44,519,769
Increase in:			
Receivables and contract assets	**(16,337,056)**	(8,760,236)	(16,304,309)
Real estate inventories	**(5,437,721)**	(12,462,748)	(4,696,521)
Prepaid expenses and other current assets	**(2,068,144)**	(762,618)	(1,639,817)
Increase (decrease) in:			
Accounts payable and other liabilities	**18,539,236**	1,070,155	12,048,707
Tenants' and customers' deposits	**1,573,478**	2,328,183	(28,558)
Cash generated from operations	**69,606,399**	41,516,989	33,899,271
Income tax paid	**(7,665,012)**	(6,583,777)	(3,232,110)
Net cash provided by operating activities	**61,941,387**	34,933,212	30,667,161
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	**1,922,233**	1,197,311	648,143
Dividends received	**724,446**	596,672	292,898
Proceeds from disposal of property and equipment and investment properties (Notes 11 and 12)	**90,067**	85,767	453,298
Additions to:			
Investment properties (Note 12)	**(63,772,055)**	(38,766,369)	(39,294,964)
Property and equipment (Note 11)	**(341,106)**	(198,012)	(168,077)
Increase in other noncurrent assets	**(5,338,058)**	(15,159,670)	(6,044,976)
Net cash used in investing activities	**(66,714,473)**	(52,244,301)	(44,113,678)

(*Forward)*

	Years Ended December 31		
	2023	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bank loans and long-term debt (Notes 15 and 17)	**₱111,562,913**	₱94,325,945	₱86,849,381
Payments of:			
Long-term debt (Note 17)	**(66,701,374)**	(43,863,022)	(35,336,466)
Bank loans (Note 15)	**(29,563,823)**	(19,994,859)	(15,959,528)
Interest	**(13,782,271)**	(11,029,498)	(9,837,833)
Dividends (Note 18)	**(7,163,420)**	(2,943,122)	(2,675,277)
Lease liabilities (Notes 16 and 25)	**(160,058)**	(84,292)	(47,933)
Proceeds from (payments of) matured derivatives - net	**294,800**	3,274,591	(368,799)
Net cash provided by (used in) financing activities	**(5,513,233)**	19,685,743	22,623,545
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**43,039**	(90,424)	(62,790)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(10,243,280)**	2,284,230	9,114,238
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**42,060,082**	39,775,852	30,661,614
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱31,816,802**	₱42,060,082	₱39,775,852

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

SM Prime Holdings, Inc. (SMPH or the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on January 6, 1994. SMPH and its subsidiaries (collectively known as the "Company") are incorporated to acquire by purchase, exchange, assignment, gift or otherwise, and to own, use, improve, subdivide, operate, enjoy, sell, assign, transfer, exchange, lease, let, develop, mortgage, pledge, traffic, deal in and hold for investment or otherwise, including but not limited to real estate and the right to receive, collect and dispose of, any and all rentals, dividends, interest and income derived therefrom; the right to vote on any proprietary or other interest on any shares of stock, and upon any bonds, debentures, or other securities; and the right to develop, conduct, operate and maintain modernized commercial shopping centers and all the businesses appurtenant thereto, such as but not limited to the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, movie or cinema theatres within the compound or premises of the shopping centers, to construct, erect, manage and administer buildings such as condominium, apartments, hotels, restaurants, stores or other structures for mixed use purposes.

SMPH's shares of stock are publicly traded in the Philippine Stock Exchange (PSE).

The Company's ultimate parent company is SM Investments Corporation (SMIC). SMIC is a Philippine corporation whose common shares is listed with the PSE in 2005. SMIC and all its subsidiaries are herein referred to as the "SM Group".

The registered office and principal place of business of the Parent Company is at 7/F MOA Square, Seashell Lane cor. Coral Way, Mall of Asia Complex, Brgy. 76 Zone 10, CBP 1-A, Pasay City, Metro Manila, Philippines.

The accompanying consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on February 19, 2024.

2. Basis of Preparation

The accompanying consolidated financial statements of the Company have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI) and derivative financial instruments 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.

The accompanying consolidated financial statements have been prepared under the going concern assumption.

Statement of Compliance
The accompanying consolidated financial statements have been prepared in compliance with PFRS.

Basis of Consolidation
The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries:

Company	Country of Incorporation	Percentage of Ownership	
		2023	2022
Mall			
A. Canicosa Holdings, Inc.	Philippines	**100.0**	100.0
AD Canicosa Properties, Inc.	- do -	**100.0**	100.0
Associated Development Corporation	- do -	**100.0**	100.0
Britannia Trading Corp. and Subsidiaries (BTC)	- do -	**100.0**	100.0
CHAS Realty and Development Corporation and Subsidiaries	- do -	**100.0**	100.0
Cherry Realty Development Corporation	- do -	**100.0**	100.0
Consolidated Prime Dev. Corp.	- do -	**100.0**	100.0
Magenta Legacy, Inc.	- do -	**100.0**	100.0
Premier Central, Inc. and Subsidiary	- do -	**100.0**	100.0
Premier Southern Corp.	- do -	**100.0**	100.0
Prime Metroestate, Inc. and Subsidiary	- do -	**100.0**	100.0
Prime_Commercial Property Management Corp. and Subsidiaries	- do -	**100.0**	100.0
Rushmore Holdings, Inc.	- do -	**100.0**	100.0
San Lazaro Holdings Corporation	- do -	**100.0**	100.0
Simply Prestige Limited and Subsidiaries	- do -	**100.0**	100.0
SM Arena Complex Corporation	- do -	**100.0**	100.0
SM Land (China) Limited and Subsidiaries	Hong Kong	**100.0**	100.0
Southernpoint Properties Corp.	Philippines	**100.0**	100.0
Springfield Global Enterprises Limited	- do -	**100.0**	100.0
Supermalls Transport Services, Inc.	- do -	**100.0**	100.0
First Asia Realty Development Corporation	- do -	**74.2**	74.2
Mindpro, Incorporated*	- do -	**70.0**	70.0
First Leisure Ventures Group Inc. (FLVGI)	- do -	**50.0**	50.0
Residential			
SM Development Corporation and Subsidiaries (SMDC)	- do -	**100.0**	100.0
Costa del Hamilo, Inc. and Subsidiary	- do -	**100.0**	100.0
Highlands Prime Inc. and Subsidiary	- do -	**100.0**	100.0
Commercial			
MOA Esplanade Port, Inc.	- do -	**100.0**	100.0
Premier Clark Complex, Inc.	- do -	**100.0**	100.0
SM Smart City Infrastructure and Development Corporation	- do -	**100.0**	100.0
Tagaytay Resort Development Corporation	- do -	**100.0**	100.0
Hotels and Convention Centers			
SM Hotels and Conventions Corp. and Subsidiaries	- do -	**100.0**	100.0

**In 2023, the Parent Company and non-controlling interest infused additional investments without change in their ownership interest.*

FLVGI is accounted for as a subsidiary by virtue of control, as evidenced by the majority members of the BOD representing the Parent Company.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Company and are presented separately in the consolidated statements of income and within equity section in the consolidated balance sheets, separately from equity attributable to equity holders of the parent.

Material Accounting Judgments, Estimates and Assumptions
The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. Uncertainty about these estimates and assumptions could result in outcomes that require an adjustment to the carrying amount of the affected asset or liability in the future period.

Judgments
In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most material effect on the amounts recognized in the consolidated financial statements.

Existence of a Contract. The Company's primary document for a contract with a customer is a signed contract to sell or the combination of its other signed documentation such as reservation agreement, official receipts, quotation sheets and other documents, would contain all the criteria to qualify as contract with the customer under PFRS 15.

In addition, part of the assessment process of the Company before revenue recognition is to assess the probability that the Company 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, an entity considers the significance of the buyer's initial payments in relation to the total contract price.

Revenue Recognition Method and Measure of Progress. The Company concluded that revenue from sale of real estate is to be recognized over time because (a) the Company's performance does not create an asset with an alternative use and; (b) the Company has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on the Company's ability to direct the promised property for another use is substantive. This is because the property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. In addition, under the current legal framework, the customer is contractually obliged to make payments to the developer up to the performance completed to date. The cost to obtain a contract (e.g., commission) is determined using the percentage of completion.

The Company has determined that output method used in measuring the progress of the performance obligation faithfully depicts the Company's performance in transferring control of real estate development, which include customized uninstalled materials, to the customers. The Company determined that in the case of customized materials, the Company is not just providing a simple procurement service to the customer as it is significantly involved in the design and details of the manufacture of the materials.

Determining Transaction Price of Sale of Real Estate. The Company determines whether a contract contains a significant financing component using portfolio approach by considering (1) the difference, if any, between the amount of promised considerations and the cash selling price of the promised goods or services; and (2) the effect of the expected length of time between when the entity transfers the promised goods or service to the customer and when the customer pays for those goods

or services and the prevailing effective interest rate (EIR). The Company applied practical expedient by not adjusting the effect of financing component when the period when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. The Company determined that its transaction price on sale of real estate recognized over time do not include a significant financing component.

Operating Lease Commitments - as Lessor. The Company has entered into commercial property leases in its investment property portfolio. Management has determined, based on an evaluation of the terms and conditions of the arrangements, that it 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.

Lease Modification - as Lessor. Throughout the government-imposed community quarantine, the Company waived rentals and other charges amounting to nil, ₱6,247 million and ₱20,781 million for the years ended December 31, 2023, 2022 and 2021, respectively. Such waivers are not accounted as a lease modification under PFRS 16 since COVID-19 is a force majeure under the general law.

Determining the Lease Term of Contract. The Company applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate its lease contracts with extension and/or termination options. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. The Company typically exercises its option to renew its leases of various parcels of land since its lease term periods are generally covered by an automatic renewal option. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Determining Taxable Profit, Tax Bases, Unused Tax Losses, Unused Tax Credits and Tax Rates. The Company applies significant judgment in identifying uncertainties over its income tax treatments. The Company determined based on its assessment, in consultation with its tax counsel, that it is probable that its income tax treatments, including for its subsidiaries, will be accepted by the taxation authorities.

Estimates and Assumptions

The key estimates and assumptions that may have significant risks of causing material adjustments to the carrying amounts of revenues, expenses, assets and liabilities within the next financial period are discussed below.

Measure of Progress. The Company's revenue recognition policy requires management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Company's revenue from real estate sales recognized based on the percentage of completion are measured principally on the basis of physical completion of the real estate projects.

Revenue from sale of real estate amounted to ₱42,040 million, ₱39,047 million and ₱45,116 million for the years ended December 31, 2023, 2022, and 2021, respectively, while the cost of real estate sold amounted to ₱16,661 million, ₱16,899 million and ₱18,687 million for the years ended December 31, 2023, 2022 and 2021, respectively (see Note 21).

Provision for Expected Credit Losses (ECL) of Receivables and Contract Assets (or referred also in the consolidated financial statements as "Unbilled revenue from sale of real estate"). The Company maintains an allowance for ECL at a level considered adequate to provide for potential uncollectible receivables. The Company uses a provision matrix for rent and other receivables and vintage

approach for receivable from sale of real estate (billed and unbilled) to calculate ECLs. The Company 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.

The allowance for ECLs amounted to ₱777 million and ₱721 million as at December 31, 2023 and 2022, respectively (see Note 7).

Net Realizable Value of Real Estate Inventories. The net realizable value of real estate inventories is assessed with reference to market price at the balance sheet date for similar completed property, less estimate cost to complete the construction and estimated cost to sell. The Company reviews the carrying value regularly for any decline in value due to changes in market price or other causes.

The carrying values of real estate inventories amounted to ₱77,887 million and ₱70,500 million as at December 31, 2023 and 2022, respectively (see Note 8).

Estimated Useful Lives of Property and Equipment and Investment Properties (except for Right-of-use Asset (ROUA)). The useful life of each of the Company's property and equipment and investment properties, excluding ROUA, 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. A reduction in the estimated useful life of any property and equipment and investment properties, excluding ROUA, would increase the recorded costs and expenses and decrease noncurrent assets.

The aggregate carrying values of property and equipment and investment properties, excluding ROUA, amounted to ₱516,479 million and ₱465,030 million as at December 31, 2023 and 2022, respectively (see Notes 11 and 12).

Realizability of Deferred Tax Assets. The Company's assessment on the recognition of deferred tax assets on 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) is based on the projected taxable income in future periods.

Deferred tax assets recognized in the consolidated balance sheets amounted to ₱5,329 million and ₱3,864 million as at December 31, 2023 and 2022, respectively (see Note 24). Unrecognized deferred tax assets pertain to NOLCO, amounted to ₱205 million and ₱133 million as at December 31, 2023 and 2022, respectively.

Fair Value of Assets and Liabilities. The Company carries and discloses certain assets and liabilities at fair value, which requires extensive use of accounting judgments and estimates. 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 Company utilized different valuation methodologies and assumptions. Any changes in the fair value of these assets and liabilities that are carried in the consolidated financial statements would directly affect consolidated statements of income and consolidated other comprehensive income.

The fair value of assets and liabilities are discussed in Note 27.

Contingencies. The Company is currently involved in various legal and administrative proceedings. The estimate of the probable costs for the resolution of these proceedings has been developed in consultation with in-house as well as outside legal counsel handling defense in these matters and is based upon an analysis of potential results. The Company currently does not believe that these proceedings will have a material adverse effect on its consolidated financial position and performance and no provisions were made in relation to these proceedings. It is possible, however, that future consolidated financial performance could be affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings.

