



2020 Financial Supplements

Rising to the Challenge

Integrated Report 2020

Contents

3	We are SM
5	Statement of Management's Responsibility for Financial Statements
6	Report of the Audit Committee
10	Independent Auditor's Report
18	Consolidated Balance Sheets
20	Consolidated Statements of Income
21	Consolidated Statements of Comprehensive Income
22	Consolidated Statements of Changes in Equity
24	Consolidated Statements of Cash Flows
26	Notes to Consolidated Financial Statements
104	Corporate Information

We are SM

Our Story

In the late 1950's, our founder Henry Sy started his first company, ShoeMart, a small shoe store in Carriedo, Manila.

Today, we have become the country's largest conglomerate, touching the lives of millions of Filipinos.

Fueled by our passion to serve our customers better, we have grown to be a network of sustainable businesses that specialize in retail, property and banking. We also take pride in discovering potential market leaders.

We provide excellent service to our customers, look after our employees, deliver sustained returns to our shareholders, with good governance at our core.

With our sights on becoming a global leader in sustainable business practices, our impact on the planet is paramount and we strive for transparency and accountability across all areas of our business.

But it's not just about big business. Through generations, we anchored on values of integrity, teamwork, hard work and innovation. We enjoy working together with a shared sense of purpose, committed to improving the quality of life for our communities, constantly finding ways to provide opportunities for growth, helping address the needs of millions of Filipinos, and driving national development and creating shared value.

Looking to the future,
we aim to build an ecosystem of
sustainable businesses that are
catalysts for responsible development
in the communities we serve.

We are committed to partner with our host communities
to provide a consistently high standard of service to our customers,
look after the welfare of our employees and
deliver sustainable returns to our shareholders,
at all times upholding the highest standards of corporate governance
and environmental stewardship in all our businesses.

What We Stand For

Leadership
Sustainability
Innovation
Accountability
Integrity
Hard Work

Statement of Management's Responsibility for Financial Statements

The management of SM Investments Corporation and Subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2020 and 2019, in accordance with Philippine Financial Reporting Standards and for such internal controls 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 cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signed this 26th day of February 2021



JOSE T. SIO
Chairman of the Board



FREDERIC C. DYBUNCIO
President and CEO



MARCELO C. FERNANDO, JR.
Treasurer

Report of the Audit Committee

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities to ensure the quality and integrity of the Company's financial reporting, internal control system, internal and external audit processes, and compliance with relevant laws and regulations. Likewise, the Committee oversees special investigations as may be necessary. It reviews its Charter annually.

The Committee is composed of three (3) non-executive directors, two (2) of whom are independent directors including the Committee Chairperson. The Committee members have relevant background, knowledge, skill and/or experience in finance and accounting, audit, risk management, and corporate governance. In 2020, they attended the annual corporate governance training conducted by an SEC accredited training provider and other updates on new relevant laws, accounting standards, taxes, and other regulatory requirements. The Committee also performed the annual self-assessment/evaluation and reviewed its performance against its Charter and other regulatory mandates to ensure its satisfactory performance.

The profiles and qualifications of the Committee members are as follows:

- **Tomasa H. Lipana** (Chair) is an Independent Director of SMIC. She is a former Chairperson and Senior Partner of Isla Lipana & Co., the Philippine member firm of PricewaterhouseCoopers. She is also an Independent Director and Audit Committee Chairperson of Flexo Manufacturing Corporation, and Trade and Investment Development Corporation of the Philippines (Philippine Guarantee Corporation, formerly Philippine Export-Import Credit Agency), a government-owned and controlled corporation. Previously, she was an Independent Director of Goldilocks Bakeshop Inc., Inter-Asia Development Bank, and QBE Seaboard Insurance Philippines. She is a Fellow and Trustee of the Institute of Corporate Directors. She is also a Trustee of the Shareholders' Association of the Philippines, Inc., among other non-profit organizations. Ms. Lipana took up Executive Education/Management Development Programs at Harvard Business School, University of Western Ontario, and Asian Institute of Management. She received the Outstanding CPA in the Public Practice Award from the Philippine Institute of Certified Public Accountants and the Outstanding Alumna Award from the University of the East where she graduated Cum Laude. She is also a CPA Board placer.
- **Alfredo E. Pascual** is the Lead Independent Director of SMIC. He was the President and CEO of the Institute of Corporate Directors (ICD) in 2018 & 2019. From 2011 to 2017, he led the University of the Philippines (UP) System as President, CEO, and Board Co-Chair. Before his stint in UP, Mr. Pascual worked at the Asian Development Bank (ADB) for 19 years in several positions, including Director for Private Sector Operations, Director for Infrastructure Finance, and Advisor for Public-Private Partnership. He was based mainly in ADB's Manila headquarters but had postings in India and Indonesia. He also served on the board of ADB's investee companies in China, India, and the Philippines. Earlier on, he took an educator role for a decade as a finance professor at the Asian Institute of Management (AIM). Currently, Mr. Pascual is an Independent Director at other publicly-listed companies (Megawide Construction Corporation, Concepcion Industrial

Corporation and Asiabest Group International Inc.. He holds board seats at several non-profit organizations (Management Association of the Philippines, FINEX Academy, SharePHIL, ICD, Institute for Solidarity in Asia, UP Foundation, US-Philippines Society). He is the President of the global Association of Former Employees of ADB, a board adviser at the Philippine Institute for Development Studies, and a special adviser at UP. He finished his MBA and BS in Chemistry (cum laude) from UP.

• **Jose T. Sio** is the Chairman of the Board of SMIC. He is also a Director of China Banking Corporation, Belle Corporation, Atlas Consolidated Mining and Development Corporation, NLEX Corporation, and Ortigas Land Corporation, Independent Trustee of Far Eastern University, Incorporated, and Adviser to the Board of Directors of BDO Unibank, Inc. and Premium Leisure Corporation. Mr. Sio holds a Master's degree in Business Administration (MBA) from New York University, is a certified public accountant, and is a former Senior Partner of SyCip Gorres Velayo & Co. (SGV). He was voted CFO of the Year in 2009 by the Financial Executives of the Philippines. He was also awarded as Best CFO (Philippines) in various years by several Hong Kong-based publications.

Presented below are the dates of Committee meetings and the attendance of each member.

Office Designation	Name	2020 Meetings and Attendance					
		2/28	5/21	6/26	8/5	11/4	12/17
Chairperson (ID)	Tomasa H. Lipana	✓	✓	✓	✓	✓	✓
Member (ID)	Alfredo E. Pascual	✓	✓	✓	✓	✓	✓
Member (NED)	Jose T. Sio	✓	✓	✓	✓	✓	✓

In compliance with the Audit Committee Charter, the Manual of Corporate Governance, and relevant laws and regulations, the Audit Committee performed the following activities relating to the three (3) major areas of concern:

Internal Audit

1. The Committee provided oversight of the Internal Audit.

Under SMIC's Internal Audit Charter, the primary purpose of Internal Audit is to provide an independent, objective, and reasonable assurance and value-adding services through systematic and disciplined evaluation of the Company's governance system, risk management, and internal control environment of the Company as well as any entity within the Group, which Management or the Audit Committee deems necessary to include.

The Charter also requires the Internal Audit to perform the following:

- Develop a flexible annual audit plan using an appropriate risk-based methodology to determine the priorities of internal audit activities, consistent with the Company's goals, and submit such plan as well as periodic updates to the Audit Committee for review and approval.
- Implement the approved annual audit plan, including special tasks or projects mandated by Management or Audit Committee.

- Maintain a team of professional audit staff with sufficient and relevant knowledge, skills, experience, and professional certifications to meet the requirements of the Charter.
- Issue periodic reports to the Audit Committee and Management, summarizing results of audit activities. Thereafter, conduct follow-up audit in a timely manner to ascertain the adequacy, effectiveness, and timeliness of management actions on the reported audit observations and agreed recommendations.
- Assist in the investigation of significant suspected fraudulent activities within the Company and notify Management and the Audit Committee of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.
- Use of up-to-date tools and technology for audit analytics and keep current on accounting and financial principles, pronouncements, as well as technical issues and trends.
- Engage a qualified independent third party to perform External Quality Assurance Review at least every five years and communicate its results to the Management and Audit Committee.

To maintain the independence of the Internal Audit, the Chief Audit Executive (CAE) functionally reports to the Board of Directors, through the Audit Committee. The CAE has direct and free access to communicate with the Management and Audit Committee. The CAE and his entire Internal Audit Team have full and unrestricted access to all records, documents, systems, and information required for the effective and efficient audit process.

2. The Committee reviewed and approved the Internal Audit plan, including the scope, methodology, organization structure and staffing.
3. The Committee monitored the implementation of the Internal Audit plan and reviewed the periodic reports of the CAE, summarizing the overall assessment of the Company's control environment, significant audit findings and areas of concern as well as the corresponding management response and action plan.

External Audit

The Audit Committee has the primary responsibility to make a well-informed recommendation regarding the appointment, re-appointment or removal of the External Auditor.

The External Auditor is tasked to undertake an independent audit and provide and perform an objective assurance on the preparation and presentation of the financial statements. As required by SMIC's Manual on Corporate Governance, the External Auditor or the handling partner should be rotated every five (5) years or earlier, and any non-audit work should not be in conflict with the functions of the External Auditor.

4. The Committee reviewed/discussed with the External Auditor, SGV & Co., the following:
 - The annual audit plan for 2020, including scope, approach, risk-based methods, focus areas and time table;

- The results of its examination and action plan to address pending audit issues; and
 - The assessment of internal controls and quality of financial reporting.
5. The Committee reviewed/discussed the report of SGV & Co. on significant accounting issues, changes in accounting policies/standards, and major pending tax legislations, which would impact the Company and its subsidiaries.
 6. The Committee discussed with SGV & Co. the matters required to be disclosed under the prevailing applicable Auditing Standards, and obtained from said Firm a letter confirming its independence, as required by prevailing applicable Independence Standards.
 7. The Committee reviewed and approved all audit and non-audit services provided by SGV & Co., to the Company, and related fees.

Financial Statements

8. The Committee assessed the internal control system of the Company based upon the review and evaluation done and reported by the internal and external auditors and noted that the system is generally adequate to generate reliable financial statements.
9. The Committee reviewed and endorsed to the Board for approval the unaudited consolidated financial statements of SM Investments Corporation and its subsidiaries for the first quarter ended March 31, 2020, second quarter ended June 30, 2020, and third quarter ended September 30, 2020.
10. Based on its review and discussion, and subject to the limitations on the roles and responsibilities referred to above, the Committee recommended for Board approval, and the Board approved, the audited consolidated financial statements of SM Investments Corporation and its subsidiaries for the year ended December 31, 2020.
11. The Committee reviewed and discussed the performance, independence and qualifications of the External Auditor, SGV & Co., in the conduct of their audit of the financial statements of SM Investments Corporation and its subsidiaries for the year. Based on the review of their performance and qualifications, the Committee also recommended the re-appointment of SGV & Co. as the Company's External Auditor for 2021.

26 February 2021



Tomasa H. Lipana
Chairperson



Alfredo E. Pascual
Member



Jose T. Sio
Member



Atty. Elmer B. Serrano
Corporate Secretary

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, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020 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.

Accounting for Lease Concession

In 2020, the Group granted various lease concessions such as lease payment holidays or lease reduction to the lessees of its commercial spaces as a response to the laws and regulations issued by the government mandating the granting of certain lease concession during the coronavirus pandemic. The Group evaluated that the lease concessions do not qualify as a lease modification and accounted for these as a form of negative variable rent which the Group recorded when the concession is given regardless of the period to which the concession pertains. The Group's accounting of lease concession under PFRS 16, *Leases* is significant to our audit because the Group has high volume of lease concessions granted during the period; the recorded amounts are material to the consolidated financial statements; and accounting for lease concession involves application of significant judgment and estimation in determining whether the lease concession will be accounted for as lease modification.

The disclosures related to the lease concession granted by the Group are included in Note 3 to the consolidated financial statements.

Audit Response

We obtained an understanding of the type, extent and periods covered by the various lease concessions granted by the Group, including the determination of the population of the lease contracts covered by the lease concession granted by the Group during the period.

We tested the population of lease agreements by comparing the number of locations per operations report against the lease contract database.

On a test basis, we inspected the communications of the Group in connection with the lease concessions granted to the lessees, and traced these contractual terms and conditions to the calculation of the financial impact of lease concessions prepared by the management. We test computed the lease concession impact prepared by management on a sample basis.

We obtained management assessment and a legal opinion from the Group's internal counsel supporting the assessment that the lease concession granted does not qualify as a lease modification. We involved our internal specialist in evaluating the legal basis supporting the management assessment and legal position.

Recoverability of Goodwill

As at December 31, 2020, the Group reported ₱17,364.8 million goodwill attributable mainly to SM Prime Holdings, Inc., Supervalu, Inc., Super Shopping Market, Inc., Neo Subsidiaries, Waltermart Supermarket, Incorporated and others. The Group performed an annual testing per cash generating unit (CGU) to assess whether goodwill might be impaired. Management's process requires significant judgment and is based on assumptions which are subject to higher level of estimation uncertainty due to the current economic conditions which have been impacted by the coronavirus pandemic such as revenue growth rate. Given the significant management estimates and assumptions, and the uncertainty of internal and external factors, including future market circumstances, this is considered as a key audit matter.

The assumptions, sensitivities and results of the annual impairment testing are disclosed in Note 17 to the consolidated financial statements.

Audit Response

We involved our internal specialist in assessing the methodologies and assumptions used by the Group in calculating each CGU's recoverable amount. For the fair value less cost of disposal calculations, we evaluated the approach used by the Group and reviewed the calculations performed with reference to the observable market prices and allowable costs for disposing the asset. For the value-in-use calculations, we assessed the prospective financial information (PFI) for each CGU by understanding the Group's approach to develop the PFI and evaluating the key assumptions used such as revenue growth rate. We compared the key assumptions used, such as revenue growth rate against the historical performance of the CGU, industry outlook and other relevant external data, taking into consideration the impact associated with coronavirus pandemic. We also involved our internal specialist in recalculating the discount rates used for each CGU. Recalculations involve comparison to publicly available market information, cost of debt and equity and other relevant risk factors. We performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions.

Accounting for Investments in Associate Companies

As at December 31, 2020, the Group's investments in associate companies amounted to ₱287,655.9 million, representing 29.7% and 23.5% 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, significant management judgments and estimates made by the associate companies on determining expected credit loss and valuation of financial instruments, 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 investments with indicators of possible impairment, we obtained management's impairment analysis and gained an understanding of their impairment assessment process. We discussed the current and projected financial performance of the associate companies with management and assessed whether these were reflected in the impairment analysis. We also involved our internal specialist in assessing the Group's methodology and assumptions used in calculating the associate companies' recoverable amount. We have assessed the PFI for the CGU by understanding the Group's approach to develop the PFI and evaluating the key assumptions used such as growth rates, gross margins, projected earnings before interest and taxes, effective tax rates, non-cash charges, net working capital changes, capital expenditures and others. For growth rate, we compared it with the long-term average growth rate for the products or industries. We compared the other key assumptions such as gross margins, projected earnings before interest and taxes, effective tax rates, non-cash charges, net working capital changes, capital expenditures and others against the historical performance of the associate companies, industry outlook and other relevant external data, taking into consideration the impact associated with the coronavirus pandemic. We also involved our internal specialist in recalculating the discount rate used that involves

comparison to publicly available market information, cost of debt and equity and other relevant risk factors. We performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions.

For the material associate company audited by other auditor, we sent audit instructions to the other auditor to perform an audit on the relevant financial information of the associate company for the purpose of the Group's consolidated financial statements. Our audit instructions detailed the other auditor's scope of work, risk assessment, audit strategy and reporting requirements. We discussed with the other auditor their key audit areas, including areas of significant judgments and estimates, planning and execution of audit procedures, and results of their work for the year ended December 31, 2020.

We reviewed the working papers of other auditors and obtained relevant conclusion statements related to their audit procedures. We focused on the other auditor's procedures on the review of the classification and measurement of financial assets, considering disposals of investment securities classified under the hold-to-collect business model, and testing of the expected credit loss model updated for the impact of the coronavirus pandemic.

Real Estate Revenue Recognition

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 costs 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 past history with the buyer, age of the outstanding receivables and pricing of the property. Management regularly evaluates the historical sales cancellations and back-outs, after considering the impact of coronavirus pandemic, if it would still support its current threshold of buyers' equity before commencing revenue recognition.

In determining the transaction price, the Group considers the selling price of the real estate property and other fees collected from the buyers that are not held on behalf of other parties.

In measuring the progress of its performance obligation over time, the Group uses the output method. This method measures progress based on physical proportion of work done on the real estate project which requires technical determination by the Group's project engineers. This is based on the monthly project accomplishment report prepared by the third-party project managers as approved by the construction managers.

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 costs of obtaining a contract. For contracts which qualified for revenue recognition, the Group capitalizes the total sales commissions due to sales agent as costs to obtain a contract and recognizes the related commissions payable. The Group uses percentage of completion (POC) method in amortizing

sales commissions consistent with the Group's revenue recognition policy.

The disclosures related to the Group's revenue recognition are included in Note 3 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's real estate revenue 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 collections from buyers with accumulated payments above the collection threshold. We also considered the impact of the coronavirus pandemic to the level of cancellations during the year.

For the determination of the transaction price, we obtained an understanding of the nature of other fees charged to the buyers. For selected contracts, we agreed the amounts excluded from the transaction price against the expected amounts required to be remitted to the government based on existing tax rules and regulations (e.g., documentary stamp taxes, transfer taxes and real property taxes).

For the application of the output method, in determining revenue from sale of real estate, we obtained an understanding of the Group's processes for determining the POC, and performed tests of the relevant controls. We obtained the certified POC reports prepared by the third-party project managers and assessed their competence and objectivity by reference to their qualifications, experience and reporting responsibilities. For selected projects, we conducted ocular inspections, made relevant inquiries, including inquiries on how the coronavirus pandemic affected the POC during the period, and obtained the supporting details of POC reports showing the completion of the major activities of the project construction.

For the cost of real estate sold, we obtained an understanding of the Group's cost accumulation process and performed tests of the relevant controls. For selected projects, we traced costs accumulated, including those incurred but not yet billed costs, to supporting documents such as contractors billing invoices, certificates of progress acceptance, official receipts, among others.

For the recognition of cost to obtain a contract, we obtained an understanding of the sales commissions process. For selected contracts, we agreed the basis for calculating the sales commission capitalized and portion recognized in profit or loss, particularly (a) the percentage of commissions due against contracts with sales agents, (b) the total commissionable amount (e.g., net contract price) against the related contract to sell, and, (c) the POC against the POC used in recognizing the related revenue from sale of real estate.

Existence and Completeness of Merchandise Inventories

As at December 31, 2020, the merchandise inventories of the Group amounted to ₱28,352.6 million, representing 11.1% 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.

Audit Response

We obtained an understanding of the Group's inventory process and performed test of controls for selected stores and warehouses. We visited selected warehouses and stores and observed the physical inventory counts. We performed test counts and compared the results to the 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, transfers which were obtained during the inventory count observation to the accounting records of sales and purchases. We reviewed the reconciliations performed by management 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, 2020, 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, 2020 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Julie Christine O. Mateo.

SYCIP GORRES VELAYO & CO.



Julie Christine O. Mateo

Partner

CPA Certificate No. 93542

SEC Accreditation No. 0780-AR-3 (Group A),
August 16, 2018, valid until August 15, 2021

Tax Identification No. 198-819-116

BIR Accreditation No. 08-001998-068-2020,
December 3, 2020, valid until December 2, 2023

PTR No. 8534342, January 4, 2021, Makati City

February 26, 2021

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 28)	₱78,159,197	₱76,213,774
Time deposits (Notes 8 and 28)	31,012	30,488
Financial assets at fair value through other comprehensive income (FVOCI) (Notes 9 and 28)	568,146	659,077
Receivables and contract assets (Notes 10 and 28)	60,526,230	53,617,200
Inventories (Note 11)	72,056,045	77,120,016
Other current assets (Notes 11, 12 and 28)	43,170,378	40,716,425
Total Current Assets	254,511,008	248,356,980
Noncurrent Assets		
Financial assets at FVOCI - net of current portion (Notes 9 and 28)	27,278,240	24,229,560
Investments in associate companies and joint ventures (Note 13)	296,265,722	280,971,638
Time deposits - net of current portion (Notes 8, 28 and 29)	1,356,442	2,412,972
Property and equipment (Note 14)	26,087,448	24,720,873
Investment properties (Note 15)	359,844,525	338,075,303
Right-of-use assets (Note 27)	41,979,029	37,664,176
Land and development - net of current portion (Note 16)	75,622,199	74,946,694
Intangibles (Note 17)	24,588,503	25,289,609
Deferred tax assets (Note 26)	4,671,969	3,121,117
Other noncurrent assets (Notes 17 and 28)	112,318,650	84,375,645
Total Noncurrent Assets	970,012,727	895,807,587
	₱1,224,523,735	₱1,144,164,567
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 18, 22, 28 and 31)	₱24,126,000	₱18,710,465
Accounts payable and other current liabilities (Notes 19 and 28)	149,231,108	141,451,764
Income tax payable	2,649,041	3,273,872
Current portion of long-term debt (Notes 20, 22, 28 and 31)	60,121,438	29,077,719
Dividends payable (Note 28)	3,829,207	4,204,962
Total Current Liabilities	239,956,794	196,718,782
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 20, 22, 28, 29 and 31)	330,731,798	327,358,208
Lease liabilities - net of current portion (Notes 27 and 31)	28,868,164	27,600,392
Deferred tax liabilities (Note 26)	12,614,979	9,604,043
Tenants' deposits and others (Notes 25, 27, 28 and 29)	47,624,102	46,731,664
Total Noncurrent Liabilities	419,839,043	411,294,307
Total Liabilities	659,795,837	608,013,089

(Forward)

	December 31	
	2020	2019
Equity Attributable to Owners of the Parent		
Capital stock (Note 21)	₱12,045,829	₱12,045,829
Additional paid-in capital	75,823,506	75,815,923
Equity adjustments from common control transactions (Note 21)	(5,424,455)	(5,424,455)
Cost of Parent common shares held by subsidiaries	(25,386)	(25,386)
Cumulative translation adjustment	895,922	1,308,228
Net fair value changes on cash flow hedges	(2,741,387)	(1,406,026)
Net unrealized gain on financial assets at FVOCI (Note 9)	16,506,435	14,399,640
Remeasurement loss on defined benefit asset/obligation (Note 25)	(6,066,075)	(8,633,269)
Retained earnings (Note 21):		
Appropriated	37,000,000	37,000,000
Unappropriated	275,818,556	257,546,591
Total Equity Attributable to Owners of the Parent	403,832,945	382,627,075
Non-controlling Interests	160,894,953	153,524,403
Total Equity	564,727,898	536,151,478
	₱1,224,523,735	₱1,144,164,567

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		
	2020	2019	2018
REVENUES			
Sales:			
Merchandise	₱289,726,442	₱354,088,848	₱323,740,170
Real estate	47,023,795	44,499,529	35,967,663
Rent (Notes 15, 22 and 27)	26,904,979	51,573,157	47,555,061
Equity in net earnings of associate companies and joint ventures (Note 13)	17,036,367	26,038,426	19,164,345
Royalty, management and service fees (Note 22)	3,936,537	7,348,479	6,379,831
Cinema ticket sales, amusement and others	1,095,445	7,739,761	7,286,654
Dividend income (Note 22)	430,696	480,513	421,914
Others (Note 9)	8,031,444	10,200,616	9,272,529
	394,185,705	501,969,329	449,788,167
COST AND EXPENSES			
Cost of sales:			
Merchandise (Note 11)	220,245,198	262,434,661	238,902,107
Real estate (Notes 11 and 16)	20,583,982	20,806,612	17,852,270
Selling, general and administrative expenses (Note 23)	95,482,554	113,257,931	106,419,699
	336,311,734	396,499,204	363,174,076
OTHER INCOME (CHARGES)			
Interest expense (Notes 22 and 24)	(18,023,610)	(19,511,745)	(16,574,388)
Interest income (Notes 22 and 24)	2,436,015	3,881,156	3,754,141
Impairment loss on investment (Note 13)	(1,000,000)	(3,987,000)	-
Foreign exchange gain - net and others (Note 28)	129,286	761,962	336,492
	(16,458,309)	(18,855,627)	(12,483,755)
INCOME BEFORE INCOME TAX	41,415,662	86,614,498	74,130,336
PROVISION FOR INCOME TAX (Note 26)			
Current	6,407,055	16,218,229	15,115,326
Deferred	683,565	951,955	460,442
	7,090,620	17,170,184	15,575,768
NET INCOME	₱34,325,042	₱69,444,314	₱58,554,568
Attributable to			
Owners of the Parent (Note 30)	₱23,389,950	₱44,568,244	₱37,078,325
Non-controlling interests	10,935,092	24,876,070	21,476,243
	₱34,325,042	₱69,444,314	₱58,554,568
Basic/Diluted Earnings Per Common Share			
Attributable to Owners of the Parent (Note 30)	₱19.42	₱37.00	₱30.78

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2020	2019	2018
NET INCOME	P34,325,042	P69,444,314	P58,554,568
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified to profit or loss in subsequent periods			
Share in unrealized gain (loss) on financial assets at fair value through other comprehensive income (FVOCI) of associates (Note 13)	2,280,460	4,505,589	(3,502,992)
Cumulative translation adjustment	(322,636)	(1,011,736)	326,536
Net fair value changes on cash flow hedges	(1,556,934)	(1,712,763)	2,589
	400,890	1,781,090	(3,173,867)
Items not to be reclassified to profit or loss in subsequent periods			
Remeasurement gain (loss) on defined benefit obligation (Note 25)	4,108,271	(8,209,190)	(2,080,805)
Net unrealized loss on financial assets at FVOCI	(302,553)	(176,975)	(520,230)
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	(776,519)	553,736	(84,499)
	3,029,199	(7,832,429)	(2,685,534)
TOTAL COMPREHENSIVE INCOME	P37,755,131	P63,392,975	P52,695,167
Attributable to			
Owners of the Parent	P26,317,136	P40,223,919	P31,112,015
Non-controlling interests	11,437,995	23,169,056	21,583,152
	P37,755,131	P63,392,975	P52,695,167