Estimating Incremental Borrowing Rate (IBR) for Leases. The Company uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain the asset of similar value in a similar economic environment. The Company estimates the IBR using the available market interest rates adjusted with the Company's credit rating.

3. Summary of Material Accounting Policy Information

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2023. Adoption of these pronouncements did not have any material impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to Philippine Accounting Standards (PAS) 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction,* narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

  The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

- Amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules*

  The amendments introduce a mandatory exception in PAS 12 from recognizing and disclosing deferred tax assets and liabilities related to Pillar Two income taxes.

  The amendments also clarify that PAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two Model Rules published by the Organization for Economic Cooperation and Development, including tax law that implements qualified domestic minimum top-up taxes. Such tax legislation, and the income taxes arising from it, are referred to as 'Pillar Two legislation' and 'Pillar Two income taxes', respectively.

  The temporary exception from recognition and disclosure of information about deferred taxes and the requirement to disclose the application of the exception, apply immediately and retrospectively upon adoption of the amendments in June 2023. The Company is yet to apply the temporary exception because the Company's entities are operating in jurisdictions which Pillar Two legislation has not yet been enacted or substantially enacted.

- Amendments to PAS 8, *Definition of Accounting Estimates,* introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies,* provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

  - Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and
  - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

  The amendments to the Practice Statement provide non-mandatory guidance. The amendments have had an impact on the Company's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Company's financial statements

Future Changes in Accounting Policies and Disclosures

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1*, Classification of Liabilities as Current or Non-current,* clarify:
  - That only covenants with which an entity must comply on or before reporting date will affect a liability's classification as current or non-current.
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

  The amendments must be applied retrospectively.

- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback,* specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

  The amendments must be applied retrospectively. Earlier adoption is permitted and that fact must be disclosed.

- Amendments to PAS 7 and PFRS 7*, Disclosures: Supplier Finance Arrangements*

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

- Amendments to PAS 21*, Lack of exchangeability*

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,* 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. 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.

Determination of Fair Value
A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are 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 or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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 Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period and recognizes transfers as at the date of the event or change in circumstances that caused the transfer.

The Company determines the policies and procedures for both recurring and non-recurring fair value measurements. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Financial Instruments - Initial Recognition and Subsequent Measurement

Financial Assets

Initial recognition and measurement. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through profit or loss (FVTPL), and FVOCI.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs.

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 an instrument level.

The Company'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.

As at December 31, 2023 and 2022, the Company has no debt instruments classified as financial assets at FVOCI.

Subsequent measurement. For purposes of subsequent measurement, financial assets are classified in four categories:

- *Financial assets at amortized cost (debt instruments)*: The Company measures financial assets at amortized cost if both of the following conditions are met:

  - The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

  - The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

  Financial assets at amortized cost are subsequently measured using the 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 Company's financial assets at amortized cost includes cash and cash equivalents, receivables and escrow and time deposits (included under "Other noncurrent assets" account). Other than those financial assets at amortized cost whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial assets under this category amounted to ₱3,656 million and ₱5,105 million as at December 31, 2023 and 2022, respectively (see Note 27).

- *Financial assets at FVTPL*. Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not SPPI are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

  Financial assets at FVTPL are carried in the consolidated balance sheet at fair value with net changes in fair value recognized in the consolidated statement of income.

  This category includes derivative instruments. The carrying values of financial assets classified under this category amounted to ₱5,524 million and ₱7,338 million as at December 31, 2023 and 2022, respectively (see Note 27).

  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 if: 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 FVTPL. Embedded derivatives are measured at fair value with changes in FVTPL. 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 FVTPL 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 FVTPL.

- *Financial assets at FVOCI (equity instruments).* Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation*, and are not held for trading. The classification is determined on an instrument-by-instrument basis.

  Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized in the consolidated statements of income when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income (OCI). Equity instruments at FVOCI are not subject to impairment assessment.

  The Company elected to classify irrevocably its investments in equity instruments under this category.

  Classified under this category are the investments in shares of stocks of certain companies. The carrying values of financial assets classified under this category amounted to ₱20,318 million and ₱17,612 million as at December 31, 2023 and 2022, respectively (see Note 27).

Derecognition. A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is primarily derecognized (i.e., removed from the Company's consolidated balance sheet) when:

- The rights to receive cash flows from the asset have expired, or,
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Company evaluates if, and to what extent, it has retained the risks and rewards of ownership. The Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognized an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company 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 Company could be required to repay.

Impairment of financial assets. The Company recognizes an allowance for ECLs for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original EIR. 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 Company uses a provision matrix for rent and other receivables, vintage approach for receivables from sale of real estate (billed and unbilled) and general approach for treasury assets to calculate ECLs.

The Company applies provision matrix and has calculated ECLs based on lifetime ECLs. The Company recognizes a loss allowance based on lifetime ECLs at each reporting date, adjusted for forward-looking factors specific to the debtors and the economic environment.

Vintage approach accounts for expected credit losses by calculating the cumulative loss rates of a given real estate receivable pool. It derives the probability of default from the historical data of a homogenous portfolio that share the same origination period. The information on the number of defaults during fixed time intervals of the accounts is utilized to create the probability model. It allows the evaluation of the loan activity from its origination period until the end of the contract period. In addition to life of loan loss data, primary drivers like macroeconomic indicators of qualitative factors such as, but not limited to, forward-looking data on inflation rate was added to the expected loss calculation to reach a forecast supported by both quantitative and qualitative data points. The probability of default is applied to the estimate of the loss arising on default which is based on the difference between the contractual cash flows due and those that the Company would expect to receive, including from the repossession of the subject real estate property, net of cash outflows. For purposes of calculating loss given default, accounts are segmented based on the type of unit. In calculating the recovery rates, the Company considered collections of cash and/or cash from resale of real estate properties after foreclosure, net of direct costs of obtaining and selling the real estate properties after the default event such as commission, refurbishment, payment required under Maceda law, cost to complete (for incomplete units). As these are future cash flows, these are discounted back to the time of default using the appropriate EIR, usually being the original EIR or an approximation thereof.

The Company considers a financial asset in default generally when contractual payments are 120 days past due or when the sales are cancelled supported by a notarized cancellation letter executed by the Company and unit buyer. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Liabilities

Initial recognition and measurement. Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings and payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement. The Company classifies its financial liabilities in the following categories:

- *Financial liabilities at FVTPL.* Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

  Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Derivatives, including any separated derivatives, are also classified under liabilities at FVTPL, unless these are designated as hedging instruments in an effective hedge or financial guarantee contracts. Gains or losses on liabilities held for trading are recognized in the consolidated statement of income under "Others - net" account. Classified as financial liabilities at FVTPL are the Company's derivative liabilities amounting to ₱272 million and ₱314 million as at December 31, 2023 and 2022, respectively (see Note 27).

- *Loans and borrowings.* This category pertains to financial liabilities that are not held for trading or not designated as at FVTPL upon the inception of the liability. These include liabilities arising from operations or borrowings. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of income when the loans and borrowings are derecognized, as well as through the amortization process. Loans and borrowings are included under current liabilities if settlement is within twelve months from reporting period. Otherwise, these are classified as noncurrent liabilities.

  Classified under this category are loans payable, accounts payable and other current liabilities, long-term debt, tenants' deposits, liability for purchased land and other noncurrent liabilities (except for taxes payables and other payables covered by other accounting standards). Other than those other financial liabilities whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial liabilities under this category amounted to ₱330,771 million and ₱327,175 million as at December 31, 2023 and 2022, respectively (see Note 27).

Derecognition. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or 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 an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of income.

Debt Issue Costs
Debt issue costs are presented as reduction in long-term debt and are amortized over the terms of the related borrowings using the effective interest method.

Derivative Financial Instruments

Initial recognition and subsequent measurement. The Company uses derivative financial instruments, such as foreign exchange swap, cross currency swaps, interest rate swaps, principal only swaps and non-deliverable forwards contracts to hedge its foreign currency risks and interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured 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.

The Company's derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges (see Note 27). These hedge the exposures to variability in cash flows that is either 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.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge effectiveness and how the hedge ratio is determined). 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 Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the net fair value changes on cash flow hedges, while any ineffective portion is recognized immediately in the consolidated statement of income. The net fair value changes on cash flow hedges is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Company designates only the elements of the foreign exchange swap, cross currency swaps, interest rate swaps, principal only swaps and non-deliverable forwards contracts as hedging instruments to achieve its risk management objective. These elements, including changes in fair value, are recognized in OCI and accumulated in a separate component of equity under net fair value changes on cash flow hedges.

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 the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Other Derivative Instruments Not Accounted for as Hedges. Certain freestanding derivative instruments that provide economic hedges under the Company'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 immediately under "Others - net" account in the consolidated statements of income (see Note 27). Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Real Estate Inventories

Real estate inventories are stated at the lower of cost and net realizable value. 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. Real estate inventories include properties being constructed for sale in the ordinary course of business, rather than to be held 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
- Planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

Prepaid Expenses and Other Current Assets

Other current assets consist of advances to suppliers and contractors, advances for project development, input tax, creditable withholding taxes, deposits, prepayments, supplies and inventories and others. Advances to suppliers and contractors, advances for project development and deposits are carried at cost. These represent advance payments and deposits to contractors for the construction and development of the projects. These are recouped upon every progress billing payment depending on the percentage of accomplishment. Prepaid taxes and other prepayments are carried at cost less amortized portion. These include prepayments for taxes and licenses, rent, advertising and promotions and insurance.

Common Control Business Combinations

Business combinations involving entities or businesses under common control are business combinations in which all of the entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations under common control are accounted for similar to pooling of interests method. Under the pooling of interests method:

- The assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur and for the comparative periods presented, are included in the consolidated financial statements at their carrying amounts as if the consolidation had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the acquisition;
- No adjustments are made to reflect the fair values, or recognize any new assets or liabilities at the date of the combination. The only adjustments would be to harmonize accounting policies between the combining entities;
- No 'new' goodwill is recognized as a result of the business combination;
- The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities of the acquired companies is considered as equity adjustment from business combinations, included under "Additional paid-in capital - net" account in the equity section of the consolidated balance sheet; and
- 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.

Property and Equipment

The Company's property and equipment consist of land, building, equipment and ROUA. Property and equipment, except land and construction in progress, is stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. 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 on funds borrowed to finance the construction of the projects.

Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives of the assets:

Buildings, land and leasehold improvements	5-25 years	or term of the lease, whichever is shorter
Furniture, fixtures and other equipment	5-10 years	
ROUA - Office spaces	10-25 years	or term of the lease, whichever is shorter

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization is credited or charged to current operations.

An item of property and equipment is derecognized when either it has been disposed or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gains or losses arising on the retirement and disposal of an item of property and equipment are recognized in the consolidated statements of income in the period of retirement or disposal under "Others - net" account.

Investment Properties

These consist of commercial spaces/properties held for rental and/or capital appreciation, ROUA and land held for future development. These accounts are measured initially at cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable costs. Subsequently, these accounts, except land and construction in progress, are measured at cost, less accumulated depreciation and amortization and accumulated impairment in value, if any. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Property under construction or development for future use as an investment property is classified as investment property.

Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives of the assets:

Land, building and leasehold improvements	5-40 years	or term of the lease, whichever is shorter
Building equipment, furniture and others	3-15 years	or term of the lease, whichever is shorter
ROUA - Land		Remaining lease term

Construction in progress represents structures under construction and is stated at cost. This includes cost of construction, machineries and equipment, and other direct costs. Cost also includes interest on borrowed funds incurred during the construction period. Construction in progress is not depreciated until such time that the relevant assets are completed and are ready for use.

Investment property is derecognized when either it has been disposed or when it is 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 recognized in the consolidated statement of income in the period of retirement or disposal under "Others - net" account.

Transfers are made from investment property to inventories when, and only when, there is a change in use, as evidenced by an approved plan to construct and develop condominium and residential units for sale. Transfers are made from inventories to investment property when, and only when, there is change in use, as evidenced by commencement of an operating lease to a third party or change in the originally approved plan. The cost of property for subsequent accounting is its carrying value at the date of change in use.

For a transfer from investment property to owner-occupied property, the cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Company as an owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Investments in Associates and Joint Ventures
The Company's investments in shares of stocks of associates and joint ventures are accounted for under the equity method of accounting. The consolidated statements of income reflect the share in the result of operations of the associate or joint venture under "Others-net" account. 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 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 Company's share in the associate's or joint venture's profits or losses.

- Any excess of the Company's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor's share in the associate's or joint venture's profit or loss in the period in which the investment is acquired.

Also, appropriate adjustments to the Company'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.

The Company discontinues the use of equity method from the date when it ceases to have significant influence or joint control over an associate or joint venture and accounts for the investment in accordance with PFRS 9, from that date, provided the associate or joint venture does not become a subsidiary. When the Company's interest in an investment in associate or joint venture is reduced to zero, additional losses are provided only to the extent that the Company has incurred obligations or made payments on behalf of the associate or joint venture to satisfy obligations of the investee that the Company has guaranteed or otherwise committed. If the associate or joint venture subsequently reports profits, the Company resumes recognizing its share of the profits if it equals the share of net losses not recognized.

Other Noncurrent Assets
Other noncurrent assets consist of bonds and deposits, receivables from sale of real estate - net of current portion, land use rights, escrow and time deposits, deferred input tax and others. Other noncurrent assets are carried at cost.

Impairment of Nonfinancial Assets
The carrying values of investments in associates and joint ventures, property and equipment, investment properties and other noncurrent assets (excluding escrow and time deposits) are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable, 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 cash-generating unit 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. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset 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.

Customers' Deposits
Customers' deposits mainly represent reservation fees and advance payments. These deposits will be recognized as revenue in the consolidated statement of income as the related obligations to the real estate buyers are fulfilled.

Capital Stock and Additional Paid-in Capital
Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as "Additional paid-in capital - net" account.

Retained Earnings
Retained earnings represent accumulated net profits, net of dividend distributions and other capital adjustments.

Treasury Stock
Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at cost. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issuance or cancellation of own equity instruments.

Dividends
Dividends on common shares are recognized as liability and deducted from equity when declared and approved by the BOD. Dividends for the year that are approved after balance sheet date are dealt with as an event after the reporting period.

Revenue 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 Company expects to be entitled in exchange for those goods or services. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Company has concluded that it is acting as principal in majority of its revenue arrangements. The disclosures of material accounting judgments, estimates and assumptions relating to revenue from contracts with customers are provided in Note 2. The following specific recognition criteria, other than those disclosed in Note 2 to the consolidated financial statements, must also 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.

Sale of Amusement Tickets and Merchandise. Revenue is recognized upon receipt of cash from the customer which coincides with the rendering of services or the delivery of merchandise. Revenue from sale of amusement tickets and merchandise are included in the "Revenue - Others" account in the consolidated statement of income.

Dividend. Revenue is recognized when the Company's right as a shareholder to receive the payment is established. These are included in the "Interest and dividend income" account in the consolidated statement of income.

Management and Service Fees. Revenue is recognized when earned in accordance with the terms of the agreements.

Interest. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

Room Rentals, Food and Beverage, and Others. Revenue from room rentals is recognized on actual occupancy, food and beverage sales when orders are served, and other operated departments when the services are rendered. Revenue from other operated departments include, among others, business center, laundry service, and telephone service. Revenue from food and beverage sales and other hotel revenue are included under the "Revenue - Others" account in the consolidated statement of income.

Revenue and Cost from Sale of Real Estate. The Company derives its real estate revenue from sale of lots, house and lot and condominium units. Revenue from the sale of these real estate projects 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 Company's performance does not create an asset with an alternative use and the Company has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Company uses output method. The Company 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 managers 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 Company's performance obligation. The Company 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 five 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 Company has a quality assurance warranty which is not treated as a separate performance obligation.

Cost of Real Estate Sold. The Company recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets such as land and connection fees. These include costs of land, land development costs, building costs, professional fees, depreciation and permits and licenses. These costs are allocated to the saleable area, with the portion allocable to the sold area being recognized as costs of real estate sold while the portion allocable to the unsold area being recognized as part of real estate inventories. In addition, the Company recognizes as an asset only 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 Company'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. These 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. This is reclassified as trade receivable from sale of real estate when the monthly amortization of the customer is already due for collection.

Contract liabilities. These pertain to unearned revenue from sale of real estate. This is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. These also include customers' deposits related to sale of real estate. These are recognized as revenue when the Company performs its obligation under the contract.

Costs to obtain contract. The incremental costs of obtaining a contract with a customer are recognized as an asset if the Company expects to recover them. The Company has determined that commissions paid to brokers and marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are 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 contract with customer are not capitalized but are expensed as 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 Company firstly 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 Company applies the following criteria which, if met, result in capitalization: (i) the costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) the 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) the costs are expected to be recovered. The assessment of this criteria requires the application of judgment, in particular when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.

The Company's contract fulfillment assets mainly pertain to land acquisition costs (included under real estate inventories).

Amortization, derecognition and impairment of contract fulfillment assets and capitalized costs to obtain a contract. The Company amortizes contract fulfillment assets and capitalized costs 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 within cost of real estate sold.

A contract fulfillment asset or capitalized costs to obtain a contract is derecognized either 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 Company determines whether there is an indication that contract fulfillment asset or cost to obtain a contract maybe impaired. If such indication exists, the Company makes an estimate by comparing the carrying amount of the assets to the remaining amount of consideration that the Company expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Company uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Where the relevant costs are demonstrating indicators of impairment, judgment is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets.

Pension Benefits

The Company is a participant in the SM Corporate and Management Companies Multi-Employer Retirement Plan.

Retirement Plan. The plan is a funded, noncontributory defined benefit retirement plan administered by a Board of Trustees covering all regular full-time employees. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries. 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, if any, adjusted for any effect of limiting a 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.

Defined benefit pension costs comprise the following:

- Service cost;
- Net interest on the net defined benefit obligation or asset; and
- Remeasurements of net defined benefit obligation or asset

Service cost which includes current service costs, past service costs and gains or losses on non-routine settlements are recognized as part of "Costs and expenses" under "Administrative" account in the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit obligation or asset is the change during the period in the net defined benefit obligation 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 obligation or asset is recognized as part of "Costs and expenses" under "Administrative" account in the consolidated statement of income.

Remeasurements 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 obligation) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. 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 they have no maturity, the expected period until the settlement of the related obligations).

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Foreign Currency-denominated Transactions
The consolidated financial statements are presented in Philippine peso, which is SMPH's functional and presentation currency. 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 at reporting period. Nonmonetary items denominated in foreign currency are translated using the exchange rates as at the date of initial recognition. All differences are taken to the consolidated statements of income.

Foreign Currency Translation
The assets and liabilities of foreign operations are translated into Philippine peso at the rate of exchange ruling at reporting period and their respective statements of income are translated at the weighted average rates for the year. The exchange differences arising on the translation are included in the consolidated statements of comprehensive income and are presented within the "Cumulative translation adjustment" account in the consolidated statements of changes in equity. On disposal of a foreign entity, the deferred cumulative amount of exchange differences recognized in equity relating to that particular foreign operation is recognized in the 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.

Company as Lessor. Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases are 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 rents are recognized as revenue in the period in which they are earned.

Lease Modification. Lease modification is defined as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).

A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease. If a change in lease payments does not meet the

definition of a lease modification, that change would generally be accounted for as a negative variable lease payment. In the case of an operating lease, a lessor recognizes the effect of the rent concession by recognizing lower income from leases.

Company as Lessee. The Company applies a single recognition and measurement approach for all the leases except for low-value assets and short-term leases. The Company recognizes lease liabilities to make lease payments and ROUA representing the right to use the underlying asset.

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments which includes in substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the IBR at the lease commencement date. After the commencement date, the amount of lease liabilities is adjusted to reflect the accretion of interest and reduced for the 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.

The Company also recognized ROUA in property and equipment (office spaces) and investment properties (land lease and land use rights) at the commencement date of the lease (i.e., the date the underlying asset is available for use). The initial cost of ROUA includes the amount of lease liabilities recognized less any lease payments made at or before the commencement date.

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of bridgeway, machineries and equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The Company recognizes deferred tax asset and liability based from the lease liability and ROUA, respectively, on a gross basis, as of balance sheet date.

Provisions

Provisions are recognized when the Company 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 Company 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 Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset as part of the cost of that asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use or sale.

Borrowing costs are capitalized when it is probable that they will result in future economic benefits to the Company.

The interest capitalized is calculated using the Company's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amount capitalized is the gross interest incurred on those borrowings less any investment income arising on the temporary investment of those borrowings. Interest is capitalized from the commencement of the development work until the date of practical completion, i.e., when substantially all of the development work is completed.

Borrowing costs include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest cost. The Company limits exchange losses taken as amount of borrowing costs to the extent that the total borrowing costs capitalized do not exceed the amount of borrowing costs that would be incurred on functional currency equivalent borrowings. The amount of foreign exchange differences eligible for capitalization is determined for each period separately. Foreign exchange losses that did not meet the criteria for capitalization in previous years are not capitalized in subsequent years. All other borrowing costs are expensed as incurred.

Taxes

Current 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 reporting period.

Current income tax relating to item recognized directly in equity is recognized in equity and not in the profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Tax. Deferred tax is provided, using the balance sheet liability method, on temporary differences at reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or 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 taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of excess MCIT and 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 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 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 each reporting period and are recognized to the extent that it has become probable that 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 at reporting period.

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 the deferred taxes relate to the same taxable entity and the same taxation authority.

Value Added Tax (VAT). Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as part of "Accounts payable and other current liabilities" account in the consolidated balance sheets. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as part of "Prepaid expenses and other current assets" account in the consolidated balance sheets to the extent of the recoverable amount.

Business Segments
The Company is organized and managed separately according to the nature of business. The four operating business segments are mall, residential, commercial and hotels and convention centers. These operating businesses are the basis upon which the Company reports its segment information presented in Note 4 to the consolidated financial statements.

Basic/Diluted Earnings Per Common Share (EPS)
Basic EPS is computed by dividing the net income for the period attributable to owners of the Parent by the weighted-average number of issued and outstanding common shares during 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 dilutive potential ordinary shares, if any.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to 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 consolidated financial statements when an inflow of economic benefits is probable.

Events after the Reporting Period
Post year-end events that provide additional information about the Company's financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Segment Information

For management purposes, the Company is organized into business units based on their products and services, and has four reportable operating segments as follows: mall, residential, commercial and hotels and convention centers.

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, or cinema theaters 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.

Hotels and convention centers segment engages in and carry on the business of hotel and convention centers and operates and maintains any and all services and facilities incident thereto.

Management, through the Executive Committee, monitors the operating results of its business units separately 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.

The amount of segment assets and liabilities and segment profit or loss are based on measurement principles that are similar to those used in measuring the assets and liabilities and profit or loss in the consolidated financial statements, which is in accordance with PFRS.

Inter-segment Transactions
Transfer prices between business segments are set on an arm's length basis similar to transactions with nonrelated parties. Such transfers are eliminated in the consolidated financial statements.

Business Segment Data

	2023					
	Mall	**Residential**	**Commercial**	**Hotels and Convention Centers**	**Eliminations**	**Consolidated Balances**
			(In Thousands)			
Revenue:						
External customers	**₱71,946,036**	**₱43,100,208**	**₱6,781,687**	**₱6,269,610**	**₱–**	**₱128,097,541**
Inter-segment	**176,623**	**–**	**115,067**	**18,108**	**(309,798)**	**–**
	₱72,122,659	**₱43,100,208**	**₱6,896,754**	**₱6,287,718**	**(₱309,798)**	**₱128,097,541**
Segment results:						
Income before income tax	**₱30,123,686**	**₱13,980,341**	**₱4,440,189**	**₱1,510,564**	**(₱214,961)**	**₱49,839,819**
Provision for income tax	**(5,690,732)**	**(2,292,182)**	**(715,095)**	**(277,965)**	**–**	**(8,975,974)**
Net income	**₱24,432,954**	**₱11,688,159**	**₱3,725,094**	**₱1,232,599**	**(₱214,961)**	**₱40,863,845**
Net income attributable to:						
Equity holders of the Parent	**₱23,593,802**	**₱11,673,967**	**₱3,725,094**	**₱1,232,599**	**(₱214,961)**	**₱40,010,501**
Non-controlling interests	**839,152**	**14,192**	**–**	**–**	**–**	**853,344**
Segment assets	**₱473,704,969**	**₱344,557,303**	**₱109,171,158**	**₱17,711,201**	**(₱1,817,056)**	**₱943,327,575**
Segment liabilities	**₱323,926,223**	**₱195,426,558**	**₱25,596,386**	**₱1,308,428**	**(₱1,817,056)**	**₱544,440,539**
Other information:						
Capital expenditures	**₱37,253,756**	**₱25,436,310**	**₱23,733,455**	**₱1,752,397**	**₱–**	**₱88,175,918**
Depreciation and amortization	**11,371,327**	**131,347**	**1,536,430**	**617,669**	**–**	**13,656,773**

	2022					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
			(In Thousands)			
Revenue:						
External customers	₱55,379,678	₱40,077,157	₱5,996,483	₱4,332,317	₱–	₱105,785,635
Inter-segment	160,890	5,417	126,801	11,631	(304,739)	–
	₱55,540,568	₱40,082,574	₱6,123,284	₱4,343,948	(₱304,739)	₱105,785,635
Segment results:						
Income before income tax	₱24,291,544	₱10,905,230	₱3,969,174	₱402,171	(₱854,115)	₱38,714,004
Provision for income tax	(4,857,306)	(2,000,690)	(1,013,584)	(99,295)	–	(7,970,875)
Net income	₱19,434,238	₱8,904,540	₱2,955,590	₱302,876	(₱854,115)	₱30,743,129
Net income attributable to:						
Equity holders of the Parent	₱18,800,574	₱8,894,874	₱2,955,590	₱302,876	(₱854,115)	₱30,099,799
Non-controlling interests	633,664	9,666	–	–	–	643,330
Segment assets	₱461,547,075	₱317,089,509	₱81,047,183	₱16,296,204	(₱1,765,319)	₱874,214,652
Segment liabilities	₱320,311,592	₱180,624,978	₱8,524,126	₱1,367,669	(₱1,765,319)	₱509,063,046
Other information:						
Capital expenditures	₱25,786,080	₱36,345,071	₱12,194,451	₱1,093,268	₱–	₱75,418,870
Depreciation and amortization	10,373,095	138,188	1,347,108	629,371	–	12,487,762

	2021					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
			(In Thousands)			
Revenue:						
External customers	₱29,919,619	₱45,895,228	₱4,920,521	₱1,580,116	₱–	₱82,315,484
Inter-segment	159,270	1,799	89,389	7,364	(257,822)	–
	₱30,078,889	₱45,897,027	₱5,009,910	₱1,587,480	(₱257,822)	₱82,315,484
Segment results:						
Income (loss) before income tax	₱6,649,817	₱19,175,121	₱3,244,353	(₱924,580)	(₱411,186)	₱27,733,525
Provision for income tax	(1,122,152)	(3,948,973)	(750,997)	–	–	(5,822,122)
Net income (loss)	₱5,527,665	₱15,226,148	₱2,493,356	(₱924,580)	(₱411,186)	₱21,911,403

	2021					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
Net income (loss) attributable to:						
Equity holders of the Parent	₱5,406,970	₱15,221,956	₱2,493,356	(₱924,580)	(₱411,186)	₱21,786,516
Non-controlling interests	120,695	4,192	–	–	–	124,887
Segment assets	₱429,925,281	₱291,750,749	₱69,761,727	₱14,930,876	(₱1,965,353)	₱804,403,280
Segment liabilities	₱297,139,809	₱166,632,085	₱7,395,124	₱840,842	(₱1,965,353)	₱470,042,507
Other information:						
Capital expenditures	₱26,005,686	₱33,710,404	₱3,659,529	₱1,542,416	₱–	₱64,918,035
Depreciation and amortization	9,006,617	120,416	1,046,814	643,022	–	10,816,869

For the years ended December 31, 2023, 2022 and 2021, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customers. The main revenues of the Company are substantially earned from the Philippines.