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 and 2018

(Amounts in Thousands Except Per Share Data)

	Equity Attributable to Owners of the Parent											Non-controlling Interests	Total Equity
	Capital Stock	Additional Paid-In Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment	Net Fair Value Changes on Cash Flow Hedges	Net Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)	Remeasurement Loss on Defined Benefit Asset/Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total		
As at January 1, 2020	P12,045,829	P75,815,923	(P5,424,455)	(P25,386)	P1,308,228	(P1,406,026)	P14,399,640	(P8,633,269)	P37,000,000	P257,546,591	P382,627,075	P153,524,403	P536,151,478
Net income	-	-	-	-	-	-	-	-	-	23,389,950	23,389,950	10,935,092	34,325,042
Other comprehensive income	-	-	-	-	(412,306)	(1,335,361)	2,107,659	2,567,194	-	-	2,927,186	502,903	3,430,089
Total comprehensive income	-	-	-	-	(412,306)	(1,335,361)	2,107,659	2,567,194	-	23,389,950	26,317,136	11,437,995	37,755,131
Realized gain on sale of financial assets at FVOCI (Note 9)	-	-	-	-	-	-	(864)	-	-	864	-	-	-
Acquisition of non-controlling interests	-	7,583	-	-	-	-	-	-	-	-	7,583	(7,583)	-
Cash dividends - P4.25 per share (Note 21)	-	-	-	-	-	-	-	-	-	(5,118,849)	(5,118,849)	-	(5,118,849)
Cash dividends received by non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(4,664,320)	(4,664,320)
Increase in previous year's non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	604,458	604,458
As at December 31, 2020	P12,045,829	P75,823,506	(P5,424,455)	(P25,386)	P895,922	(P2,741,387)	P16,506,435	(P6,066,075)	P37,000,000	P275,818,556	P403,832,945	P160,894,953	P564,727,898
As at January 1, 2019	P12,045,829	P75,815,520	(P5,424,455)	(P25,386)	P2,014,573	P62,444	P11,748,980	(P2,063,358)	P37,000,000	P222,213,054	P353,387,201	P138,902,811	P492,290,012
Net income	-	-	-	-	-	-	-	-	-	44,568,244	44,568,244	24,876,070	69,444,314
Other comprehensive income	-	-	-	-	(706,345)	(1,468,470)	4,400,401	(6,569,911)	-	-	(4,344,325)	(1,707,014)	(6,051,339)
Total comprehensive income	-	-	-	-	(706,345)	(1,468,470)	4,400,401	(6,569,911)	-	44,568,244	40,223,919	23,169,056	63,392,975
Realized gain on sale of financial assets at FVOCI (Note 9)	-	-	-	-	-	-	(1,749,741)	-	-	1,749,741	-	-	-
Sale of non-controlling interests	-	403	-	-	-	-	-	-	-	-	403	(81,462)	(81,059)
Cash dividends - P9.12 per share (Note 21)	-	-	-	-	-	-	-	-	-	(10,984,448)	(10,984,448)	-	(10,984,448)
Cash dividends received by non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(9,824,854)	(9,824,854)
Effect of business combination (Note 5)	-	-	-	-	-	-	-	-	-	-	-	1,358,352	1,358,352
Increase in previous year's non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	500	500
As at December 31, 2019	P12,045,829	P75,815,923	(P5,424,455)	(P25,386)	P1,308,228	(P1,406,026)	P14,399,640	(P8,633,269)	P37,000,000	P257,546,591	P382,627,075	P153,524,403	P536,151,478

Equity Attributable to Owners of the Parent

	Capital Stock	Additional Paid-In Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment	Net Fair Value Changes on Cash Flow Hedges	Net Unrealized Gain (Loss) on at Fair Value through Other Comprehensive Income (FVOCI)	Remeasurement Loss on Defined Benefit Asset/ Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2018	₱12,045,829	₱76,439,288	(₱5,424,455)	(₱25,386)	₱1,609,600	(₱206,977)	₱17,027,581	(₱701,255)	₱37,000,000	₱195,012,295	₱332,776,520	₱125,679,489	₱458,456,009
Net income	-	-	-	-	-	-	-	-	-	37,078,325	37,078,325	21,476,243	58,554,568
Other comprehensive income	-	-	-	-	404,973	269,421	(5,278,601)	(1,362,103)	-	-	(5,966,310)	106,909	(5,859,401)
Total comprehensive income	-	-	-	-	404,973	269,421	(5,278,601)	(1,362,103)	-	37,078,325	31,112,015	21,583,152	52,695,167
Sale of treasury shares held by a subsidiary	-	291,088	-	-	-	-	-	-	-	-	291,088	294,120	585,208
Acquisition of non-controlling interests	-	(914,856)	-	-	-	-	-	-	-	-	(914,856)	(857,160)	(1,772,016)
Cash dividends - ₱8.20 per share (Note 21)	-	-	-	-	-	-	-	-	-	(9,877,566)	(9,877,566)	-	(9,877,566)
Cash dividends received by non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(7,844,484)	(7,844,484)
Increase in previous year's non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	47,694	47,694
As at December 31, 2018	₱12,045,829	₱75,815,520	(₱5,424,455)	(₱25,386)	₱2,014,573	₱62,444	₱11,748,980	(₱2,063,358)	₱37,000,000	₱222,213,054	₱353,387,201	₱138,902,811	₱492,290,012

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱41,415,662	₱86,614,498	₱74,130,336
Adjustments for:			
Depreciation and amortization (Notes 14, 15, 17, 23 and 27)	18,763,579	19,370,843	15,161,207
Interest expense (Note 24)	18,023,610	19,511,745	16,574,388
Equity in net earnings of associate companies and joint ventures (Note 13)	(17,036,367)	(26,038,426)	(19,164,345)
Interest income (Note 24)	(2,436,015)	(3,881,156)	(3,754,141)
Provisions - net (Notes 10 and 23)	1,620,414	2,609,386	2,207,458
Impairment loss on investment (Note 13)	1,000,000	3,987,000	-
Dividend income (Note 22)	(430,696)	(480,513)	(421,914)
Gain on sale of financial assets at fair value through profit or loss (FVPL) - net	-	(27,812)	(1,337)
Unrealized foreign exchange (gain) loss - net and others	(99,106)	20,175	483,031
Income before working capital changes	60,821,081	101,685,740	85,214,683
Decrease (increase) in:			
Receivables and contract assets	(6,930,842)	(2,848,713)	(1,437,678)
Merchandise inventories and condominium and residential units for sale	6,710,642	4,852,187	414,383
Other current assets	(2,313,171)	(8,187,276)	1,063,229
Land and development	(24,758,582)	(27,669,751)	(37,802,279)
Increase (decrease) in:			
Accounts payable and other current liabilities	6,514,310	17,521,787	15,835,135
Tenants' deposits and others	(397,461)	(2,498,565)	10,571,079
Net cash generated from operations	39,645,977	82,855,409	73,858,552
Income tax paid	(7,035,228)	(16,576,112)	(13,356,939)
Net cash provided by operating activities	32,610,749	66,279,297	60,501,613
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Property and equipment	58,896	343,228	203,564
Investment properties	3,197	117,429	105,524
Financial assets at fair value through other comprehensive income (FVOCI) and FVPL	-	3,814,634	771,361
Additions to:			
Investment properties (Note 15)	(31,796,149)	(36,902,404)	(27,554,245)
Property and equipment (Note 14)	(6,096,154)	(7,446,414)	(6,452,489)
Financial assets at FVOCI and FVPL	(3,124,660)	(3,261,682)	(2,463,985)
Investments in associate companies and joint ventures (Note 13)	(390,350)	(5,330,780)	(3,849,756)
Decrease (increase) in:			
Other noncurrent assets	(11,145,362)	(1,543,199)	(28,224,945)
Time deposits	1,056,006	25,111,241	12,913,443
Dividends received	4,751,956	5,558,665	4,945,350
Interest received	2,439,829	4,048,370	3,827,116
Cash from acquisition of subsidiaries, net of purchase consideration	-	327,140	-
Net cash used in investing activities	(44,242,791)	(15,163,772)	(45,779,062)

(Forward)

	Years Ended December 31		
	2020	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Bank loans (Note 31)	₱82,880,520	₱25,266,865	₱32,199,317
Long-term debt (Note 31)	75,253,912	52,895,468	70,787,135
Payments of:			
Bank loans (Note 31)	(77,464,985)	(21,376,865)	(37,256,817)
Long-term debt (Note 31)	(36,158,696)	(64,799,259)	(40,292,241)
Interest (Note 31)	(17,142,063)	(22,606,473)	(18,043,821)
Dividends (Note 31)	(10,158,925)	(20,510,816)	(17,674,115)
Lease liabilities (Notes 27 and 31)	(3,838,044)	(2,854,295)	-
Proceeds from maturity of derivatives	-	395,722	-
Reissuance by a subsidiary of treasury shares	-	-	585,207
Net cash provided by (used in) financing activities	13,371,719	(53,589,653)	(9,695,335)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,739,677	(2,474,128)	5,027,216
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	205,746	(625,313)	(32,191)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)	76,213,774	79,313,215	74,318,190
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	₱78,159,197	₱76,213,774	₱79,313,215

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

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 26, 2021.

2. Basis of Preparation and Statement of ComplianceBasis 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) and liabilities which are measured at fair value. The consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency under Philippine Financial Reporting Standards (PFRSs). All values are rounded to the nearest thousand Peso except when otherwise indicated.

The accompanying consolidated financial statements have been prepared under the going concern assumption. The Group believes that its businesses would remain relevant despite challenges posed by the COVID-19 pandemic. Despite the adverse impact of the COVID-19 pandemic on short-term business results, long-term prospects remain attractive.

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with PFRS, which include the availment of reliefs granted by the SEC under Memorandum Circular No. 14, Series of 2018 and Memorandum Circular No. 3, Series of 2019, to defer the implementation of the following accounting pronouncements until December 31, 2020. These accounting pronouncements address the issues of PFRS 15, *Revenue from Contracts with Customers*, affecting the real estate industry.

- *Deferral of the following provisions of Philippine Interpretations Committee (PIC) Q&A 2018-12, PFRS 15 Implementation Issues Affecting the Real Estate Industry*
 - a. Assessing if the transaction price includes a significant financing component (as amended by PIC Q&A 2020-04);
 - b. Treatment of land in the determination of percentage-of-completion (POC);

- c. Treatment of uninstalled materials in the determination of POC (as amended by PIC Q&A 2020-02); and,
 - d. Accounting for Common Usage Service Area (CUSA) charges.
- *Deferral of the adoption of PIC Q&A 2018-14: Accounting for Cancellation of Real Estate Sales (as amended by PIC Q&A 2020-05)*

The Group also availed of the relief provided by SEC Memorandum Circular No. 4, Series of 2020, deferring the adoption of *IFRIC Agenda Decision on Over Time Transfers of Constructed Goods under PAS 23, Borrowing Cost*, (the IFRIC Agenda Decision on Borrowing Cost) until December 31, 2020.

In December 2020, the SEC issued Memorandum Circular No. 34, Series of 2020, allowing the further deferral of the adoption of provisions (a) and (b) above of *PIC Q&A 2018-12* and the IFRIC Agenda Decision on Borrowing Cost, for another other three (3) years or until December 31, 2023.

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:

Company	Principal Activities	Percentage of Ownership			
		2020		2019	
		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.	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
Affluent Capital Enterprises Limited and Subsidiaries (Affluent) *[British Virgin Islands (BVI)]	Real estate development	–	–	–	100
Mega Make Enterprises Limited and Subsidiaries *[BVI]	Real estate development	–	–	–	100
Springfield Global Enterprises Limited *[BVI]	Real estate development	–	100	–	100
Simply Prestige Limited and Subsidiaries *[BVI]	Real estate development	–	100	–	100
SM Land (China) Limited and Subsidiaries * [Hong Kong]	Real estate development	–	100	–	100
Rushmore Holdings, Inc.	Real estate development	–	100	–	100
Prime Commercial Property Management Corp. and Subsidiaries	Real estate development	–	100	–	100
Mindpro, Incorporated (Mindpro)	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	–	–
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) (see Note 5)	Real estate development	63	–	63	–

(Forward)

Company	Principal Activities	Percentage of Ownership			
		2020		2019	
		Direct	Indirect	Direct	Indirect
Retail					
SM Retail Inc. (SM Retail) and Subsidiaries	Retail	77	-	77	-
Others					
Primebridge Holdings, Inc.	Investment	100	-	100	-
Multi-Realty Development Corporation	Investment	91	-	91	-
Henfels Investments Corporation	Investment	99	-	99	-
Belleshares Holdings, Inc. and Subsidiaries	Investment	99	-	99	-
Digital Advantage Corp.	Investment	94	-	-	-
Neo Property Management Incorporated	Investment	-	-	100	-

The principal place of business and country of incorporation of the subsidiaries listed above is in the Philippines except for those marked * and as indicated after the company name.