The Company disaggregates its revenue information in the same manner as it reports its segment information.

Seasonality
There were no other 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. Business Combination

In January 2022, the Parent Company acquired 100% of the outstanding shares of BTC. BTC is under common control by the Sy Family. Thus, the acquisition was accounted for using pooling of interest method. Assets acquired and liabilities assumed in January 2022 is ₱1,593 million and ₱1,612 million, respectively. The acquisition resulted to equity reserve adjustment amounting to ₱44 million included under Additional Paid-in Capital - Net account in the equity section of the balance sheet (see Note 18).

6. Cash and Cash Equivalents

This account consists of:

	2023	2022
	(In Thousands)	
Cash on hand and in banks (see Note 19)	**₱10,239,900**	₱8,595,584
Temporary investments (see Note 19)	**21,576,902**	33,464,498
	₱31,816,802	₱42,060,082

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 Company and earn interest at the respective temporary investment rates.

Credit risk from balances with banks and financial institutions is managed by the Company's treasury department in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

Interest income earned from cash in banks and temporary investments amounted to ₱1,450 million, ₱1,070 million and ₱627 million for the years ended December 31, 2023, 2022 and 2021, respectively (see Note 22).

7. Receivables and Contract Assets

This account consists of:

	2023	2022
		(In Thousands)
Trade (billed and unbilled):		
Sale of real estate*	**₱132,177,723**	₱114,005,269
Rent:		
Third parties	**9,352,668**	10,217,117
Related parties (see Note 19)	**3,471,144**	3,427,264
Accrued interest (see Note 19)	**265,371**	442,377
Nontrade and others (see Note 19)	**3,062,977**	4,119,332
	148,329,883	132,211,359
Less allowance for ECLs	**777,378**	721,482
	147,552,505	131,489,877
Less noncurrent portion of trade receivables from sale of real estate (see Note 14)	**70,600,303**	48,929,523
	₱76,952,202	₱82,560,354

**Includes unbilled revenue from sale of real estate amounting to ₱114,898 million and ₱100,157 million as at December 31, 2023 and 2022, respectively.*

The terms and conditions of the above receivables are as follows:

- Trade receivables from tenants are non-interest bearing and are normally collectible on a 30 to 90 days' term. Trade receivables from sale of real estate pertain to sold real estate inventories at various terms of payments, which are interest bearing and non-interest bearing.

  The Company assigned billed and unbilled receivables from sale of real estate on a without recourse basis to local banks amounting to ₱4,131 million and nil for the years ended December 31, 2023 and 2022, respectively (see Note 19).

  The Company also has assigned billed and unbilled receivables f rom real estate on a with recourse basis to local banks with outstanding balance of ₱217 million and ₱1,182 million as at December 31, 2023 and 2022, respectively. The related liability from assigned receivables, which is of equal amount with the assigned receivables, bear interest rates of 5.00% to 6.50% in 2023 and 3.75% to 5.00% in 2022. The fair value of the assigned receivables and liability from assigned receivables approximates their costs.

  The total cost of related financing recorded under interest expense amounted to ₱717 million and ₱18 million and ₱33 million for the years ended December 31, 2023, 2022 and 2021, respectively (see Note 22).

- Accrued interest and other receivables are normally collected throughout the next financial period.

Interest income earned from receivables totaled ₱232 million, ₱149 million and ₱86 million for the years ended December 31, 2023, 2022 and 2021, respectively (see Note 22).

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored.

There is no allowance for ECLs on unbilled revenue from sale of real estate as of December 31, 2023 and 2022. The movements in the allowance for ECLs related to receivables from rent are as follows:

	2023	2022
	(In Thousands)	
At beginning of year	**₱721,482**	₱723,319
Provisions (reversals) - net (see Note 21)	**55,896**	(1,837)
At end of year	**₱777,378**	₱721,482

The aging analysis of receivables and unbilled revenue from sale of real estate as at December 31 are as follows:

	2023	2022
	(In Thousands)	
Neither past due nor impaired	**₱128,027,966**	₱115,020,835
Past due:		
Less than 30 days	**4,805,072**	4,906,282
31–90 days	**6,044,097**	3,211,588
91–120 days	**2,142,720**	2,411,591
Over 120 days	**6,532,650**	5,939,581
Impaired	**777,378**	721,482
	₱148,329,883	₱132,211,359

Receivables, except for those that are impaired, are assessed by the Company's management as not impaired, good and collectible.

The transaction price allocated to the remaining performance obligations totaling ₱38,087 million and ₱25,392 million as at December 31, 2023 and 2022, respectively are expected to be recognized over the construction period ranging from one to five years.

8. Real Estate Inventories

The movements in this account are as follows:

	Land and Development	Condominium, Residential Units and Subdivision Lots for Sale	Total
		(In Thousands)	
Balance as at December 31, 2021	₱37,229,526	₱19,345,521	₱56,575,047
Development cost incurred	27,956,439	–	27,956,439
Cost of real estate sold (see Note 21)	(11,153,550)	(5,745,018)	(16,898,568)
Transfers	(12,643,521)	12,643,521	–
Reclassifications from investment properties (see Note 12)	2,204,897	–	2,204,897
Translation adjustment and others	187,070	475,140	662,210
Balance as at December 31, 2022	43,780,861	26,719,164	70,500,025
Development cost incurred	22,141,007	–	22,141,007
Cost of real estate sold (see Note 21)	(13,166,920)	(3,493,990)	(16,660,910)
Transfers	(1,902,929)	1,902,929	–
Reclassifications from investment properties (see Note 12)	1,807,712	–	1,807,712
Translation adjustment and others	98,606	341	98,947
Balance as at December 31, 2023	**₱52,758,337**	**₱25,128,444**	**₱77,886,781**

Land and development pertains to the Company's on-going residential units and condominium projects. Estimated cost to complete the projects amounted to ₱103,578 million and ₱106,894 million as at December 31, 2023 and 2022, respectively.

Condominium and residential units for sale pertain to completed projects. These are stated at cost as at December 31, 2023 and 2022.

Contract fulfillment assets, included under land and development, mainly pertain to unamortized portion of land cost totaling ₱1,777 million and ₱959 million as at December 31, 2023 and 2022, respectively.

9. Equity Instruments at FVOCI

This account consists of investments in:

	2023	2022
		(In Thousands)
Shares of stock:		
Listed (see Note 19)	**₱20,312,735**	₱17,606,746
Unlisted	**5,317**	5,317
	20,318,052	17,612,063
Less noncurrent portion	**19,570,212**	17,077,198
	₱747,840	₱534,865

- Listed shares of stock pertain to investments in publicly listed companies.
- Unlisted shares of stock pertain to stocks of private corporations.

Dividend income from investments at FVOCI amounted to ₱440 million, ₱456 million and ₱186 million for the years ended December 31, 2023, 2022 and 2021, respectively (see Note 19).

The movements in the "Net fair value changes of equity instruments at FVOCI" account are as follows:

	2023	2022
		(In Thousands)
At beginning of the year	**₱14,232,514**	₱14,708,368
Unrealized gain (loss) due to changes in fair value	**2,705,989**	(475,854)
At end of the year	**₱16,938,503**	₱14,232,514

10. Prepaid Expenses and Other Current Assets

This account consists of:

	2023	2022
		(In Thousands)
Input and creditable withholding taxes	**₱12,030,388**	₱11,386,654
Advances and deposits	**8,724,322**	8,925,364
Prepaid taxes and other prepayments	**6,409,923**	4,788,282
Supplies and inventories	**420,623**	424,361
Others	**219,674**	242,673
	₱27,804,930	₱25,767,334

- Input tax represents VAT paid to suppliers that can be claimed as credit against the future output VAT liabilities without prescription. Creditable withholding tax is the tax withheld by the withholding agents from payments to the Company which can be applied against the income tax payable.

- Advances and deposits pertain to downpayments made to suppliers or contractors to cover preliminary expenses of the contractors in construction projects. The amounts are non-interest bearing and are recouped upon every progress billing payment depending on the percentage of accomplishment. This account also includes construction bonds, rental deposits and deposits for utilities and advertisements.

- Prepaid taxes and other prepayments consist of prepayments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial period.

11. **Property and Equipment**

The movements in this account are as follows:

	Buildings, Land and Leasehold Improvements	Furniture, Fixtures and Other Equipment	ROUA - Office Spaces	Total
		(In Thousands)		
Cost				
Balance at December 31, 2021	₱2,316,525	₱1,307,981	₱7,454	₱3,631,960
Additions	110,481	87,587	–	198,068
Disposals	–	(5,443)	–	(5,443)
Balance at December 31, 2022	2,427,006	1,390,125	7,454	3,824,585
Additions	185,262	155,844	–	341,106
Disposals	(16,472)	(2,878)	(7,454)	(26,804)
Balance at December 31, 2023	₱2,595,796	₱1,543,091	₱–	₱4,138,887
Accumulated Depreciation and Amortization				
Balance at December 31, 2021	₱1,160,671	₱1,093,624	₱5,389	₱2,259,684
Depreciation and amortization (see Note 21)	90,178	78,205	2,065	170,448
Disposals	–	(5,387)	–	(5,387)
Balance at December 31, 2022	1,250,849	1,166,442	7,454	2,424,745
Depreciation and amortization (see Note 21)	78,545	90,940	–	169,485
Disposals	–	(2,879)	(7,454)	(10,333)
Balance at December 31, 2023	₱1,329,394	₱1,254,503	₱–	₱2,583,897
Net Book Value				
As at December 31, 2022	₱1,176,157	₱223,683	₱–	₱1,399,840
As at December 31, 2023	**₱1,266,402**	**₱288,588**	**₱–**	**₱1,554,990**

The company disposed certain properties and equipment in 2023 and 2022. The loss on disposal is recognized in the consolidated statements of income under “Others - net” account

12. Investment Properties

The movements in this account are as follows:

	Land, Building and Leasehold Improvements	Building Equipment, Furniture and Others	ROUA - Land	Construction in Progress	Total
Cost					
Balance as at December 31, 2021	₱423,907,337	₱49,094,257	₱28,203,524	₱74,517,670	₱575,722,788
Additions	7,654,606	2,626,045	1,138,124	23,705,364	35,124,139
Effect of common control business combination (see Note 5)	189,431	430,872	–	363,091	983,394
Reclassifications (see Note 8)	26,545,451	4,103,090	(1,280,292)	(31,573,146)	(2,204,897)
Translation adjustment	358,622	27,723	106,771	84,967	578,083
Disposals	(369,967)	(46,618)	–	–	(416,585)
Balance as at December 31, 2022	458,285,480	56,235,369	28,168,127	67,097,946	609,786,922
Additions	18,207,086	3,108,856	5,719,181	46,548,285	73,583,408
Reclassifications (see Note 8)	26,994,487	2,449,872	–	(31,252,071)	(1,807,712)
Translation adjustment	(1,818,843)	(170,288)	(460,661)	(391,352)	(2,841,144)
Disposals	(425,770)	(530,451)	(10,558)	–	(966,779)
Balance as at December 31, 2023	₱501,242,440	₱61,093,358	₱33,416,089	₱82,002,808	₱677,754,695
Accumulated Depreciation and Amortization					
Balance as at December 31, 2021	₱74,597,796	₱32,020,231	₱1,712,773	₱–	₱108,330,800
Depreciation and amortization (see Note 21)	8,107,549	3,393,248	816,518	–	12,317,315
Translation adjustment	79,345	15,935	2,602	–	97,882
Disposals	(184,792)	(40,325)	–	–	(225,117)
Balance as at December 31, 2022	82,599,898	35,389,089	2,531,893	–	120,520,880
Depreciation and amortization (see Note 21)	8,748,034	3,979,841	759,413	–	13,487,288
Translation adjustment	(474,488)	(86,870)	(23,937)	–	(585,295)
Disposals	(366,969)	(373,808)	(2,147)	–	(742,924)
Balance as at December 31, 2023	₱90,506,475	₱38,908,252	₱3,265,222	₱–	₱132,679,949
Net Book Value					
As at December 31, 2022	₱375,685,582	₱20,846,280	₱25,636,234	₱67,097,946	₱489,266,042
As at December 31, 2023	**₱410,735,965**	**₱22,185,106**	**₱30,150,867**	**₱82,002,808**	**₱545,074,746**

The company disposed certain investment properties in 2023 and 2022. The loss on disposal is recognized in the consolidated statements of income under "Others - net" account.