(a) Neo Subsidiaries include N-Plaza BGC Land, Inc., N-Plaza BGC Properties, Inc., N-Quad BGC Land, Inc., N-Quad BGC Properties, Inc., N-Square BGC Land, Inc., N-Square BGC Properties, Inc., N-Cube BGC Land, Inc., N-Cube BGC Properties, Inc., N-One BGC Land, Inc. and N-One BGC Properties, Inc.

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, 2020 and 2019.

The summarized financial information of SM Prime follows:

Financial Position

	December 31	
	2020	2019
	<i>(In Thousands)</i>	
Current assets	P157,074,976	P152,327,608
Noncurrent assets	565,283,949	514,952,066
Total assets	722,358,925	667,279,674
Current liabilities	135,987,903	95,256,780
Noncurrent liabilities	275,653,394	269,506,620
Total liabilities	411,641,297	364,763,400
Total equity	P310,717,628	P302,516,274
Attributable to:		
Owners of the Parent	P309,284,067	P300,916,171
Non-controlling interests	1,433,561	1,600,103
	P310,717,628	P302,516,274

Statements of Income

	Years Ended December 31		
	2020	2019	2018
	<i>(In Thousands)</i>		
Revenues	P81,899,298	P118,311,490	P104,080,565
Costs and expenses	52,825,112	61,619,162	55,753,334
Other charges	6,610,445	7,530,334	6,361,056
Income before income tax	22,463,741	49,161,994	41,966,175
Provision for income tax	4,324,004	10,373,321	9,055,046
Net income	18,139,737	38,788,673	32,911,129
Other comprehensive loss	(4,311,847)	(30,088)	(6,125,029)
Total comprehensive income	P13,827,890	P38,758,585	P26,786,100
Attributable to:			
Owners of the Parent	P18,006,512	P38,085,601	P32,172,886
Non-controlling interests	133,225	703,072	738,243
Net income	P18,139,737	P38,788,673	P32,911,129
Attributable to:			
Owners of the Parent	P13,688,396	P38,058,471	P26,050,908
Non-controlling interests	139,494	700,114	735,192
Total comprehensive income	P13,827,890	P38,758,585	P26,786,100
Dividends paid to non-controlling interests	(P288,100)	(P633,700)	(P576,200)

Cash Flows

	Years Ended December 31		
	2020	2019	2018
	<i>(In Thousands)</i>		
Net cash provided by operating activities	P17,190,284	P51,727,582	P45,964,414
Net cash used in investing activities	(43,943,981)	(48,615,244)	(64,078,056)
Net cash provided by (used in) financing activities	22,817,505	(7,310,020)	12,633,352
Effect of exchange rate changes on cash and cash equivalents	(2,153)	31,174	(124,777)
Net decrease in cash and cash equivalents	(P3,938,345)	(P4,166,508)	(P5,605,067)

3. Summary of Significant Accounting Policies, Changes and Improvements

The significant accounting policies adopted in the preparation of the consolidated financial statements are summarized below.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of change in value.

Time Deposits

Time deposits (shown under current assets) are cash placements with original maturities of more than three months but less than one year. Time deposits with maturities of more than twelve months after the reporting period are presented under noncurrent assets.

Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or,
- in the most advantageous market for the asset or liability, in the absence of a principal market.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their best economic interest.

The fair value measurement of a nonfinancial asset takes into account the market participant's ability to generate economic benefits by using and/or selling the asset to another market participant in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Assets and liabilities for which fair value is measured based on the lowest level input that is significant to the fair value measurement as a whole and disclosed in the consolidated financial statements based on the fair value hierarchy described below:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and,
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

The Group determines the policies and procedures for both recurring and non-recurring fair value measurements. For the purpose of fair value disclosures, the Group has assessed the class of assets and liabilities on the basis of the nature, characteristics and risks of the subject asset or liability.

The Group recognizes transfers into and transfers out of fair value hierarchy levels by re-assessing categorization based on the lowest level input that is significant to the fair value measurement as a whole, as at the date of the event or change in circumstances that caused the transfer.

“Day 1” Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group recognizes the difference between the transaction price and fair value (a “Day 1” difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data that is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the amount of “Day 1” difference.

Financial Instruments

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 market place are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent Measurement

Subsequent to initial recognition, the Group classifies its financial assets in the following categories:

- Amortized cost
- FVPL
- FVOCI
 - with recycling of cumulative gains and losses (debt instruments)
 - with no recycling of cumulative gains and losses upon derecognition (equity instruments)

Financial Assets at Amortized Cost (Debt Instruments)

The Group measures financial assets at amortized cost when:

- The financial asset is held within a business model with the objective to hold these and collect contractual cash flows; and,
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are SPPI.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include cash and cash equivalents, time deposits, receivables (including noncurrent portion of receivables from real estate buyers), advances and other receivables (included under "Other current assets" account) and long-term notes (included under "Other noncurrent assets" account).

Financial Assets at FVPL

Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL and financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives, are classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not SPPI are classified and measured at FVPL, irrespective of the business model.

Financial assets at FVPL are measured at fair value. Changes in fair values are recognized in profit or loss.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative when:

- The economic characteristics and risks are not closely related to the host;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and,
- The hybrid contract is not measured at FVPL.

Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required, or a reclassification of a financial asset out of the FVPL category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at FVPL.

Financial Assets at FVOCI (Debt Instruments)

The Group measures debt instruments at FVOCI when:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and,
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are SPPI.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of income and computed in the same manner as financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change is recycled to profit or loss.

As at December 31, 2020 and 2019, the Group does not have any debt instrument measured at FVOCI.

Financial Assets Designated at FVOCI (Equity Instruments)

Upon initial recognition, the Group can elect to irrevocably classify its equity investments as equity instruments designated at FVOCI when these meet the definition of equity under Philippine Accounting Standard (PAS) 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined at instrument level.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as income in the consolidated statement of income when the right of payment is established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group's equity instruments at FVOCI include investments in shares of stock and club shares (included under "Financial assets" account).

Derecognition

A financial asset, part of a financial asset or part of a group of similar financial assets, is primarily derecognized when:

- The right to receive cash flows from the asset has expired; or,
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or, (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates the extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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 its 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 ECL measurement purposes, unless the new financial asset is deemed to be originated as credit impaired.

Impairment

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

To calculate ECLs, the Group uses the provision matrix for rent and other receivables, vintage approach for receivables from sale 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 is 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 before taking into account any credit enhancements held by the Group.

For debt instruments at FVOCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. The Group considers there to be a significant increase in credit risk when contractual payments become past due.

Financial Liabilities

Initial Recognition and Measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge.

Financial liabilities are recognized initially at fair value and in the case of loans and borrowings and payables, net of directly attributable costs.

The Group's financial liabilities include bank loans, accounts payable and other current liabilities (excluding payable to government agencies), dividends payable, long-term debt, lease liabilities and tenants' deposits and others.

Subsequent Measurement

Loans and Borrowings

Interest-bearing loans and borrowings and other payables are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as interest expense in the consolidated statement of income.

Financial Liabilities at FVPL

Financial liabilities at FVPL include those held for trading as well as derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless these are designated as effective hedging instruments. Gains and losses on liabilities held for trading are recognized in the consolidated statement of income.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of income.

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 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 “Cumulative translation adjustment” account.

The amounts accumulated in OCI are accounted for depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which hedged cash flows affect profit or loss.

If hedge accounting is discontinued, the amount accumulated in OCI shall remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount shall be reclassified to profit or loss as a reclassification adjustment. When the hedged cash flow occurs, any amount remaining in accumulated OCI shall be accounted for depending on the nature of the underlying transaction.

Merchandise Inventories

Merchandise inventories are valued at the lower of cost or net realizable value. Cost, which includes all costs directly attributable to acquisition, such as purchase price and transport costs, is primarily determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Current Portion of Land and Development and Condominium and Residential Units for Sale

Current portion of land and development and condominium and residential units for sale are stated at the lower of cost or net realizable value. Cost includes those costs incurred for development and improvement of the properties. Net realizable value is the selling price in the ordinary course of business less costs to complete and the estimated cost to make the sale. Current portion of land and development and condominium and residential units for sale include properties that are constructed for sale in the ordinary course of business, rather than for rental or capital appreciation.

Cost incurred for the development and improvement of the properties includes the following:

- land cost;
- amounts paid to contractors for construction and development; and,
- costs of borrowing, planning and design, and site preparation, as well as professional fees, property transfer taxes, construction overhead and others.

Investments in Associate Companies and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in associate companies and joint ventures are accounted for under the equity method of accounting. Under the equity method, investments in associate companies and joint ventures are carried at cost plus post-acquisition changes in the Group's share in net assets of the associate or joint venture.

On acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's or joint venture's identifiable assets, liabilities and contingent liabilities is accounted for as follows:

- Goodwill relating to an associate or joint venture is included in the carrying amount of the investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the Group's share in the associate's or joint venture's profits or losses; and,
- Any excess of the Group's share in the net fair value of the associate's and joint venture's identifiable assets, liabilities and contingent liabilities over the cost of the investment is included as income in the determination of the investor's share of the associate's or joint venture's profit or loss in the period in which the investment is acquired.

The consolidated statement of income reflects the share in the results of operations of the associate or joint venture. Where there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share in any changes and discloses this in the consolidated statement of comprehensive income. Profits and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's interest in the associate or joint venture.

Appropriate adjustments to the investor's share of the associate's or joint venture's profit or loss after acquisition are made to account for the depreciation of the depreciable assets based on their fair values at the acquisition date and for impairment losses recognized by the associate or joint venture, such as for goodwill or property, plant and equipment.

After application of the equity method, the Group determines whether it is necessary to recognize any impairment loss with respect to the Group's net investment in the associate companies and joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate companies and joint ventures is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the investment's recoverable amount and carrying value and recognizes the impairment loss in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate companies and joint ventures upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Property and Equipment

Property and equipment, except land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs necessary in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation and interest incurred during the construction period.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets, namely:

Buildings and improvements	5–25 years
Store equipment and improvements	5–10 years
Data processing equipment	5–8 years
Furniture, fixtures and office equipment	3–10 years
Machinery and equipment	5–10 years
Leasehold improvements	5–10 years or term of the lease, whichever is shorter
Transportation equipment	5–15 years

The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period. The carrying value of the assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Fully depreciated assets are retained in the accounts until these are no longer in use and no further depreciation and amortization is credited or charged to current operations.

When any property and equipment is retired or otherwise disposed of, the cost and related accumulated depreciation and amortization and accumulated provision for impairment loss is removed from the accounts and any resulting gain or loss is charged to profit or loss.

Investment Properties

This account consists of investment properties and the noncurrent portion of land and development. Investment properties include property held to earn rentals and for capital appreciation. Investment properties, except land, are measured at cost, less accumulated depreciation and amortization and accumulated impairment in value. Land is stated at cost less any impairment in value.

Expenditures incurred after the investment property has been put in operation such as repairs and maintenance costs are charged to profit or loss.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets, namely:

Land improvements	3–10 years
Buildings and improvements	10–40 years
Building equipment, furniture and others	3–15 years
Building and leasehold improvements	5 years or term of the lease, whichever is shorter

The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period.

Investment property is derecognized when disposed or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are charged to profit or loss.

Transfers are made to (from) investment property when there is a change in use evidenced by ending (commencement) of owner-occupation, or, commencement of lease to another party (commencement of development with a view to sell).

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Construction in Progress

Construction in progress under property and equipment and investment property represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Cost also includes interest on borrowed funds incurred during the construction period. Construction in progress is not depreciated.

Tenants' Deposits

Tenants' deposits are measured at amortized cost. Tenants' deposits refer to security deposits received from various tenants upon inception of the respective lease contracts on the Group's investment properties. At the termination of the lease contracts, the deposits received by the Group are returned to tenants, reduced by unpaid rental fees, penalties and/or deductions from repairs of damaged leased properties, if any. The related lease contracts usually have a term of more than twelve months.

Property Acquisitions, Business Combinations and Acquisitions of Non-controlling Interests

Property Acquisitions and Business Combinations. When property is acquired through corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents an acquisition of a business.

When such an acquisition is not judged to be an acquisition of a business, it is not treated as a business combination. Rather, the cost to acquire the entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at acquisition date. Accordingly, no goodwill or additional deferred tax arises.

Business combinations are accounted for using the acquisition method except for business combinations under common control in which an accounting similar to pooling of interest method is used. Business combinations under common control are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed and included in "Selling, general and administrative expenses" account in the consolidated statement of income.

For accounting similar to pooling of interest method, the assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur, and for any comparative periods presented, are included in the consolidated financial statements of the Group at their carrying amounts as if the combinations occurred from the date when the acquired companies

first became under the control of the Group. The excess of the cost of business combinations over the net carrying amounts of the assets and liabilities of the acquired companies is recognized under “Equity adjustments from common control transactions” account in the equity section of the consolidated balance sheet.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, *Financial Instruments*, is measured at fair value with the changes in fair value recognized in the statement of income in accordance with PFRS 9. Other contingent considerations that are not within the scope of PFRS 9 are measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Acquisitions of Non-controlling Interests. Changes in the Parent Company’s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e., transactions with owners in their capacity as owners). In such circumstances, the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid shall be recognized directly in equity.

Goodwill

Initial Measurement of Goodwill or Gain on a Bargain Purchase. Goodwill is initially measured by the Group at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as gain on a bargain purchase.

Subsequent Measurement of Goodwill. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment Testing of Goodwill. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash generating units (CGU), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and,
- is not larger than an operating segment as defined in PFRS 8, *Operating Segments*, before aggregation.

Frequency of Impairment Testing. Irrespective of whether there is any indication of impairment, the Group tests goodwill acquired in a business combination for impairment at least annually.

Allocation of Impairment Loss. An impairment loss is recognized for a CGU if the recoverable amount of the unit or group of units is less than the carrying amount of the unit or group of units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit or group of units first to reduce the carrying amount of goodwill allocated to the CGU or group of units and then to the other assets of the unit or group of units pro rata on the basis of the carrying amount of each asset in the unit or group of units.

Measurement Period. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. The measurement period ends as soon as the Group receives the information it was seeking as of the acquisition date or learns that more information is not obtainable. The measurement period shall not exceed one year from the acquisition date.

Intangible Assets

The cost of trademarks and brand names acquired in a business combination is the fair value as at the date of acquisition. The useful life of trademarks and brand names is assessed based on an analysis of all relevant factors. If there is no foreseeable limit to the period over which the asset is expected to generate cash inflows for the Group, the trademark / brand name is considered to be indefinite.

Trademarks and brand names with indefinite useful lives are not amortized but are tested for impairment annually either individually or at the CGU level. The useful life of an intangible asset is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset at the date of disposal and are recognized in profit or loss.

Land Use Rights

Land use rights which is included under "Other noncurrent assets" is amortized over its useful life of 40–60 years.

Impairment of Nonfinancial Assets

The carrying value of nonfinancial assets (property and equipment, investment properties, 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.

Capital Stock and Additional Paid-in Capital

Capital stock is stated at par value of the share. Proceeds and/or fair value of considerations received in excess of par value, if any, is recognized as additional paid-in capital. Incremental costs directly attributable to the issuance of new shares is deducted from the proceeds, net of tax.

Revenue and Cost Recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Group has concluded that it is acting as principal in majority of its revenue arrangements. The following specific recognition criteria, other than those disclosed in Note 2 to the consolidated financial statements, shall be met before revenue is recognized:

Sale of Merchandise Inventories. Revenue from sale of goods is recognized when the transfer of control has been passed to the buyer at the time when the performance obligation has been satisfied. The performance obligation is generally satisfied when the customer purchases the goods. Payment of the transaction price is due immediately at the point the customer purchases the goods.

Revenue and Cost from Sale of Real Estate. The Group derives its real estate revenue from the sale of lots, house and lot and condominium units. Revenue from the sale of these real estate under pre-completion stage 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 sale of real estate, under trade receivables, is accounted for as unbilled revenue from sale of real estate.

Any excess of collections over the total of recognized installment real estate receivables is included in contract liabilities.

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 sale of real estate. This is the right to consideration that is conditional in exchange for goods or services transferred to the customer. The capitalized amount is reclassified to trade receivable from real estate buyers when the periodic amortization of the customer becomes due for collection.

Contract Liabilities. Contract liabilities pertain to unearned revenue from sale of real estate. This is the obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. These also include customers' deposits related to sale of real estate. These are recognized as revenue when the Group performs the pertinent obligations under the contract.

Costs to Obtain a Contract. The costs of obtaining a contract with a customer are recognized as an asset if the Group expects recovery of these costs. The accrual of commissions paid to brokers and marketing agents on the sale of pre-completed real estate units is likewise capitalized when recovery is reasonably expected and is charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the "Costs and expenses" account in the consolidated statement of income. Costs incurred prior to obtaining a contract with a customer are expensed as these are incurred.

Contract Fulfillment Assets. Contract fulfillment costs are divided into (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred. When determining the appropriate accounting treatment for such costs, the Group considers any other applicable standards. If those standards preclude capitalization of a particular cost, then an asset is not recognized under PFRS 15.

If other standards are not applicable to contract fulfillment costs, the Group applies the following criteria which if met, result in capitalization (i) costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) costs are expected to be recovered. The assessment of this criteria requires the application of judgement particularly in determining whether costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.

The Group's contract fulfillment assets mainly pertain to land acquisition costs (included under condominium and residential units for sale and current portion of land and development).

Amortization, Derecognition and Impairment of Contract Fulfillment Assets and Capitalized Costs to Obtain a Contract. The Group amortizes contract fulfillment assets and costs capitalized to obtain a

contract to cost of sales over the expected construction period using POC following the pattern of real estate revenue recognition. The amortization is included in cost of real estate sold account in the consolidated statement of income.

A contract fulfillment asset or costs capitalized to obtain a contract is derecognized when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

At each reporting date, the Group determines whether there is an indication that a contract fulfillment asset may be impaired. If such indication exists, the Group makes an estimate by comparing the carrying amount of the asset to the remaining amount of consideration that the Group expects to receive less those costs that relate to providing services under the contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price is removed when testing for impairment.

In case the relevant costs demonstrate indicators of impairment, judgment is required in ascertaining the future economic benefits from these contracts as sufficient to recover the relevant assets.

Rent. Revenue is recognized on a straight-line basis over the lease term or based on the terms of the lease as applicable. Contingent rent is recognized as revenue in the period in which it is earned.

Sale of Cinema and Amusement Tickets. Revenue is recognized upon receipt of cash from the customers which coincides with the rendering of services.

Gain on Sale of Investments in Associate Companies and Joint Ventures and Financial Assets. Revenue is recognized upon delivery of the securities to and confirmation of the sale by the broker.

Dividends. Revenue is recognized when the Group's right as a shareholder to receive payment is established.

Royalty, Management and Service Fees. Revenue and/or expense is recognized when earned and/or incurred, in accordance with the terms of the agreements.

Interest. Revenue is recognized when interest accrues, taking into account the effective yield.

Selling, General, Administrative and Other Expenses. Costs and expenses are recognized as incurred.

Pension Benefits

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting the net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- service cost;
- net interest on the net defined benefit liability or asset; and,
- remeasurements of net defined benefit liability or asset.

Service cost which includes current service costs, past service costs and gains or losses on non-routine settlements, is recognized as expense. Past service cost is recognized on the earlier of the date of the plan amendment or curtailment, or the date when restructuring-related cost is recognized.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of income.

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 liability) are recognized immediately in OCI in the period in which these 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. Plan assets are not available to the creditors of the Group, nor can these be paid directly to the Group. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if these have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Foreign Currency-denominated Transactions

Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange as at reporting date. Nonmonetary items denominated in foreign currency are translated using the exchange rate as at the date of initial recognition. All differences are recognized in profit or loss.

Foreign Currency Translation

The assets and liabilities of foreign operations are translated into Philippine peso at the rate of exchange as at reporting date and their respective statements of income are translated at the weighted average rate for the year. The exchange differences arising from the translation are included in the consolidated statement of comprehensive income and are presented within the "Cumulative translation adjustment" account in the consolidated statement of changes in equity. On disposal of a foreign subsidiary, the deferred cumulative amount of exchange differences recognized in equity relating to that particular foreign operation is recognized in profit or loss.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rent is recognized as revenue in the period it is earned.

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 e.g., addition or termination of the right to use one or more underlying assets, or the extension or shortening of the contractual lease term.

In case of a lease modification, the lessor shall account for any such modification by recognizing 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. In case of change in lease payments for an operating lease that does not meet the definition of a lease modification, the lessor shall account for any such change as a negative variable lease payment and recognize lower lease income.

Effective beginning on or after January 1, 2019

Group as Lessee. The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and ROU assets representing the right to use the underlying asset.

- *ROU Assets.* The Group recognizes ROU assets at the commencement date of the lease. ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimates of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, except when those costs are incurred to produce inventories. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. ROU assets are subject to impairment.
- *Lease Liabilities.* At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised and payments of penalties for terminating a lease, if the lease term reflects the exercise of an option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate (IBR) at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- *Short-term Leases and Leases of Low-value Assets.* The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have lease terms of 12 months or less from the commencement date and those that do not contain a purchase option). It also applies the lease of low-value assets recognition exemption. These leases are recognized as expense on a straight-line basis over the lease term.

Effective before January 1, 2019

Group as Lessee. Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the consolidated statement of income.

Capitalized lease assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

Borrowing Cost

Borrowing cost is capitalized as part of the cost of the asset if it is directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing cost commences when the activities to prepare the asset are in progress and expenditures and borrowing cost are incurred. Borrowing cost is capitalized until the assets are substantially ready for their intended use. Borrowing cost is capitalized when it is probable that it will result in future economic benefits to the Group. All other borrowing costs are expensed as incurred. For borrowing associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowings is used.

Taxes

Current Income Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the tax amounts are those that are enacted or substantively enacted as at the end of the reporting period.

Deferred Income Tax. Deferred income tax is set up based on the liability method and considering the temporary differences between the tax base of assets and liabilities and the corresponding carrying amounts at each reporting period.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of excess MCIT over RCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures wherein deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that the future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at reporting date.

Income tax relating to items recognized directly in the consolidated statement of comprehensive income is recognized in the consolidated statement of comprehensive income and not in the consolidated statement of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and/or the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added Tax (VAT). 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.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events after the Reporting Period

Post yearend events that provide additional information about the Group's financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post yearend events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous year except for the adoption of the following new standards, amendments to standards and improvements, starting January 1, 2020. Unless otherwise indicated, the adoption did not have any significant impact on the consolidated financial statements.

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*

The amendments to PFRS 3 clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output; that a business can exist without including all of the inputs and processes needed to create outputs.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*

The amendments to PFRS 9 provide a number of reliefs which apply to all hedging relationships that are directly affected by the interest rate benchmark reform in case the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments provide a new definition of "material" that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- Amendments to PFRS 16, *COVID-19-Related Rent Concessions*

The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

Group as Lessee. The Group adopted the amendments beginning January 1, 2020. Adoption of these amendments for rent concessions on certain land, retail stores, office spaces and warehouses has no significant impact for the year ended December 31, 2020.

Group as Lessor. Throughout the government-imposed community quarantine, the Group waived rentals and other charges amounting to ₱18,779.9 million which significantly reduced rental income, and offered deferral of payments to certain tenants. Such rental waivers and deferrals are not accounted as a lease modification under PFRS 16 since COVID-19 is a force majeure under the general law.

- *Adoption of PIC Q&A 2020-03, Q&A No. 2018-12-D: STEP 3 - On the Accounting of the Difference When the Percentage of Completion is Ahead of the Buyer's Payment.* PIC Q&A 2020-03 issued by the PIC on September 30, 2020, aims to provide an additional option to present the difference between the POC and the buyer's payment, with the POC being ahead, as receivables. This PIC Q&A is consistent with the PIC guidance issued to the real estate industry in September 2019.

Future Changes in Accounting Policies

The following are the new standards, amendments to standards and improvements that were issued but are not yet effective as at December 31, 2020. Unless otherwise indicated, the Group does not expect the future adoption of these new standards, amendments to standards and improvements to have a significant impact on the consolidated financial statements. The Group intends to adopt the applicable standards, amendments to standards and improvements when these become effective.

Effective beginning on or after January 1, 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform.
- Relief from discontinuing hedging relationships.
- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The following information shall also be disclosed:

- Nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
- Progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

The amendments are effective for annual reporting periods beginning on or after January 1, 2021, with retroactive application and without restatement of prior period financial statements.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 21, *Leases*, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with retroactive application.

- Amendments to PAS 16 , *Plant and Equipment: Proceeds before Intended Use*

The amendments prohibit the deduction from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Such proceeds shall be recognized in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with retroactive modification for items of property, plant and equipment made available for use on or after the beginning of the earliest period presented at the time of adoption.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period at the time of first adoption.

- *Annual Improvements to PFRSs 2018-2020 Cycle*

- Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

- Amendments to PFRS 9, *Financial Instruments, Fees in the ‘10 per cent’ test for derecognition of financial liabilities*

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

Effective beginning on or after January 1, 2023

- 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 for annual reporting periods beginning on or after January 1, 2023 and shall be applied retrospectively. The Group is assessing the impact of these amendments.

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when 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.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

- Deferral of Certain Provisions of PIC Q&A 2018-12, *PFRS 15 Implementation Issues Affecting the Real Estate Industry (as amended by PIC Q&As 2020-02 and 2020-04)*. On February 14, 2018, the PIC issued PIC Q&A 2018-12 (PIC Q&A) which provides guidance on some implementation issues of PFRS 15 affecting real estate industry. On October 25, 2018 and February 8, 2019, the Philippine SEC issued SEC Memorandum Circular No. 14, Series of 2018, and SEC Memorandum Circular No. 3, Series of 2019, respectively, providing relief to the real estate industry by deferring the application of the following provisions of the above PIC Q&A for a period of 3 years until December 31, 2020. On December 15, 2020, the Philippine SEC issued SEC Memorandum Circular No. 34, Series of 2020, which further extended the deferral of certain provisions of this PIC Q&A until December 31, 2023. A summary of the PIC Q&A provisions covered by the SEC deferral follows:

	Deferral Period
a. Assessing if the transaction price includes a significant financing component as discussed in PIC Q&A 2018-12-D (as amended by PIC Q&A 2020-04)	Until December 31, 2023
b. Treatment of land in the determination of the POC discussed in PIC Q&A 2018-12-E	Until December 31, 2023
c. Treatment of uninstalled materials in the determination of the POC discussed in PIC Q&A 2018-12-E (as amended by PIC Q&A 2020-02)	Until December 31, 2020
d. Accounting for CUSA Charges discussed in PIC Q&A No. 2018-12-H	Until December 31, 2020

In November 2020, the PIC issued the following Q&As which provide additional guidance on the real estate industry issues covered by the above SEC deferrals:

- PIC Q&A 2020-04 on determining whether the transaction price includes a significant financing component.
- PIC Q&A 2020-02 on determining which uninstalled materials should not be included in calculating the POC.