Portions of investment properties located in China with total carrying value of ₱1,455 million and ₱1,624 million as at December 31, 2023 and 2022, respectively are mortgaged as collaterals to secure domestic borrowings (see Note 17).

Consolidated rent income from investment properties amounted to ₱72,114 million, ₱58,244 million and ₱34,694 million for the years ended December 31, 2023, 2022 and 2021, respectively.

Consolidated costs and expenses from investment properties, which generate income, amounted to ₱40,120 million, ₱30,598 million and ₱23,665 million for the years ended December 31, 2023, 2022 and 2021, respectively (see Note 21).

Construction in progress amounting to ₱82,003 million and ₱67,098 million as at December 31, 2023 and 2022, respectively includes shopping mall complex under construction, land and commercial building constructions.

The outstanding contracts with various contractors related to the construction of on-going projects are valued at ₱78,353 million and ₱79,532 million as at December 31, 2023 and 2022, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of works.

Interest capitalized to the construction of investment properties amounted to ₱5,791 million, ₱4,814 million and ₱4,005 million for the years ended December 31, 2023, 2022 and 2021, respectively. Capitalization rates used range from 2.27% to 5.38%, from 2.35% to 5.22%, and from 2.35% to 4.58% for the years ended December 31, 2023, 2022 and 2021, respectively.

The most recent fair value of investment properties is determined by an independent appraiser who holds a recognized and relevant professional qualification. The valuation of investment properties was based on market values using income approach and market value approach. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards as set out by the International Valuation Standards Committee.

Other than those investment properties held as collateral, the Company has no restriction on the realizability of its investment properties.

13. Investments in Associates and Joint Ventures

The ownership interests in associates and joint ventures accounted for under the equity method mainly consist of the following:

Company	Country of Incorporation	Percentage of Ownership	
		2023	2022
Associates			
Feihua Real Estate (Chongqing) Company Ltd. (FHREC)	People's Republic of China	**50.00**	50.00
Ortigas Land Corporation (OLC)	Philippines	**39.96**	39.96

Company	Country of Incorporation	Percentage of Ownership **2023**	2022
Joint Ventures			
Winsome Development Corporation*	Philippines	**51.00**	51.00
Willin Sales, Inc.*	- do -	**51.00**	51.00
Willimson, Inc. *	- do -	**51.00**	51.00
Waltermart Ventures, Inc. *	- do -	**51.00**	51.00
WM Development, Inc. *	- do -	**51.00**	51.00
WM Shopping Center Management Inc.*	- do -	**51.00**	51.00
Metro Rapid Transit Service Inc.	- do -	**51.00**	51.00
ST 6747 Resources Corporation (STRC)	- do -	**50.00**	50.00

**collectively, Waltermart*

The movements in this account are as follows:

	Associates	Joint Ventures	Total
		(In Thousands)	
Balance as at December 31, 2021	₱19,940,320	₱9,247,115	₱29,187,435
Equity in net earnings	1,082,911	637,205	1,720,116
Dividends	(142,933)	(196,859)	(339,792)
Translation	10,561	–	10,561
Balance as at December 31, 2022	20,890,859	9,687,461	30,578,320
Equity in net earnings	1,273,549	889,062	2,162,611
Dividends	(130,928)	(128,774)	(259,702)
Translation	(50,034)	–	(50,034)
Balance as at December 31, 2023	**₱21,983,446**	**₱10,447,749**	**₱32,431,195**

The carrying value of investment in OLC amounted to ₱20,615 million and ₱19,473 million as at December 31, 2023 and 2022, respectively, which consists of its proportionate share in the net assets of OLC and fair value adjustments. The share in profit, net of dividend received of OLC amounted to ₱1,142 million, ₱940 million and ₱698 million for the years ended December 31, 2023, 2022 and 2021, respectively.

The carrying value of investment in FHREC amounted to ₱1,368 million and ₱1,418 million as at December 31, 2023 and 2022, respectively, with cumulative equity in net earnings amounting to ₱1,070 million and ₱1,109 million as at December 31, 2023 and 2022, respectively.

The carrying values of investments in Waltermart amounted to ₱8,152 million and ₱7,639 million as at December 31, 2023 and 2022, respectively. The aggregate share in profit and total comprehensive income, net of dividends received amounted to ₱513 million, ₱283 million and ₱216 million for the years ended December 31, 2023, 2022 and 2021, respectively.

The carrying value of investment in STRC amounted to ₱2,296 million and ₱2,048 million as at December 31, 2023 and 2022, respectively. The aggregate share in profit and total comprehensive income amounted to ₱248 million, ₱172 million and ₱198 million for the years ended December 31, 2023, 2022 and 2021, respectively.

The Company has no outstanding contingent liabilities or capital commitments related to its investments in associates and joint ventures as at December 31, 2023 and 2022.

14. **Other Noncurrent Assets**

This account consists of:

	2023	2022
		(In Thousands)
Receivables from sale of real estate - net of current portion* (see Note 7)	**₱70,600,303**	₱48,929,523
Bonds and deposits	**46,894,238**	50,541,286
Escrow and time deposits (see Note 19)	**3,656,453**	5,105,361
Deferred input tax	**779,864**	1,069,739
Others (see Note 23)	**540,616**	554,997
	₱122,471,474	₱106,200,906

**Pertains to noncurrent portion of unbilled revenue from sale of real estate (see Note 7).*

- Bonds and deposits consist of deposits to contractors and suppliers to be applied throughout construction and advances, deposits paid for leased properties to be applied at the last term of the lease and advance payments for land acquisitions which will be applied against the purchase price of the properties upon fulfillment by both parties of certain undertakings and conditions.

- Cash in escrow amounting to ₱711 million and ₱489 million as at December 31, 2023 and 2022, respectively, pertains to the amounts deposited in the account of an escrow agent as required by the Department of Human Settlements and Urban Development in connection with the incentive compliance provisions of the Urban Development and Housing Act. Interest income earned from the cash in escrow amounted to ₱25 million, ₱6 million and ₱1 million for the years ended December 31, 2023, 2022 and 2021 respectively (see Note 22).

- Time deposits amounting to ₱2,945 million and ₱4,616 million as at December 31, 2023 and 2022, respectively, were used as collateral for use of credit lines obtained by the Company. Interest income earned amounted to ₱38 million, ₱94 million and ₱125 million for the years ended December 31, 2023, 2022 and 2021, respectively (see Note 22).

15. **Loans Payable**

This account consists of unsecured Philippine peso and China yuan renminbi denominated loans obtained from local and foreign banks amounting to ₱4,289 million and ₱5,423 million as at December 31, 2023 and 2022, respectively, with due dates of less than one year. These loans bear weighted average interest rates of 3.56% and China loan prime rate (LPR) in 2023 and 2022.

Interest expense incurred from loans payable amounted to ₱258 million, ₱160 million and ₱177 million for the years ended December 31, 2023, 2022 and 2021, respectively (see Note 22).

16. **Accounts Payable and Other Current Liabilities**

This account consists of:

	2023	2022
		(In Thousands)
Trade:		
Third parties	**₱51,450,265**	₱41,044,372
Related parties (see Note 19)	**205,653**	166,076
Tenants' and customers' deposits* (see Note 25)	**39,678,216**	37,056,004
Accrued operating expenses	**15,834,744**	15,171,483
Deferred output VAT	**14,411,482**	10,920,582
Lease liabilities	**13,313,112**	13,473,170
Retention payable	**8,834,072**	7,206,273
Liability for purchased land	**5,042,435**	5,678,474
Accrued interest (see Note 19)	**2,827,101**	2,646,101
Payable to government agencies	**854,877**	1,606,431
Nontrade	**437,049**	354,153
Liability from assigned receivables and others (see Note 7)	**2,822,122**	3,808,517
	155,711,128	139,131,636
Less noncurrent portion	**56,633,700**	51,009,039
	₱99,077,428	₱88,122,597

** Includes unearned revenue from sale of real estate amounting to ₱7,018 million and ₱5,452 million as at December 31, 2023 and 2022, respectively, out of which ₱2,129 million and ₱4,343 million were recognized as revenue in 2023 and 2022, respectively.*

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, which are non-interest bearing and are normally settled within a 30-day term.

- Accrued operating expenses pertain to accrued selling, general and administrative expenses which are normally settled throughout the financial period. Accrued operating expenses consist of:

	2023	2022
		(In Thousands)
Payable to contractors	**₱9,400,962**	₱9,133,293
Utilities	**2,468,876**	2,385,215
Marketing and advertising and others	**3,964,906**	3,652,975
	₱15,834,744	₱15,171,483

- Deferred output VAT represents output VAT on unpaid portion of recognized receivable from sale of real estate. This amount is reported as output VAT upon collection of the receivables.

- Lease liabilities included in "Other noncurrent liabilities" amounted to ₱13,181 million and ₱13,342 million as at December 31, 2023 and 2022, respectively. Interest on lease liabilities included under "Others - net" in the consolidated statements of income amounted to ₱366 million, ₱437 million and ₱404 million for the years ended December 31, 2023, 2022 and 2021, respectively.

- Retention payable pertains to the amount withheld by the Company from the contractors' progress billings which will be released after the guarantee period. The retention serves as a security from the contractor should there be defects in the project.

- Liability for purchased land, payable to government agencies, accrued interest and other payables are normally settled throughout the financial period.

17. Long-term Debt

This account consists of:

	Availment Date	Maturity Date	Weighted Average Interest Rate	Outstanding Balance	
				2023	2022
				(In Thousands)	
Philippine peso-denominated loans	June 3, 2013 - December 28, 2023	March 1, 2023 - April 2, 2032	Floating BVAL + margin; Fixed - 5.26%	**₱269,313,740**	₱248,359,200
U.S. dollar-denominated loans*	July 30, 2018 - June 30, 2022	June 14, 2023 - June 9, 2027	LIBOR + spread; semi-annual/quarterly in 2022; SOFR + spread; quarterly in 2023	**84,350,144**	91,062,847
China yuan renminbi-denominated loans**	May 6, 2021 - December 19, 2023	April 20, 2026 - June 24, 2037	China LPR; annually; Fixed - 3.65%	**10,590,461**	9,665,493
				364,254,345	349,087,540
Less debt issue cost				**1,885,738**	2,112,928
				362,368,607	346,974,612
Less current portion				**67,746,351**	50,839,776
				₱294,622,256	₱296,134,836

LIBOR – London Interbank Offered Rate
BVAL – Bloomberg Valuation Service
SOFR – Secured Overnight Financing Rate
**Hedged against foreign exchange and interest rate risks using derivative instruments*
***Secured by portions of investment properties located in China (see Note 12)*

Debt Issue Cost
The movements in unamortized debt issue cost of the Company follow:

	2023	2022
	(In Thousands)	
Balance at beginning of the year	**₱2,112,928**	₱1,966,100
Additions	**645,502**	884,484
Amortization	**(872,692)**	(737,656)
Balance at end of the year	**₱1,885,738**	₱2,112,928

Amortization of debt issuance costs is recognized in the consolidated statements of income under "Others - net" account.

Repayment and Debt Issue Cost Schedule
The repayments of long-term debt are scheduled as follows:

	Gross	Debt Issue Cost	Net
		(In Thousands)	
Within 1 year	₱68,491,059	(₱744,708)	₱67,746,351
More than 1 year to 5 years	263,585,992	(1,094,991)	262,491,001
More than 5 years	32,177,294	(46,039)	32,131,255
	₱364,254,345	(₱1,885,738)	₱362,368,607

The loan agreements of the Company provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As at December 31, 2023 and 2022, the Company is in compliance with the terms of its loan covenants.

Interest expense from long-term debt charged to profit or loss amounted to ₱12,989 million, ₱11,288 million and ₱9,148 million for the years ended December 31, 2023, 2022 and 2021, respectively (see Note 22).

18. **Equity**

Capital Stock
As at December 31, 2023 and 2022, the Company has an authorized capital stock of 40,000 million with a par value of ₱1 a share, of which 33,166 million shares were issued. The Company has 28,856 million outstanding shares as at December 31, 2023 and 2022.

The following summarizes the information on SMPH's registration of securities under the Securities Regulation Code:

Date of SEC Approval/ Notification to SEC	Authorized Shares	No. of Shares Issued	Issue/Offer Price
March 15, 1994	10,000,000,000	–	₱–
April 22, 1994	–	6,369,378,049	5.35
May 29, 2007	10,000,000,000	–	–
May 20, 2008	–	912,897,212	11.86
October 14, 2010	–	569,608,700	11.50
October 10, 2013	20,000,000,000	15,773,765,315	19.50

SMPH declared stock dividends in 2012, 2007, 1996 and 1995. The total number of shareholders is 2,330 as at December 31, 2023.

Additional Paid-in Capital - Net
Following represents the nature of the consolidated "Additional paid-in capital - net":

	2023	2022
	(In Thousands)	
Paid-in subscriptions in excess of par value	**₱33,549,808**	₱33,549,808
Net equity adjustments from common control business combinations	**9,354,060**	9,354,060
Arising from net sale (acquisition) of non-controlling interests (see Note 2)	**(4,743,968)**	(4,779,675)
As presented in the consolidated balance sheets	**₱38,159,900**	₱38,124,193

Retained Earnings
In 2023, the BOD approved the declaration of cash dividend of ₱0.237 per share or ₱6,844 million to stockholders of record as of May 10, 2023, ₱5 million of which was received by SMDC. This was paid on May 24, 2023. In 2022, the BOD approved the declaration of cash dividend of ₱0.097 per share or ₱2,801 million to stockholders of record as of May 11, 2022, ₱2 million of which was received by SMDC. This was paid on May 24, 2022. In 2021, the BOD approved the declaration of cash dividend of ₱0.082 per share or ₱2,368 million to stockholders of record as of May 5, 2021, ₱2 million of which was received by SMDC. This was paid on May 19, 2021.

As at December 31, 2023 and 2022, the amount of retained earnings appropriated for the corporate and mall expansions amounted to ₱42,200 million. This represents appropriation for land banking activities and planned construction projects for the next two to three years. The appropriation is being fully utilized to cover part of the annual capital expenditure requirement of the Company. Approval of malls expansions and new projects is delegated by the BOD to the Executive Committee of the Company.

For the year 2024, the Company is looking at ₱100,000 million for its capital expenditure program.

The unappropriated retained earnings account is restricted for the payment of dividends to the extent of the accumulated equity in net earnings of subsidiaries, associates and joint ventures and the balance of treasury stock until such time that the Parent Company receives the dividends from its subsidiaries, associates and joint ventures. The retained earnings available for dividend declaration amounted to ₱115,550 million and ₱96,642 million as at December 31, 2023 and 2022, respectively.

Treasury Stock
As at December 31, 2023 and 2022, this includes 4,310 million reacquired capital stock and shares held by a subsidiary stated at acquisition cost of ₱2,985 million.

19. **Related Party Transactions**

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. Related parties may be individuals or corporate entities.

Terms and Conditions of Transactions with Related Parties
There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the years ended December 31, 2023 and 2022, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates. Settlement of the outstanding balances normally occur in cash. The Company has approval process and established limits when entering into material related party transactions.

The significant transactions entered into by the Company with its related parties and the amounts included in the accompanying consolidated financial statements with respect to these transactions follow:

	Amount of Transactions			Outstanding Amount [Asset (Liability)]			
	2023	2022	2021	**2023**	2022	Terms	Conditions
			(In Thousands)				
Ultimate Parent							
Rent income	**₱69,449**	₱64,092	₱59,175	**₱–**	₱–		
Rent receivable	**–**	–	–	**7,899**	7,396	Non-interest bearing	Unsecured; not impaired
Other revenue	**36,414**	35,017	41,600	**–**	–		
Other receivable	**–**	–	–	**2,912**	2,912	Non-interest bearing	Unsecured; not impaired
Rent expense	**86,787**	69,755	25,298	**–**	–		
Trade payable	**–**	–	–	**(34,882)**	(30,068)	Non-interest bearing	Unsecured
Dividend income	**1,096**	913	621	**–**	–		
Equity instruments at FVOCI	**–**	–	–	**127,403**	131,494		
Banking and Retail Entities							
Cash and cash equivalents	**123,293,354**	122,886,066	127,864,300	**23,451,912**	34,031,170	Interest bearing based on prevailing rates	Unsecured; not impaired
Rent income	**17,707,839**	15,391,640	10,107,826	**–**	–		
Rent receivable	**–**	–	–	**3,388,569**	3,359,255	Non-interest bearing	Unsecured; not impaired
Other revenue	**90**	419	159	**–**	–		
Other receivable	**–**	–	–	**9,355**	8,941	Non-interest bearing	Unsecured; not impaired
Interest income	**1,231,347**	664,264	213,906	**–**	–		
Accrued interest receivable	**–**	–	–	**197,130**	119,002	Non-interest bearing	Unsecured; not impaired
Receivable financed	**4,130,907**	–	358,861	**–**	–	Without recourse	Unsecured
Dividend income	**324,088**	203,455	108,029	**–**	–		
Equity instruments at FVOCI	**–**	–	–	**14,097,820**	11,418,694		
Escrow and time deposits	**373,065**	196,272	161,034	**1,277,880**	1,046,262	Interest bearing and based on prevailing rates	Unsecured; not impaired
Long-term debt	**4,496,888**	12,521,075	1,700,000	**(20,746,834)**	(20,730,765)	Interest bearing	Unsecured
Interest expense	**1,716,133**	668,384	503,515	**–**	–		
Accrued interest payable	**–**	–	–	**(176,640)**	(157,668)	Non-interest bearing	Unsecured
Other expense	**220,182**	195,876	159,418	**–**	–		
Trade payable	**–**	–	–	**(159,999)**	(115,922)	Non-interest bearing	Unsecured

	Amount of Transactions			Outstanding Amount [Asset (Liability)]			
	2023	2022	2021	**2023**	2022	Terms	Conditions
			(In Thousands)				
Other Related Parties							
Rent income	**₱392,116**	₱314,324	₱120,962	**₱–**	₱–		
Rent receivable	**–**	–	–	**74,676**	60,613	Non-interest bearing	Unsecured; not impaired
Other revenue	**90,652**	121,004	155,683	**–**	–		
Other receivable	**–**	–	–	**17,148**	25,058	Non-interest bearing	Unsecured; not impaired
Rent expense	**663**	410	376	**–**	–		
Trade payable	**–**	–	–	**(10,772)**	(20,086)	Non-interest bearing	Unsecured

Affiliate refers to an entity that is neither a parent, subsidiary, nor an associate, with stockholders common to the SM Group or under common control.

Below are the nature of the Company's transactions with the related parties:

Rent
The Company has existing lease agreements for office and commercial spaces with related companies (retail and banking group and other related parties).

Other Revenue
The Company provides management, manpower and other related services.

Dividend Income
The Company's equity instruments at FVOCI of certain affiliates earn income upon the declaration of dividends by the investees.

Cash Placements and Loans
The Company has certain bank accounts and cash placements that are maintained with the banking group. Such accounts earn interest based on prevailing market interest rates (see Note 6).

The Company also availed of bank loans and long-term debt from the banking group and pays interest based on prevailing market interest rates (see Notes 15 and 17).

The Company also entered into financing arrangements with the banking group. There were no assigned receivables on a with recourse basis to the banking group in 2023 and 2022 (see Note 7).

Others
The Company, in the normal course of business, has outstanding receivables from and payables to related companies as at reporting period which are unsecured and normally settled in cash.

Compensation of Key Management Personnel
The aggregate compensation and benefits related to key management personnel for the years ended December 31, 2023, 2022 and 2021 consist of short-term employee benefits amounting to ₱1,495 million, ₱1,130 million and ₱1,059 million, respectively, and post-employment benefits (pension benefits) amounting to ₱298 million, ₱243 million and ₱229 million, respectively.

20. Other Revenue

Details of other revenue follows:

	2023	2022	2021
		(In Thousands)	
Cinema and event ticket sales	**₱4,020,155**	₱2,689,404	₱56,868
Merchandise sales	**3,263,194**	564,978	193,278
Food and beverages	**2,339,039**	1,786,358	611,751
Amusement income	**1,337,200**	1,093,416	226,423
Bowling and ice skating fees	**407,118**	335,452	29,301
Advertising income	**190,557**	99,912	87,155
Others (see Note 19)	**2,385,912**	1,925,688	1,300,403
	₱13,943,175	₱8,495,208	₱2,505,179

Others include service fees, parking terminal, sponsorships, commissions, and membership revenue.

21. Costs and Expenses

This account consists of:

	2023	2022	2021
		(In Thousands)	
Administrative (see Notes 19 and 23)	**₱17,450,432**	₱12,423,180	₱7,967,372
Cost of real estate sold (see Note 8)	**16,660,910**	16,898,568	18,686,708
Depreciation and amortization (see Notes 11 and 12)	**13,656,773**	12,487,763	10,816,869
Marketing and selling	**7,056,076**	5,438,162	5,445,482
Business taxes and licenses	**5,303,596**	4,658,425	5,141,919
Film rentals	**2,036,632**	1,399,271	20,539
Rent (see Notes 19 and 25)	**1,324,430**	1,130,559	581,803
Insurance	**634,148**	541,200	497,387
Others	**2,695,303**	1,565,194	742,854
	₱66,818,300	₱56,542,322	₱49,900,933

Administrative expenses include utilities, security, janitorial and other outsourced services. Rent expense pertain to variable payments for various lease agreements. Others include bank charges, donations, dues and subscriptions, services fees and transportation and travel.

22. Interest Income and Interest Expense

The details of the sources of interest income and interest expense follow:

	2023	2022	2021
		(In Thousands)	
Interest income on:			
Cash and cash equivalents (see Note 6)	**₱1,450,318**	₱1,070,051	₱627,033
Escrow and time deposits (see Note 14)	**62,574**	100,034	125,458
Others (see Note 7)	**232,335**	149,253	86,776
	₱1,745,227	₱1,319,338	₱839,267

	2023	2022	2021
		(In Thousands)	
Interest expense on:			
Long-term debt (see Note 17)	**₱12,988,734**	₱11,288,049	₱9,147,532
Loans payable (see Note 15)	**257,559**	159,904	176,792
Others (see Note 7)	**716,978**	17,834	33,292
	₱13,963,271	₱11,465,787	₱9,357,616

23. Pension Benefits

The Company has funded defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. The latest actuarial valuation report is as at December 31, 2023.

The following tables summarize the components of the pension plan as at December 31:

Net Pension Cost (included under "Costs and expenses" account under "Administrative")

	2023	2022	2021
		(In Thousands)	
Current service cost	**₱427,647**	₱377,990	₱376,779
Past service cost	**8,897**	–	–
Interest - net and others	**59,301**	28,911	8,348
	₱495,845	₱406,901	₱385,127

Net Pension Asset (included under "Other noncurrent assets" account)

	2023	2022
		(In Thousands)
Fair value of plan assets	**₱173,807**	₱821,454
Defined benefit obligation	**(87,475)**	(725,095)
Effect of asset ceiling limit	**(19,166)**	(30,264)
Net pension asset	**₱67,166**	₱66,095

Net Pension Liability (included under "Other noncurrent liabilities" account)

	2023	2022
		(In Thousands)
Defined benefit obligation	**₱4,672,036**	₱3,382,257
Fair value of plan assets	**(3,461,552)**	(2,250,763)
Net pension liability	**₱1,210,484**	₱1,131,494

The changes in the present value of the defined benefit obligation are as follows:

	2023	2022
	(In Thousands)	
Balance at beginning of the year	**₱4,107,352**	₱3,405,858
Interest cost and others	**290,807**	467,022
Current service cost	**427,647**	377,990
Past service cost	**8,897**	–
Actuarial loss (gain) on:		
Experience adjustments	**125,692**	(30,723)
Changes in demographic assumptions	**8,277**	(34,416)
Changes in financial assumptions	**(44,553)**	219,213
Benefits paid	**(183,908)**	(310,269)
Transfers	**19,300**	12,677
Balance at end of the year	**₱4,759,511**	₱4,107,352

The changes in the fair value of plan assets are as follows:

	2023	2022
	(In Thousands)	
Balance at beginning of year	**₱3,072,217**	₱2,984,973
Contributions	**570,379**	336,366
Interest income and others	**233,738**	308,480
Transfers	**19,300**	12,677
Benefits paid from assets	**(183,908)**	(310,269)
Remeasurement loss	**(76,367)**	(260,010)
Balance at end of year	**₱3,635,359**	₱3,072,217

The changes in the effect of asset ceiling limit are as follows:

	2023	2022
	(In Thousands)	
Balance at beginning of year	**₱30,264**	₱25,477
Interest cost	**2,232**	1,202
Remeasurement gain (loss)	**(13,330)**	3,585
Balance at end of year	**₱19,166**	₱30,264

The carrying amounts of the plan assets below equal to its fair values as at December 31, 2023 and 2022.

	2023	2022
	(In Thousands)	
Cash and cash equivalents	**₱17,789**	₱26,290
Investments in:		
Government securities	**1,948,988**	1,347,626
Common trust funds	**1,267,811**	1,143,227
Debt and other securities	**373,905**	528,448
Equity securities	**–**	11,496
Other financial assets	**26,866**	15,130
	₱3,635,359	₱3,072,217

- Cash and cash equivalents include regular savings and time deposits;
- Investments in government securities consist of retail treasury bonds which earn interest based on the prevailing market rates and have maturities ranging from 2024 to 2033;
- Investments in common trust funds pertain to unit investment trust fund;
- Investments in debt and other securities consist of short-term and long-term corporate loans, notes and bonds which earn interest based on the prevailing market rates and have maturities ranging from 2024 to 2029;
- Investments in equity securities consist of listed and unlisted equity securities; and
- Other financial assets include accrued interest income on cash deposits held by the Retirement Plan.

Debt and other securities, equity securities and government securities have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse instruments and do not have any concentration of risk.