After the deferral period, real estate companies would have to adopt PIC Q&A No. 2018-12 and any subsequent amendments thereto retrospectively or as the SEC shall later prescribe.

The Group availed of the option to defer adoption of the above specific provisions except for land exclusion in the determination of POC. Had these provisions been adopted, it would have impacted retained earnings, revenue from real estate sales, cost of real estate sold, other income and real estate inventories.

- *IFRIC Agenda Decision on Over Time Transfer of Constructed Good (PAS 23, Borrowing Costs).* In March 2019, IFRIC published an Agenda Decision on whether borrowing costs can be capitalized on real estate inventories that are under construction and for which the related revenue is recognized over time under paragraph 35(c) of IFRS 15 (PFRS 15). IFRIC concluded that borrowing costs cannot be capitalized for such real estate inventories as they do not meet the definition of a qualifying asset under PAS 23, *Borrowing Costs*, considering that these inventories are ready for their intended sale in their current condition.

On February 11, 2020, the Philippine SEC issued Memorandum Circular No. 4, Series of 2020, providing relief to the real estate industry by deferring the mandatory implementation of the above IFRIC Agenda Decision until December 31, 2020. Further, on December 15, 2020, the Philippine SEC issued SEC MC No. 34, Series of 2020, which extends the relief on the application of the IFRIC Agenda Decision provided to the real estate industry until December 31, 2023. Effective January 1, 2024, the real estate industry will adopt the IFRIC Agenda Decision and any subsequent amendments thereto retrospectively or as the SEC will later prescribe. A real estate company may opt not to avail of the deferral and instead comply in full with the requirements of the IFRIC Agenda Decision.

The Group opted to avail of the relief as provided by the SEC. The adoption of the IFRIC Agenda Decision is not expected to have significant impact on the consolidated financial statements.

- *Deferral of PIC Q&A 2018-14, Accounting for Cancellation of Real Estate Sales (as amended by PIC Q&A 2020-05).* On June 27, 2018, PIC Q&A 2018-14 was issued providing guidance on accounting for cancellation of real estate sales. Under SEC Memorandum Circular No. 3, Series of 2019, the adoption of PIC Q&A No. 2018-14 was deferred until December 31, 2020. After the deferral period, real estate companies will adopt PIC Q&A No. 2018-14 and any subsequent amendments thereto retrospectively or as the SEC shall later prescribe.

On November 11, 2020, PIC Q&A 2020-05 was issued which supersedes PIC Q&A 2018-14. This PIC Q&A adds a new approach where the cancellation is accounted for as a modification of the contract (i.e., from non-cancellable to being cancellable). Under this approach, revenues and related costs previously recognized shall be reversed in the period of cancellation and the inventory shall be reinstated at cost. PIC Q&A 2020-05 shall have to be applied prospectively from approval date of the Financial Reporting Standards Council which was November 11, 2020.

The Group availed of the SEC relief to defer the adoption of this PIC Q&A until December 31, 2020. The adoption of this PIC Q&A is not expected to have significant impact on the consolidated financial statements.

As prescribed by SEC Memorandum Circular No. 34, Series of 2020, for financial reporting periods beginning on or after January 1, 2021, the availment of the above deferral will impact the Group's financial reporting during the period of deferral.

Upon full adoption of the above deferred guidance, the accounting policies shall have to be applied using full retrospective approach following the guidance under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

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.

Property Acquisitions and Business Combinations. At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets and liabilities. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the real estate property. The consideration is made to the extent that the significant business processes are acquired and the additional services are to be provided by the subsidiary.

When the acquisition of subsidiary does not constitute a business, it is accounted for as an acquisition of a group of assets and liabilities. The purchase price of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values at the date of acquisition. No goodwill or deferred tax is recognized.

Consignment Arrangements on Retail Segment. The retail segment of the Group has various consignment arrangements with suppliers. Under these arrangements, the Group bears significant risks and rewards associated with the sale of goods. Management has determined that it is acting as principal in these sales transactions. Accordingly, 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.

Lease Modification - as Lessor. Throughout the government-imposed community quarantine, the Group waived rentals and offered deferral of payments to certain tenants. Such rental waivers and deferrals are not accounted as a lease modification under PFRS 16 since COVID-19 is a force majeure under the general law.

Determination of Lease Term of Contracts with Renewal and Termination Options - Group as Lessee (On or after January 1, 2019). The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating the certainty or possibility of exercising the option to renew or terminate lease contracts. The Group considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination option. After the commencement date, the Group reassesses the lease term for any significant event or change in circumstances that is within its control and affects its ability to exercise the option to renew or to terminate the lease contract (e.g., construction of significant leasehold improvements or significant customization to the leased asset). In most cases, the Group exercises its option to renew.

Operating Lease Commitments - Group as Lessee (Before January 1, 2019). Management has determined that all the significant risks and benefits of ownership of these properties remain with the lessor and thus, accounts for these leases as operating leases.

Assessing Significant Influence over Associates. Management assessed that the Group has significant influence over all its associates by virtue of the Group's more than 20% voting power in the investee, representation in the board of directors, and participation in policy-making processes of the associates.

Assessing Joint Control of an Arrangement and the Type of Arrangement. The Group has 25% ownership in Waltermart Mall. Management assessed that the Group has joint control of Waltermart Mall by virtue of a contractual agreement with other shareholders. Waltermart Mall is a joint venture arrangement as it is a separate legal entity and its stockholders have rights to its net assets.

Assessing of Control or Significant Influence of Investees

SM Prime. The Group has 50% ownership interest in SM Prime. Management assessed that the Group has control of SM Prime as it holds significantly more voting rights than any other vote holder or organized group of vote holders, and the other shareholdings are widely dispersed giving the Group the power to direct relevant activities of SM Prime.

BDO Unibank, Inc. (BDO). The Group has 45% ownership interest in BDO. Management assessed that the Group does not have control of BDO as the Group's aggregate voting rights is not sufficient to give it power to direct the relevant activities of BDO (see Note 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).

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 Expected Credit Losses (ECL) of Receivables and Contract Assets (referred also in the consolidated financial statements as "Unbilled revenue from sale of real estate"). The Group maintains an allowance for impairment loss at a level considered adequate to provide for potential uncollectible receivables. The Group uses a provision matrix for rent and other receivables and vintage approach for receivables from sale of real estate (billed and unbilled) to calculate ECLs. The Group performs a regular review of the age and status of these accounts, designed to identify accounts for impairment. The assessment of the correlation between historical observed default rates, forecasted economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. See Note 10 for related balances.

Net Realizable Value of Merchandise Inventories, Condominium and Residential Units for Sale, and Land and Development. The Group recognizes an allowance for impairment of value of merchandise inventories, condominium and residential units for sale, and land and development to value these assets at net realizable value. Impairment may be due to damage, physical deterioration, obsolescence, changes in price levels or other causes. See 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 2020 and 2019, the Group assessed that the net realizable value of merchandise inventories, condominium and residential units for sale and land and land development is higher than cost, hence, the Group did not recognize any impairment loss.

Estimated Useful Life of Property and Equipment and Investment Properties (except for 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 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 and Brand Names with Indefinite Useful Lives. Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher

of its fair value less costs of disposal and its value in use. Fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculations is based on a discounted cash flow model. The cash flows are derived from the forecast for the relevant period and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the assets. The recoverable amount is most sensitive to the pre-tax discount rates used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. See Note 17 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, 2020. 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. See Note 17 for related balances.

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess MCIT and NOLCO is based on the projected taxable income in future periods. Based on the projection, not all deductible temporary differences and carryforward benefits of excess MCIT and NOLCO will be realized. Accordingly, only a portion of the Group's deferred tax assets is recognized. See Note 26 for related balances.

Present Value of Defined Benefit Obligation. The present value of the pension obligations depends on a number of factors including assumptions of discount rate and rate of salary increase, among others.

The Group determines the appropriate discount rate at the reporting date. In determining the discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based on current market conditions. Management believes that the assumptions used are reasonable and appropriate. However, significant differences in actual experience or significant changes in assumptions would materially affect the Group's pension and other pension obligations. See Note 25 for related balances.

Fair Value of Financial Assets and Liabilities. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would directly affect profit or loss and OCI. See Note 29 for related balances.

Valuation of Unquoted Equity Investments. Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's-length market transactions;
- current fair value of other instruments that is substantially the same;
- the expected cash flows discounted at current rates applicable for investments with similar terms and risk characteristics; or,
- other valuation models.

The determination of cash flows and discount factors for unquoted equity investments requires significant estimation. In valuing the Group's financial assets at FVOCI at fair value in compliance with PFRS 9, management applied judgement in selecting the valuation technique and used assumptions in estimating future cash flows from its equity instruments considering the information available to the Group.

Leases – Estimating the Incremental Borrowing Rate. The Group cannot readily determine the interest rate implicit in the lease, therefore, it used its IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating). See Note 27 for related balances.

Contingencies. The Group is involved in certain legal and administrative proceedings. The Group, in collaboration with outside legal counsel handling defense, as the case may be, does not believe that these proceedings will have a material adverse effect on its financial position and performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings.

5. Business Combination

Acquisition

Philippines Urban Living Solutions, Inc. (PULSI). In April 2017, the Parent Company acquired 674.9 million common shares equivalent to 61.2% equity interest in PULSI, the developer and operator of *MyTown* dormitories.

Despite the Parent Company's 61.2% equity interest, PULSI has been accounted for as an associate under PAS 28, *Investments in Associates and Joint Ventures*, since the Parent Company did not meet the requirements to obtain control over PULSI as prescribed by PFRS 10, *Consolidated Financial Statements*.

On November 11, 2019, the Parent Company exercised its call option and purchased 22.9 million common shares of PULSI amounting to ₱136.8 million, thereby increasing its equity interest to 63.3%. Beginning November 11, 2019, PULSI was considered as a subsidiary in accordance with PFRS 3, *Business Combinations*.

The transaction was accounted for as a step acquisition under PFRS 3. The fair value of the identifiable assets and liabilities as at the date of acquisition follows:

	Fair Value
	<i>(in Thousands)</i>
Cash and cash equivalents	P463,967
Receivables	11,983
Other current assets	122,975
Investment properties	4,606,817
Property and equipment (Note 14)	66,051
Other noncurrent assets	139,335
Total identifiable assets	5,411,128
Accrued expenses and other current liabilities	867,545
Deferred tax liabilities	842,532
Other noncurrent liabilities	827
Total identifiable liabilities	1,710,904
Net identifiable assets	3,700,224
Non-controlling interests	(1,358,352)
Fair value of previously held interest	(2,264,985)
Goodwill arising from the acquisition	59,940
Purchase consideration transferred	P136,827

The cash flows from this acquisition follow:

Cash acquired	P463,967
Purchase consideration transferred	(136,827)
Net	P327,140

PULSI's receivables comprise mainly of rent receivables from tenants carried at cost. It is expected that the full contractual amounts as presented in the balance sheet will be collected in full.

The goodwill of P59.9 million represents the value of synergies expected to arise from the business combination.

6. Segment Information

The Group has identified three reportable operating segments as follows: property, retail, and banking and others.

The property segment is involved in mall, residential and commercial development and hotel and convention center operations. The mall segment develops, conducts, operates and maintains the business of modern commercial shopping centers and all businesses related thereto such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers and cinemas within the compound of the shopping centers. The residential and commercial segments are involved in the development and transformation of major residential, commercial, entertainment and tourism districts through sustained capital investments in buildings and infrastructure. The hotels and convention centers segment engages in and carries on the business of hotels and convention centers and operates and maintains any and all services and facilities incident thereto.

The retail segment is engaged in the retail/wholesale trading of merchandise such as dry goods, wearing apparels, food and other merchandise.

The banking and others segment primarily includes the operations of the Parent Company which is engaged in asset management and capital investments as well as its associate companies which include the banks.

The BOD monitors the operating results of each of its business units for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with the operating profit or loss in the consolidated financial statements.