The following table summarizes the outstanding balances and transactions of the pension plan as at and for the years ended December 31:

	2023	2022
	(In Thousands)	
Cash and cash equivalents	**₱17,789**	₱26,290
Interest income from cash and cash equivalents	**2,278**	137
Investments in common trust funds	**1,267,811**	1,143,227
Gain (loss) from investments in common trust funds	**73,208**	(131,927)

The principal assumptions used in determining pension obligations for the Company's plan are shown below:

	2023	2022
Discount rate	**6.0%–6.4%**	6.8%–7.3%
Future salary increases	**3.0%–10.0%**	3.0%–10.0%

Remeasurement effects recognized in OCI at December 31 follow:

	2023	2022	2021
		(In Thousands)	
Actuarial loss (gain)	**₱165,783**	₱414,084	(₱108,575)
Remeasurement loss (gain) - excluding amounts recognized in net interest cost	**(13,330)**	3,585	14,437
	₱152,453	₱417,669	(₱94,138)

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, 2023 and 2022, respectively, assuming all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)
2023		
Discount rates	**50**	**(₱340,764)**
	(50)	**392,738**
Future salary increases	**100**	**383,921**
	(100)	**(340,136)**
2022		
Discount rates	50	(₱307,539)
	(50)	355,952
Future salary increases	100	344,704
	(100)	(304,331)

The Company and the pension plan has no specific matching strategies between the pension plan assets and the defined benefit obligation under the pension plan.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2023 and 2022, respectively:

Year 2023	**Amount**
	(In Thousands)
2024	**₱1,100,326**
2025	**422,482**
2026–2027	**886,111**
2028–2033	**3,518,907**

Year 2022	Amount
	(In Thousands)
2023	₱938,840
2024	337,030
2025–2026	815,147
2027–2032	3,173,913

The Company expects to contribute about ₱733 million to its defined benefit pension plan in 2024.

The weighted average duration of the defined benefit obligation is 7.9 years as of December 31, 2023 and 2022.

24. **Income Tax**

The current provision for income tax presented in the consolidated statements of income represents RCIT and MCIT.

The details of the Company's deferred tax assets and liabilities are as follows:

	2023	2022
		(In Thousands)
Deferred tax assets:		
Lease liabilities	**₱2,118,078**	₱2,145,193
NOLCO	**1,352,600**	335,693
Excess of fair value over cost of investment properties and others	**523,436**	252,069
Unrealized foreign exchange losses	**408,343**	408,426
Excess MCIT over RCIT	**276,526**	102,702
Unamortized past service cost	**43,969**	33,127
Provision for ECLs on receivables	**21,624**	21,626
Others	**584,606**	565,136
	5,329,182	3,863,972
Deferred tax liabilities:		
Unrealized gross profit on sale of real estate	**(11,190,690)**	(8,896,471)
Undepreciated capitalized interest, unrealized foreign exchange gains and others	**(3,276,002)**	(3,308,502)
ROUA	**(1,633,055)**	(1,693,636)
Pension asset	**(23,770)**	(22,543)
Others	**(171,402)**	(151,494)
	(16,294,919)	(14,072,646)
Net deferred tax liabilities	**(₱10,965,737)**	(₱10,208,674)

The net deferred tax assets and liabilities are presented in the consolidated balance sheets as follows:

	2023	2022
		(In Thousands)
Deferred tax assets - net	**₱1,492,359**	₱931,366
Deferred tax liabilities - net	**(12,458,096)**	(11,140,040)
	(₱10,965,737)	(₱10,208,674)

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act
On March 26, 2021, President Rodrigo Duterte signed into law the CREATE Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It took effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Company:

- Effective July 1, 2020, RCIT rate is reduced from 30% to 25%. For entities with net taxable income not exceeding ₱5 million and with total assets not exceeding ₱100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.
- MCIT rate reduced from 2% to 1% of gross income for 3 years or until June 30, 2023.
- Imposition of improperly accumulated earnings tax is repealed.

Applying the provisions of the CREATE Act, the Company have been subjected to the lower tax rate of 15% (optional standard deduction (OSD) to 25% (itemized deduction) of taxable income and 1% MCIT of gross income for 3 years or until June 30, 2023.

The Company recognized one-time impact of CREATE in the consolidated statement of comprehensive income for the period ended December 31, 2021 amounting to ₱293 million and ₱39 million for provision for income tax (current and deferred) and remeasurement loss on defined benefit obligation, respectively. Deferred tax liabilities - net also decreased by ₱218 million.

The reconciliation between the statutory tax rates and the effective tax rates on income before income tax as shown in the consolidated statements of income follows:

	2023	2022	2021
Statutory tax rate	**25.00%**	25.00%	25.00%
Income tax effects of:			
Equity in net earnings of associates and joint ventures	**(1.08)**	(1.11)	(1.07)
Interest income subjected to final tax and dividend income exempt from income tax	**(0.84)**	(0.73)	(0.33)
Others - net	**(5.07)**	(2.57)	(2.61)
Effective tax rates	**18.01%**	20.59%	20.99%

The Company's certain real estate sales are registered with the Philippine Board of Investments as a new developer of low-cost mass housing projects. Under such registration, the Company is entitled to a three to four-year income tax holiday incentive for certain projects.

25. Lease Agreements

Company as Lessor

The Company's lease agreements with its mall and commercial property tenants 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 5 years for mall tenants and 2 to 20 years for commercial property tenants, renewable on an annual basis thereafter. At the inception of the lease agreement, tenants are required to pay certain amounts of deposits. At the termination of the lease contracts, the deposits received by the Company are returned to tenants, reduced by unpaid rental fees, penalties and/or deductions from repairs of damaged leased properties, if any. Tenants likewise pay either a fixed monthly rent, which is calculated by reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises of a basic monthly amount and a percentage of gross sales or a minimum set amount, whichever is higher.

The Company's future minimum rent receivables for the noncancellable portions of the operating leases follow:

	2023	2022
	(In Millions)	
Within one year	**₱6,312**	₱7,261
After one year but not more than five years	**10,975**	11,807
After more than five years	**6,718**	6,878
	₱24,005	₱25,946

Consolidated rent income amounted to ₱72,114 million, ₱58,244 million and ₱34,694 million for the years ended December 31, 2023, 2022 and 2021, respectively.

Company as Lessee

The Company leases certain parcels of land where some of its malls are situated or constructed. The terms of the lease are for periods ranging from 5 to 65 years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of the gross rental income or a certain fixed amount, whichever is higher. The Company also has various operating lease commitments with third party and related parties with noncancellable periods ranging from 2 to 30 years, mostly containing renewal options. Several lease contracts provide for the payment of additional rental based on certain percentage of sales of the tenants.

Amounts recognized in the consolidated statements of income follow:

	2023	2022	2021
		(In Millions)	
Rent expense (see Note 21)	**₱1,324**	₱1,131	₱582
Depreciation on ROUA (see Notes 11, 12 and 21)	**759**	819	633
Interest expense on lease liabilities (see Note 16)	**366**	437	404
	₱2,449	₱2,387	₱1,619

The maturity analysis of the undiscounted lease payments as at December 31, 2023 and 2022, respectively, are presented in Note 26 to the consolidated financial statements.

26. Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, accrued interest and other receivables, equity instruments at FVOCI and bank loans. The main purpose of these financial instruments is to finance the Company's operations. The Company has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions, principally, cross currency swaps, principal only swaps, interest rate swaps, foreign exchange forward swaps and non-deliverable forwards. The purpose is to manage the interest rate and foreign currency risks arising from the Company's operations and its sources of finance (see Note 27).

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk. The Company's BOD and management review and agree on the policies for managing each of these risks and they are summarized in the following tables.

Interest Rate Risk

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, it enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As at December 31, 2023 and 2022, after considering the effect of interest rate swaps, approximately 78% of its long-term borrowings, are at a fixed rate of interest (see Note 27).

The following tables set out the carrying amount, by maturity, of the Company's long-term financial liabilities that are exposed to interest rate risk as at December 31, 2023 and 2022:

		2023					
	Interest Rate	**1–<2 Years**	**2–<3 Years**	**3–<4 Years**	**4–<5 Years**	**=>5 Years**	**Total**
Philippine peso-denominated loans	**BVAL+margin%**	**₱101,250**	**₱5,740,000**	**₱11,635,000**	**₱14,123,750**	**₱18,557,500**	**₱50,157,500**
U.S. dollar-denominated loans	**LIBOR + spread**	**–**	**$100,000**	**$200,000**	**$100,000**	**–**	**22,148,006**
China yuan renminbi-denominated loans	**LPR**	**¥168,491**	**¥277,650**	**¥366,851**	**¥156,564**	**¥212,838**	**9,221,027**
							81,526,533
Less debt issue cost							**475,556**
							₱81,050,977

		2022					
	Interest Rate	1–<2 Years	2–<3 Years	3–<4 Years	4–<5 Years	=>5 Years	Total
Philippine peso-denominated loans	BVAL+margin%	₱14,730,000	₱101,250	₱5,740,000	₱11,635,000	₱14,281,250	₱46,487,500
U.S. dollar-denominated loans	LIBOR + spread	–	–	$100,000	$200,000	$100,000	22,301,978
China yuan renminbi-denominated loans	LPR	¥69,803	¥168,491	¥277,631	¥365,355	¥214,382	8,857,113
							77,646,591
Less debt issue cost							493,338
							₱77,153,253

Interest Rate Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Company's income before income tax.

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax
		(In Thousands)
2023	**100**	**(₱66,447)**
	50	**(33,223)**
	(100)	**66,447**
	(50)	**33,223**
2022	100	(₱34,942)
	50	(17,471)
	(100)	34,942
	(50)	17,471

Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs. The assumed movement in basis points for interest rate sensitivity analysis is based on currently observable market environment, showing a significantly higher volatility as in prior years.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's policy is to manage its foreign currency risk mainly from its debt issuances which are denominated in U.S. dollars by entering into foreign currency swap contracts, cross currency swaps, principal only swaps and non-deliverable forwards aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flow.

The Company's foreign currency-denominated monetary net assets amounted to US$18 million (₱1,003 million) as at December 31, 2023 and US$19 million (₱1,034 million) as at December 31, 2022.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱55.37 to US$1.00 and ₱55.76 to US$1.00, the Philippine peso to U.S. dollar exchange rate as at December 31, 2023 and 2022, respectively.

Foreign Currency Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in U.S. dollar to Philippine peso exchange rate with all other variables held constant, of the Company's income before income tax (due to changes in the fair value of monetary assets, including the impact of derivative instruments). There is no impact on the Company's equity.

	Appreciation (Depreciation) of $	Effect on Income Before Tax
		(In Thousands)
2023	**1.50**	**₱27,173**
	1.00	**18,115**
	(1.50)	**(₱27,173)**
	(1.00)	**(18,115)**

	Appreciation (Depreciation) of $	Effect on Income Before Tax
		(In Thousands)
2022	1.50	₱27,826
	1.00	18,550
	(1.50)	(₱27,826)
	(1.00)	(18,550)

Liquidity Risk

Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstance.

The Company seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Company intends to use internally generated funds and proceeds from debt and equity issues.

As part of its liquidity risk management program, the Company regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans and debt capital and equity market issues.

The Company's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents and equity instruments at FVOCI amounting to ₱31,817 million and ₱748 million, respectively, as at December 31, 2023 and ₱42,060 million and ₱535 million, respectively, as at December 31, 2022 (see Notes 6 and 9). The Company also has readily available credit facility with banks and affiliates to meet its long-term financial liabilities.

The tables below summarize the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments as at December 31:

	2023			
	Within 1 Year	More than 1 Year to 5 Years	More than 5 Years	Total
		(In Thousands)		
Loans payable	**₱4,384,368**	**₱–**	**₱–**	**₱4,384,368**
Accounts payable and other current liabilities*	**83,479,886**	**–**	**–**	**83,479,886**
Long-term debt (including current portion and interest)	**109,537,322**	**301,795,119**	**34,890,709**	**446,223,150**
Derivative liabilities	**7,423**	**265,013**	**–**	**272,436**
Liability for purchased land - net of current portion	**–**	**539,959**	**–**	**539,959**
Tenants' deposits - net of current portion**	**–**	**24,736,578**	**269,391**	**25,005,969**
Lease liabilities	**874,205**	**3,539,853**	**27,505,845**	**31,919,903**
Other noncurrent liabilities***	**–**	**8,499,486**	**2,103,661**	**10,603,147**
	₱198,283,204	**₱339,376,008**	**₱64,769,606**	**₱602,428,818**

	2022			
	Within 1 Year	More than 1 Year to 5 Years	More than 5 Years	Total
	(In Thousands)			
Loans payable	₱5,493,870	₱–	₱–	₱5,493,870
Accounts payable and other current liabilities*	72,841,522	–	–	72,841,522
Long-term debt (including current portion and interest)	66,498,851	300,418,234	38,218,018	405,135,103
Derivative liabilities	19,496	294,403	–	313,899
Liability for purchased land - net of current portion	–	1,129,719	–	1,129,719
Tenants' deposits - net of current portion**	–	2,017,519	21,543,716	23,561,235
Lease liabilities	900,370	3,734,664	31,127,968	35,763,002
Other noncurrent liabilities***	–	1,744,519	4,604,226	6,348,745
	₱145,754,109	₱309,339,058	₱95,493,928	₱550,587,095

* *Excluding nonfinancial liabilities and lease liabilities amounting to ₱15,598 million and ₱15,281 million as at December 31, 2023 and 2022, respectively.*
** *Excluding residential customers' deposits amounting to ₱296 million and ₱238 million as at December 31, 2023 and 2022, respectively.*
*** *Excluding nonfinancial liabilities and lease liabilities amounting to ₱28,235million and ₱25,046 million as at December 31, 2023 and 2022, respectively.*

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments (see Notes 6, 7, 9, 10 and 14).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The fair values of these financial assets are disclosed in Note 27. For receivables from real estate sale, the title of the real estate property is only transferred to the customer if the consideration had been fully paid. In case of default, after enforcement activities, the Company has the right to cancel the sale and enter into another contract to sell to another customer after certain proceedings (e.g. grace period, referral to legal, cancellation process, reimbursement of previous payments) had been completed. Given this, based on the experience of the Company, the maximum exposure to credit risk at the reporting date is nil considering that fair value less cost to repossess of the real estate projects is higher than the exposure at default. The Company evaluates the concentration of risk with respect to trade receivables and unbilled revenue from sale of real estate as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

As at December 31, 2023 and 2022, the financial assets, except for certain receivables, are generally viewed by management as good and collectible considering the credit history of the counterparties (see Note 7). Past due or impaired financial assets are very minimal in relation to the Company's consolidated total financial assets.