Operating Segment Financial Data

2020					
	Property	Retail	Banking and Others	Eliminations	Consolidated
<i>(In Thousands)</i>					
Revenues:					
External customers	₱76,881,025	₱296,637,375	₱20,667,305	₱-	₱394,185,705
Inter-segment	9,695,786	151,810	2,562,464	(12,410,060)	-
	₱86,576,811	₱296,789,185	₱23,229,769	(₱12,410,060)	₱394,185,705
Segment results:					
Income before income tax	₱22,923,445	₱7,200,165	₱11,292,052	₱-	₱41,415,662
Provision for income tax	(4,349,645)	(2,509,821)	(231,154)	-	(7,090,620)
Net income	₱18,573,800	₱4,690,344	₱11,060,898	₱-	₱34,325,042
Net income attributable to:					
Owners of the Parent	₱9,151,718	₱3,375,743	₱10,862,489	₱-	₱23,389,950
Non-controlling interests	9,422,082	1,314,601	198,409	-	10,935,092
2019					
	Property	Retail	Banking and Others	Eliminations	Consolidated
<i>(In Thousands)</i>					
Revenues:					
External customers	₱106,442,091	₱366,036,864	₱29,172,940	₱-	₱501,651,895
Inter-segment	15,127,079	189,391	3,315,815	(18,632,285)	-
	₱121,569,170	₱366,226,255	₱32,488,755	(₱18,632,285)	₱501,651,895

(Forward)

2019					
	Property	Retail	Banking and Others	Eliminations	Consolidated
Segment results:					
Income before income tax	P51,466,198	P20,463,932	P14,684,368	P-	P86,614,498
Provision for income tax	(10,508,038)	(6,235,716)	(426,430)	-	(17,170,184)
Net income	P40,958,160	P14,228,216	P14,257,938	P-	P69,444,314
Net income attributable to:					
Owners of the Parent	P20,724,734	P9,840,717	P14,002,793	P-	P44,568,244
Non-controlling interests	20,233,426	4,387,499	255,145	-	24,876,070
2018					
	Property	Retail	Banking and Others	Eliminations	Consolidated
<i>(In Thousands)</i>					
Revenues:					
External customers	P94,240,430	P334,958,024	P20,589,713	P-	P449,788,167
Inter-segment	14,179,779	207,805	3,003,367	(17,390,951)	-
	P108,420,209	P335,165,829	P23,593,080	(P17,390,951)	P449,788,167
Segment results:					
Income before income tax	P44,316,103	P18,948,538	P10,865,695	P-	P74,130,336
Provision for income tax	(9,093,080)	(6,227,332)	(255,356)	-	(15,575,768)
Net income	P35,223,023	P12,721,206	P10,610,339	P-	P58,554,568
Net income attributable to:					
Owners of the Parent	P17,969,459	P8,710,519	P10,398,347	P-	P37,078,325
Non-controlling interests	17,253,564	4,010,687	211,992	-	21,476,243

In 2020, 2019 and 2018, 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 segment financial data.

7. Cash and Cash Equivalents

This account consists of:

	2020	2019
	<i>(In Thousands)</i>	
Cash on hand and in banks (Note 22)	P26,603,364	P19,218,912
Temporary investments (Note 22)	51,555,833	56,994,862
	P78,159,197	P76,213,774

Cash in banks earn interest at the respective bank deposit rates. Temporary investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group. These investments earn interest at prevailing rates (see Note 24).

8. Time Deposits

This account consists of time deposits as follows:

	2020	2019
	<i>(In Thousands)</i>	
Current	P31,012	P30,488
Noncurrent	1,356,442	2,412,972
	P1,387,454	P2,443,460

The time deposits bear interest ranging from 0.5% to 1.6% in 2020 and 2.0% to 3.2% in 2019.

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:

	2020	2019
	<i>(In Thousands)</i>	
Financial assets at FVOCI:		
Shares of stock		
Listed	P26,133,219	P22,240,653
Unlisted	1,701,227	2,635,484
Club shares	11,940	12,500
	27,846,386	24,888,637
Less current portion	568,146	659,077
Noncurrent portion	P27,278,240	P24,229,560

- Financial assets at FVOCI pertain to equity investments in shares of stock and club shares which are not held for trading and which the Group has irrevocably designated at FVOCI, as the Group considers these investments to be strategic in nature.
- Gain on disposal of financial assets at FVPL amounted to nil and P27.8 million 2020 and 2019, respectively.

The movements in net unrealized gain on financial assets at FVOCI and share in unrealized loss on financial assets at FVOCI of associates attributable to the owners of the Parent follow:

	2020	2019
	<i>(In Thousands)</i>	
Balance at beginning of year	P14,399,640	P11,748,980
Share in net unrealized gain on financial assets at FVOCI of associates	2,200,527	4,376,205
Gain (loss) due to changes in fair value of financial assets at FVOCI	(92,868)	24,196
Transferred to retained earnings - realized gain on sale of financial assets at FVOCI	(864)	(1,749,741)
Balance at end of year	P16,506,435	P14,399,640

Interest earned from financial assets is disclosed in Note 24.

10. Receivables and Contract Assets

This account consists of:

	2020	2019
	<i>(In Thousands)</i>	
Trade:		
Real estate buyers*	₱97,178,460	₱66,679,220
Third-party tenants	5,868,337	8,469,829
Related-party tenants (Note 22)	972,723	432,513
Others	38,512	66,747
Due from related parties (Note 22)	1,180,589	1,079,944
Royalty, management and service fees (Note 22)	2,437,479	2,212,623
Dividends (Note 22)	732,953	610,649
	108,409,053	79,551,525
Less allowance for ECL	1,066,130	1,053,549
	107,342,923	78,497,976
Less noncurrent portion of receivables from real estate buyers (Note 17)	46,816,693	24,880,776
Current portion	₱60,526,230	₱53,617,200

* Includes unbilled revenue from sale of real estate amounting to ₱86,631.4 million and ₱59,903.0 million as at December 31, 2020 and 2019, respectively.

The terms and conditions of these receivables follow:

- Receivables from real estate buyers pertain mainly to sale of condominium and residential units at various terms of payment that are noninterest-bearing. Portions of these receivables have been assigned to local banks: on without recourse basis ₱7,170.2 million and ₱7,689.0 million as at December 31, 2020 and 2019, respectively, and, on with recourse basis, ₱1,808.7 million and ₱1,986.0 million as at December 31, 2020 and 2019, respectively (see Note 22). The corresponding liability from the assignment of receivables on with recourse basis bears interest ranging from 4.3% to 4.5% in 2020 and 2019. The fair value of these assigned receivables and liability approximates cost.

The increase in receivables from real estate buyers is due mainly to the 5.7% increase in real estate sales and some delay in the collection of certain receivables relative to the Group's adoption and implementation of the government-mandated Bayanihan Act extending the grace period for the payment of loan amortizations due on or before December 31, 2020 and the circular issued by the Department of Human Settlement and Urban Development (DHSUD), extending the grace period for the payment of loan amortizations that matured during the enhanced community quarantine (ECQ) period.

The transaction price allocated to the remaining performance obligations totaling ₱28,108.3 million and ₱11,424.0 million as at December 31, 2020 and 2019, respectively, are expected to be recognized over the construction period ranging from one to five years.

- Trade receivables from tenants and royalty, management and service fee receivables are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Dividends receivables are noninterest-bearing and are normally collectible within the next financial year.
- The terms and conditions relating to Due from related parties are discussed in Note 22.

Allowance for ECL is provided for receivable from sales of real estate, receivable from tenants and other receivables which were identified to be impaired based on specific assessment. The movements in this account follow:

	2020	2019
	<i>(In Thousands)</i>	
Balance at beginning of year	P1,053,549	P1,034,040
Provisions – net of writeoff (Note 23)	12,581	19,509
Balance at end of year	P1,066,130	P1,053,549

The aging of receivables follow:

	2020	2019
	<i>(In Thousands)</i>	
Neither past due nor impaired	P101,065,299	P75,132,839
Past due but not impaired:		
31-90 days	1,076,482	1,571,703
91-120 days	1,845,086	376,635
Over 120 days	3,356,056	1,416,799
Impaired	1,066,130	1,053,549
	P108,409,053	P79,551,525

Receivables other than those identified as impaired, are assessed as good and collectible.

11. Inventories

This account consists of:

	2020	2019
	<i>(In Thousands)</i>	
Merchandise inventories – at cost	P28,352,564	P33,157,622
Land and development – current	34,933,442	37,935,968
Condominium and residential units for sale	8,770,039	6,026,426
	P72,056,045	P77,120,016

Merchandise Inventories

The movements in this account follow:

	2020	2019
	<i>(In Thousands)</i>	
Balance at beginning of year	P33,157,622	P31,836,333
Purchases	215,440,140	263,755,950
Total goods available for sale	248,597,762	295,592,283
Less cost of merchandise sales	220,245,198	262,434,661
Balance at end of year	P28,352,564	P33,157,622

The merchandise inventories are stated at cost as at December 31, 2020 and 2019.

Land and Development

The movements in “Land and development - current” accounted as real estate inventories follow:

	2020	2019
	<i>(In Thousands)</i>	
Balance at beginning of year	₱37,935,968	₱29,486,964
Reclassification to land and development - noncurrent, accounted as investment property (Note 16)	-	(7,227)
Development cost incurred	18,139,432	22,277,052
Transfer from land and development - noncurrent (Note 16)	1,830,013	1,810,966
Cost of real estate sold	(18,447,226)	(14,638,083)
Transfer to condominium and residential units for sale	(4,850,262)	(4,089,397)
Reclassification and others	325,517	3,095,693
Balance at end of year	₱34,933,442	₱37,935,968

Land and development includes the cost of land as well as construction cost of ongoing residential projects.

Included in land and development accounted as real estate inventories are contract fulfillment assets amounting to ₱1,745.0 million and ₱719.8 million as at December 31, 2020 and 2019, respectively, representing the unamortized portion of land cost.

The estimated cost to complete the projects amounted to ₱106,678.6 million and ₱74,238.1 million as at December 31, 2020 and 2019, respectively.

Land and development is stated at cost. There is no allowance for inventory writedown as at December 31, 2020 and 2019.

Condominium and Residential Units for Sale

The movements in this account follow:

	2020	2019
	<i>(In Thousands)</i>	
Balance at beginning of year	₱6,026,426	₱8,110,504
Transfer from land and development	4,850,262	4,089,397
Cost of real estate sold	(2,136,756)	(6,168,529)
Repossessioned inventories and others	30,107	(4,946)
Balance at end of year	₱8,770,039	₱6,026,426

The condominium and residential units for sale are stated at cost as at December 31, 2020 and 2019.

To be comparative with the 2020 presentation and classification, “Land and development - current” and “Condominium and residential units for sale” accounts were transferred from “Other current assets” account to “Inventories” account.

12. Other Current Assets

This account consists of:

	2020	2019
	<i>(In Thousands)</i>	
Prepaid taxes and other prepayments	₱14,249,890	₱13,316,598
Bonds and deposits	9,983,733	9,737,182
Receivables from banks	5,537,179	5,497,587
Non-trade receivables	4,854,679	4,366,672
Input tax	5,113,251	4,434,706
Accrued interest receivable (Note 22)	188,685	192,499
Escrow fund (Notes 17 and 22)	144,209	117,985
Uniform and supplies inventory	1,165,786	1,121,586
Derivative assets	2,747	-
Others	1,930,219	1,931,610
	₱43,170,378	₱40,716,425

- Prepaid taxes and other prepayments consist of creditable tax certificates received by the Group and prepayments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial year.
- Bonds and deposits pertain to down payments made to suppliers and contractors to cover preliminary expenses of the Group's construction projects. These are noninterest-bearing and are applied to progress billings depending on the percentage of project accomplishment.
- Receivables from banks are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Non-trade receivables include interest-bearing advances to third parties which are normally collectible within the next financial year (see Note 24).
- 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.
- Escrow fund pertains to amounts deposited with an escrow agent, a requisite for the issuance of temporary license to sell by the Housing and Land Use Regulatory Board (HLURB), pending issuance of a license to sell and certificate of registration. Amounts deposited include all amounts received from buyers including down payments, reservation and monthly amortization, among others.

13. Investments in Associate Companies and Joint Ventures

The movements in this account follow:

	2020	2019
	<i>(In Thousands)</i>	
Balance at beginning of year	₱280,971,638	₱259,795,077
Additions	390,350	5,330,780
Step acquisition (Note 5)	–	(1,272,455)
Reclassifications	32,934	1,579,750
Equity in net earnings	17,036,367	26,038,426
Dividends received and others	(4,443,565)	(5,503,034)
Share in other comprehensive gain (loss) of associate companies	3,262,981	(945,170)
Translation adjustment	15,017	(64,736)
Allowance for impairment loss	(1,000,000)	(3,987,000)
Balance at end of year*	₱296,265,722	₱280,971,638

* Investment in associate companies amounted to ₱287,655.9 million and ₱272,681.6 million as at December 31, 2020 and 2019, respectively.

The Group regularly tests for impairment of its investments comparing the expected cash flows against the carrying values. In 2020, the Group recognized ₱1.0 billion of impairment loss due to the adverse impact of COVID-19 on certain investments. In 2019, the impairment loss recognized in profit and loss amounted to ₱4.0 billion.