Credit Quality of Financial Assets. The credit quality of financial assets is managed by the Company using high quality and standard quality as internal credit ratings.

High Quality. Pertains to counterparty who is not expected by the Company to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies and government agencies.

Standard Quality. Other financial assets not belonging to high quality financial assets are included in this category.

As at December 31, 2023 and 2022, the credit quality of the Company's financial assets is as follows:

	2023			
	Neither Past Due nor Impaired			
	High Quality	Standard Quality	Past Due	Total
	(In Thousands)			
Financial assets at amortized cost				
Cash and cash equivalents*	**₱31,691,014**	**₱–**	**₱–**	**₱31,691,014**
Receivables**	**201,498**	**12,928,120**	**19,524,538**	**32,654,156**
Escrow and time deposits (included under "Other noncurrent assets")	**3,656,453**	**–**	**–**	**3,656,453**
Financial assets at FVTPL				
Derivative assets	**5,524,044**	**–**	**–**	**5,524,044**
Financial assets at FVOCI				
Equity instruments	**20,312,735**	**5,317**	**–**	**20,318,052**
	₱61,385,744	**₱12,933,437**	**₱19,524,538**	**₱93,843,719**

** Excluding cash on hand amounting to ₱126 million*
*** Excluding nonfinancial assets amounting to ₱44,298 million*

	2022			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
	(In Thousands)			
Financial assets at amortized cost				
Cash and cash equivalents*	₱41,977,231	₱–	₱–	₱41,977,231
Receivables**	167,795	14,696,502	16,469,042	31,333,339
Cash in escrow (included under "Prepaid expenses and other current assets")	5,105,361	–	–	5,105,361
Financial assets at FVTPL				
Derivative assets	7,338,320	–	–	7,338,320
Financial assets at FVOCI				
Equity instruments	17,606,746	5,317	–	17,612,063
	₱72,195,453	₱14,701,819	₱16,469,042	₱103,366,314

** Excluding cash on hand amounting to ₱83 million*
*** Excluding nonfinancial assets amounting to ₱51,227 million*

Equity Price Risk

Equity price risk arises from the changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

As a policy, management monitors its equity price risk pertaining to its investments in quoted equity securities which are classified as equity instruments designated at FVOCI in the consolidated balance sheets based on market expectations. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

The effect on equity after income tax (as a result of change in fair value of equity instruments at FVOCI as at December 31, 2023 and 2022) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

	2023	
	Change in Equity Price	**Effect on Equity**
		(In Millions)
Equity instruments at FVOCI	**+1.63%**	**₱298**
	-1.63%	**(298)**

	2022	
	Change in Equity Price	Effect on Equity
		(In Millions)
Equity instruments at FVOCI	+2.43%	₱397
	-2.43%	(397)

Capital Management

Capital includes equity attributable to the owners of the Parent.

The primary objective of the Company'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 Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Company monitors capital using the gearing ratio below as at December 31:

Net Interest-bearing Debt to Total Capital plus Net Interest-bearing Debt

	2023	2022
	(In Thousands)	
Loans payable	**₱4,288,964**	₱5,422,524
Current portion of long-term debt	**67,746,351**	50,839,776
Long-term debt - net of current portion	**294,622,256**	296,134,836
Less cash and cash equivalents	**(31,816,802)**	(42,060,082)
Total net interest-bearing debt (a)	**334,840,769**	310,337,054
Total equity attributable to equity holders of the parent	**396,196,619**	363,201,490
Total net interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱731,037,388**	₱673,538,544
Gearing ratio (a/b)	**46%**	46%

27. Financial Instruments

Fair Values

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities and nonfinancial assets, by category and by class, other than those whose carrying values are reasonable approximations of fair values, as at December 31:

	December 31, 2023				
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
			(In Thousands)		
Financial Assets					
Financial assets at FVTPL:					
Derivative assets	**₱5,524,044**	**₱5,524,044**	**₱–**	**₱5,524,044**	**₱–**
Financial assets at amortized cost:					
Escrow and time deposits (included under "Other noncurrent assets")	**3,656,453**	**3,694,879**	**–**	**3,694,879**	**–**
Financial assets at FVOCI:					
Equity instruments	**20,318,052**	**20,318,052**	**20,312,735**	**–**	**5,317**
Nonfinancial Assets* (see Note 12)	**545,074,746**	**2,091,266,866**	**–**	**–**	**2,091,266,866**
	₱574,573,295	**₱2,120,803,841**	**₱20,312,735**	**₱9,218,923**	**₱2,091,272,183**
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	**₱272,436**	**₱272,436**	**₱–**	**₱272,436**	**₱–**
Loans and borrowings:					
Liability for purchased land - net of current portion	**539,959**	**514,635**	**–**	**–**	**514,635**
Long-term debt - net of current portion	**294,622,256**	**283,353,643**	**–**	**–**	**283,353,643**
Tenants' deposits - net of current portion**	**25,005,969**	**24,585,217**	**–**	**–**	**24,585,217**
Other noncurrent liabilities***	**10,603,148**	**10,482,842**	**–**	**–**	**10,482,842**
	₱331,043,768	**₱319,208,773**	**₱–**	**₱272,436**	**₱318,936,337**

**Consists of investment properties*
*** Excluding residential customers' deposits amounting to ₱296 million as at December 31, 2023.*
****Excluding lease liabilities and nonfinancial liabilities amounting to ₱28,235 million as at December 31, 2023.*

	December 31, 2022				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
			(In Thousands)		
Financial Assets					
Financial assets at FVTPL:					
Derivative assets	₱7,338,320	₱7,338,320	₱–	₱7,338,320	₱–
Financial assets at amortized cost:					
Time deposits (included under "Other noncurrent assets")	5,105,361	5,118,038	–	5,118,038	–
Financial assets at FVOCI:					
Equity instruments	17,612,063	17,612,063	17,606,746	–	5,317
Nonfinancial Assets* (see Note 12)	489,266,042	2,022,778,236	–	–	2,022,778,236
	₱519,321,786	₱2,052,846,657	₱17,606,746	₱12,456,358	₱2,022,783,553
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱313,899	₱313,899	₱–	₱313,899	₱–
Loans and borrowings:					
Liability for purchased land - net of current portion	1,129,719	1,063,631	–	–	1,063,631
Long-term debt - net of current portion	296,134,836	279,936,370	–	–	279,936,370
Tenants' deposits - net of current portion**	23,561,234	22,780,505	–	–	22,780,505
Other noncurrent liabilities***	6,348,745	6,117,632	–	–	6,117,632
	₱327,488,433	₱310,212,037	₱–	₱313,899	₱309,898,138

**Consists of investment properties*
*** Excluding residential customers' deposits amounting to ₱238 million as at December 31, 2022.*
**** Excluding lease liabilities nonfinancial liabilities amounting to ₱25,046 million as at December 31, 2022.*

Fair Value Hierarchy
The Company uses the fair value hierarchy discussed in Note 3 for determining and disclosing the fair value of financial instruments.

During the years ended December 31, 2023 and 2022, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Derivative Instruments. The fair values are based on quotes obtained from counterparties.

Escrow and Time Deposits The fair values are based on the discounted value of future cash flows using the prevailing market rates.

Equity Instruments at FVOCI. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business.

Long-term Debt. Fair value is based on the following:

Debt Type	Fair Value Assumptions
Fixed Rate Loans	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 is based on the prevailing market rate as at December 31, 2023 and 2022.
Variable Rate Loans	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 as at December 31, 2023 and 2022 up to the next repricing date. Discount rates used is based on the prevailing market rate.

Tenants' Deposits, Liability for Purchased Land and Other Noncurrent Liabilities. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 2.08% to 6.91% and 2.74% to 6.94% as at December 31, 2023 and 2022, respectively.

The Company assessed that the carrying values of cash and cash equivalents, receivables, bank loans and accounts payable and other current liabilities approximate their fair values due to the short-term nature and maturities of these financial instruments.

There were no financial instruments subject to an enforceable master netting arrangement that were not set-off in the consolidated balance sheets.

Nonfinancial Assets. The significant assumptions used in the most recent valuation as at December 31, 2021 are discount rates of 8.00% to 9.00% and average growth rate of 5.00%, respectively. Fair values based on market approach were assessed using sales comparison of similar asset. As at December 31, 2023 and 2022, management believes that the fair values from the most recent valuation did not change significantly and the carrying values of additions to investment properties subsequent to the most recent valuation date would approximate their fair values.

Derivative Instruments Accounted for as Cash Flow Hedges

As at December 31, 2023, details of outstanding arrangements to hedge both foreign currency and interest rate exposure on its foreign currency denominated debts as follow:

	December 31, 2023					
	Notional Amount	**Agreed Equivalent**	**Fair Value**	**Swap Rate**	**Interest Rate**	**Maturity**
		(In Thousands)				
Cross Currency Swaps	**$150,000**	**₱7,276,500**	**₱1,096,049**	**₱48.50-₱48.52**	**3.64%-3.70%**	**2024**
Cross Currency Swaps	**$286,000**	**¥1,919,208**	**962,344**	**¥6.69- ¥6.72**	**3.86%-3.97%**	**2024**
Principal Only Swaps	**$270,000**	**¥1,753,285**	**281,166**	**¥6.38-¥6.68**	**–**	**2026-2027**
Foreign Exchange Forward Swaps	**$800,000**	**₱44,725,405**	**108,802**	**₱53.94-₱60.39**	**–**	**2024-2026**
Interest Rate Swaps	**$670,000**	**–**	**2,803,247**	**–**	**2.28%-2.63%**	**2025-2026**
			₱5,251,608			

	December 31, 2022					
	Notional Amount	Agreed Equivalent	Fair Value	Swap Rate	Interest Rate	Maturity
		(In Thousands)				
Cross Currency Swaps	$260,000	₱13,142,200	₱1,644,111	₱48.50-₱53.33	3.64%-6.39%	2023-2024
Cross Currency Swaps	$286,000	¥1,919,208	568,337	¥6.69-¥6.72	3.86%-3.97%	2024
Principal Only Swaps	$270,000	¥1,753,285	(220,140)	¥6.38-¥6.68	–	2026-2027
Foreign Exchange Forward Swaps	$715,000	₱39,820,155	1,148,261	₱53.94-₱60.39	–	2023-2026
Interest Rate Swaps	$670,000	–	3,883,852	–	2.28%-2.63%	2025-2026
			₱7,024,421			

As the term of the swaps have been negotiated to match the terms of the hedged loans, the hedges were assessed to be effective.

The net movements in fair value of all derivative instruments are as follows:

	December 31, 2023	December 31, 2022
	(In Thousands)	
Balance at beginning of period	**₱7,024,421**	(₱286,377)
Net changes in fair value during the period*	**(1,206,733)**	7,728,937
Fair value of settled derivatives	**(566,080)**	(418,139)
Balance at end of year	**₱5,251,608**	₱7,024,421

**Includes fair value changes recognized in the consolidated statement of income under "Others – net".*

28. **EPS Computation**

Basic/diluted EPS is computed as follows:

	2023	2022	2021
	(In Thousands, Except Per Share Data)		
Net income attributable to equity holders of the parent (a)	**₱40,010,501**	₱30,099,799	₱21,786,516
Common shares issued (see Note 18)	**33,166,300**	33,166,300	33,166,300
Less weighted average number treasury stock (see Note 18)	**4,309,888**	4,309,888	4,309,888
Weighted average number of common shares outstanding (b)	**28,856,412**	28,856,412	28,856,412
Earnings per share (a/b)	**₱1.387**	₱1.043	₱0.755

29. **Change in Liabilities Arising from Financing Activities**

Movements in loans payable, long-term debt and lease liabilities accounts are as follows (see Notes 15, 16 and 17):

	2023			2022		
	Loans Payable	**Long-term Debt**	**Lease Liabilities**	Loans Payable	Long-term Debt	Lease Liabilities
			(In Thousands)			
Balance at beginning of year	**₱5,422,524**	**₱346,974,612**	**₱13,473,170**	₱6,487,427	₱307,230,817	₱12,419,338
Availments/Additions	**28,516,941**	**83,045,972**	**–**	18,924,421	75,401,524	1,138,124
Payments	**(29,563,823)**	**(66,701,374)**	**(160,058)**	(19,994,859)	(43,863,022)	(84,292)
Cumulative translation adjustment	**(86,678)**	**(1,470,678)**	**–**	5,535	283,079	–
Foreign exchange movement	**–**	**520,075**	**–**	–	7,922,214	–
Balance at end of year	**₱4,288,964**	**₱362,368,607**	**₱13,313,112**	₱5,422,524	₱346,974,612	₱13,473,170

There are no non-cash changes in accrued interest and dividends payable.

ISSUERS

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