The associate companies and joint ventures of the Group follow:

Company	Percentage of Ownership				Principal Activities
	2020		2019		
	Gross	Effective	Gross	Effective	
Associates					
BDO Unibank, Inc. (BDO)	47	45	47	45	Financial services
China Banking Corporation (China Bank)	23	23	23	23	Financial services
Belle Corporation (Belle)	27	26	27	26	Real estate development and tourism
Atlas Consolidated Mining and Development Corporation (Atlas)	34	34	34	34	Mining
Sodexo Benefits and Rewards Services Philippines, Inc.	40	40	40	40	Retail
Fast Retailing Philippines, Inc.	25	19	25	19	Retail
Win With Love, Inc.	33	13	–	–	Retail
CityMall Commercial Centers, Inc.	34	34	34	34	Real estate development and tourism
Premium Leisure Corp. (PLC)	5	5	5	5	Gaming
Ortigas Land Corporation (formerly OCLP Holdings, Incorporated)	40	20	40	20	Real estate development
Feihua Real Estate (Chongqing) Company Ltd.	50	25	50	25	Real estate development
Fitness Health & Beauty Holdings Corp.	40	31	40	31	Retail
2Go Group, Inc.	30	30	30	30	Integrated supply chain
Neo Associates ^(a)	34	34	34	34	Real estate development
Goldilocks Bakeshop, Inc.	34	34	34	34	Bakery products and other food items
Asia-Pacific Computer Technology Center, Inc.	42	42	42	42	Investment
GPAY Network, PH, Inc.	35	35	35	35	Providing electronic money through electronic instruments
AIC Group of Companies Holding Corp.	35	35	–	–	Investment
Joint Ventures					
Walmart Mall ^(b)	51	25	51	25	Shopping mall development
Metro Rapid Transit Service, Inc.	51	25	51	25	Transportation
ST 6747 Resources Corporation	50	25	50	25	Real estate development

The principal place of business and country of incorporation of the associate companies and joint ventures listed above is in the Philippines except for FHREC which was incorporated in China.

(a) Neo Associates consists of N-Park BGC Properties, Inc., N-Lima BGC Properties, Inc. and N-Park BGC Land, Inc.

(b) Walmart Mall consists of Winsome Development Corporation, Willin Sales, Inc., Williamson, Inc., Walmart Ventures, Inc. and WM Development Inc.

BDO

The condensed financial information of the Group's material associate, BDO, follows:

	2020	2019
	<i>(In Millions)</i>	
Total assets	₱3,374,900	₱3,188,858
Total liabilities	2,981,879	2,818,271
Total equity	393,021	370,587
Proportion of the Group's ownership	45%	45%
	178,138	166,764
Goodwill and others	29,676	26,201
Carrying amount of the Group's investment	₱207,814	₱192,965

	2020	2019	2018
	<i>(In Millions)</i>		
Interest income	₱157,031	₱160,572	₱129,040
Interest expense	(23,331)	(40,681)	(30,748)
Other expenses - net	(105,446)	(75,723)	(65,653)
Net income	28,254	44,168	32,639
Other comprehensive income (loss)	(725)	515	(4,727)
Total comprehensive income	₱27,529	₱44,683	₱27,912
Group's share in net income	₱13,208	₱20,592	₱15,101
Group's share in total comprehensive income (loss)	₱4,325	(₱936)	₱10,754

The aggregate comprehensive income of associates and joint ventures that are not individually material follows:

	2020	2019	2018
	<i>(In Millions)</i>		
Share in net income	₱3,828	₱5,446	₱4,063
Share in other comprehensive income (loss)	(1,062)	(9)	315
Share in total comprehensive income	₱2,766	₱5,437	₱4,378

The fair value of investments in associate companies which are listed in the PSE follows:

	2020	2019
	<i>(In Thousands)</i>	
BDO	₱232,855,091	₱343,893,457
China Bank	15,112,172	15,172,742
Belle	4,454,106	5,183,434
Atlas	7,830,828	3,030,506
PLC	11,774,732	15,082,241

These investments are categorized as Level 1 in the fair value hierarchy.

14. Property and Equipment

The movements in this account follow:

	Buildings and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
<i>(In Thousands)</i>									
Cost									
As at December 31, 2018	P13,655,272	P3,662,606	P7,836,767	P9,563,662	P9,422,640	P18,812,117	P964,311	P1,514,504	P65,431,879
Additions	356,889	144,070	681,626	1,284,065	864,377	1,347,570	90,239	2,677,577	7,446,413
Effect of business combination (Note 5)	-	-	750	86,517	14,443	-	1,562	-	103,272
Reclassifications	544,069	237,227	98,281	(974,418)	82,394	533,433	311	(1,459,977)	(938,680)
Disposals/retirements	(229,272)	(33,454)	(28,431)	(74,845)	(46,189)	(93,669)	(8,629)	(13,183)	(527,672)
As at December 31, 2019	14,326,958	4,010,449	8,588,993	9,884,981	10,337,665	20,599,451	1,047,794	2,718,921	71,515,212
Additions	659,964	197,056	464,927	527,832	907,077	787,008	14,012	2,538,278	6,096,154
Reclassifications	416,344	(24,817)	(45,252)	669,489	56,251	105,969	-	(737,665)	440,319
Disposals/retirements	(130)	(9,120)	(99,936)	(31,676)	(56,161)	(404,282)	(5,933)	(9,649)	(616,887)
As at December 31, 2020	P15,403,136	P4,173,568	P8,908,732	P11,050,626	P11,244,832	P21,088,146	P1,055,873	P4,509,885	P77,434,798
Accumulated Depreciation and Amortization									
As at December 31, 2018	P5,873,280	P2,562,697	P6,199,111	P6,955,402	P6,218,401	P13,867,319	P554,002	P-	P42,230,212
Depreciation and amortization	773,894	380,986	695,475	554,216	1,003,150	1,467,314	59,215	-	4,934,250
Effect of business combination (Note 5)	-	-	205	33,216	2,643	-	1,157	-	37,221
Reclassifications	(31,628)	(80,706)	(6,405)	861,310	(7,303)	(840,944)	(6,294)	-	(111,970)
Disposals/retirements	(90,774)	(15,556)	(21,913)	(23,952)	(43,342)	(91,236)	(8,601)	-	(295,374)
As at December 31, 2019	6,524,772	2,847,421	6,866,473	8,380,192	7,173,549	14,402,453	599,479	-	46,794,339
Depreciation and amortization	707,728	365,100	662,284	829,839	1,007,121	1,151,824	60,550	-	4,784,446
Reclassifications	(20,844)	(3,766)	(28,391)	445,821	16,330	(124,214)	549	-	285,485
Disposals/retirements	(32)	(7,065)	(70,007)	(25,515)	(39,421)	(368,990)	(5,890)	-	(516,920)
As at December 31, 2020	P7,211,624	P3,201,690	P7,430,359	P9,630,337	P8,157,579	P15,061,073	P654,688	P-	P51,347,350
Net Book Value									
As at December 31, 2020	P8,191,512	P971,878	P1,478,373	P1,420,289	P3,087,253	P6,027,073	P401,185	P4,509,885	P26,087,448
As at December 31, 2019	7,802,186	1,163,028	1,722,520	1,504,789	3,164,116	6,196,998	448,315	2,718,921	24,720,873

15. Investment Properties

The movements in this account follow:

	Land and Improvements	Buildings and Leasehold Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
<i>(In Thousands)</i>					
Cost					
As at December 31, 2018	₱71,129,919	₱239,322,133	₱39,878,182	₱38,753,649	₱389,083,883
Additions	3,563,225	2,334,200	1,883,218	29,121,761	36,902,404
Reclassifications	(120,439)	12,621,438	1,261,397	(14,002,546)	(240,150)
Effect of common control business combination	510,586	3,771,736	-	382,207	4,664,529
Translation adjustment	(67,417)	(1,976,026)	(157,843)	(69,323)	(2,270,609)
Disposals	(5,125)	(18,639)	(159,680)	(1,153)	(184,597)
As at December 31, 2019	75,010,749	256,054,842	42,705,274	54,184,595	427,955,460
Additions	3,540,562	2,072,819	1,486,926	24,695,842	31,796,149
Reclassifications	(620,425)	7,509,703	862,027	(7,962,160)	(210,855)
Translation adjustment	15,655	469,724	37,418	42,657	565,454
Disposals	(44,242)	(80)	(121,218)	-	(165,540)
As at December 31, 2020	₱77,902,299	₱266,107,008	₱44,970,427	₱70,960,934	₱459,940,668
Accumulated Depreciation and Amortization					
As at December 31, 2018	₱2,153,121	₱53,349,433	₱24,317,055	₱-	₱79,819,609
Depreciation and amortization (Note 23)	244,454	7,297,151	3,064,236	-	10,605,841
Reclassifications	7,563	(11,523)	-	-	(3,960)
Effect of common control business combination	-	57,712	-	-	57,712
Translation adjustment	(35,052)	(355,546)	(88,474)	-	(479,072)
Disposals	(3,626)	(10,454)	(105,893)	-	(119,973)
As at December 31, 2019	2,366,460	60,326,773	27,186,924	-	89,880,157
Depreciation and amortization (Note 23)	251,543	7,589,858	2,358,514	-	10,199,915
Reclassifications	-	735	-	-	735
Translation adjustment	12,180	111,470	25,372	-	149,022
Disposals	(26,301)	(8)	(107,377)	-	(133,686)
As at December 31, 2020	₱2,603,882	₱68,028,828	₱29,463,433	₱-	₱100,096,143
Net Book Value					
As at December 31, 2020	₱75,298,417	₱198,078,180	₱15,506,994	₱70,960,934	₱359,844,525
As at December 31, 2019	72,644,289	195,728,069	15,518,350	54,184,595	338,075,303

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱25,843.3 million, ₱50,172.0 million and ₱46,225.1 million in 2020, 2019 and 2018, respectively. The corresponding direct operating expenses amounted to ₱19,635.6 million, ₱27,459.7 million and ₱25,146.9 million in 2020, 2019 and 2018, respectively.

Construction in progress includes construction costs incurred for new shopping malls, commercial building and redevelopment of existing malls amounting to ₱70,277.9 million and ₱53,779.7 million as at December 31, 2020 and 2019, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱65,457.5 million and ₱55,154.8 million as at December 31, 2020 and 2019, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱22,641.0 million and ₱24,676.2 million as at December 31, 2020 and 2019, respectively.

Interest capitalized to the construction of investment properties amounted to ₱3,539.8 million and ₱3,143.3 million as at December 31, 2020 and 2019, respectively. Capitalization rates used range from 2.4% to 4.7% in 2020 and 2.4% to 5.1% in 2019.

The fair value of substantially all investment properties amounting to ₱1,350.8 million was determined by accredited independent appraisers with appropriate qualifications and experience in the valuation of

similar properties in the relevant locations. The fair value represents the price that would be received to sell the investment properties in an orderly transaction between market participants at the measurement date. Management also believes that the carrying values of additions to investment properties subsequent to the most recent valuation date would approximate their fair values. In conducting the appraisal, the independent appraisers mainly used the Income Approach. The Income Approach is based on the premise that the value of a property is directly related to the income it generates. The significant assumptions used in the valuation are discount rates and capitalization rates of 4.0% to 6.0% with an average growth of 1.0% to 5.0%.

These investment properties are categorized as Level 3 in the fair value hierarchy since valuation is based on unobservable inputs.

Management believes that the impact of COVID-19 on the fair value measurement of investment properties is short-term and temporary.

The Group has no restriction on the realizability of its investment properties and no obligation to purchase, construct or develop, repair, maintain and/or enhance any of these properties.

16. Land and Development - Net of Current Portion

The movements in "Land and development - noncurrent" accounted as investment property follow:

	2020	2019
	<i>(In Thousands)</i>	
Balance at beginning of year	P74,946,694	P53,928,447
Land acquisitions	6,619,150	23,254,266
Disposals	(4,113,632)	-
Reclassification to investment property	-	(432,280)
Reclassification from land and development - current, accounted as real estate inventories (Note 11)	-	7,227
Transfer to land and development - current (Note 11)	(1,830,013)	(1,810,966)
Balance at end of year	P75,622,199	P74,946,694

Land and development is stated at cost. There is no allowance for inventory writedown as at December 31, 2020 and 2019.

17. Intangibles and Other Noncurrent Assets

Intangible Assets

This account consists of:

	2020	2019
	<i>(In Thousands)</i>	
Goodwill	P17,456,385	P17,458,431
Less accumulated impairment loss	91,620	91,620
Net book value	17,364,765	17,366,811
Trademarks and brand names	7,223,738	7,922,798
	P24,588,503	P25,289,609

Goodwill is attributable mainly to SM Prime, Supervalu, Inc., Super Shopping Market, Inc., Neo Subsidiaries, Waltermart Supermarket, Incorporated and PULSI.

Trademarks and brand names include the following:

- a. Brand names of SM Supermarket and SM Hypermarket that were acquired in a business combination in 2006. These are assessed to have an indefinite life and valued using the Relief-from-Royalty Method. The royalty rate used was 3.5%, the prevailing royalty rate in 2006 in the retail assorted category.
- b. Rights, title and interest in the trademark of Cherry Foodarama, Inc. that was acquired in 2015 and assessed to have a definite useful life of 10 years. In 2020, provisions for impairment of P458.0 million was 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 4.1% to 4.7%.
- 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 10.2% to 14.4% and 11.1% to 15.7% as at December 31, 2020 and 2019, respectively.

Fair value less cost of disposal. The fair value of the assets and liabilities of the CGUs were in reference to the available market price for quoted instruments.

Management assessed that no reasonably possible change in pre-tax discount rates, future cash inflows and fair values would cause the carrying value of goodwill in 2020 and 2019 to materially exceed its recoverable amount.

Other Noncurrent Assets

This account consists of:

	2020	2019
	<i>(In Thousands)</i>	
Bonds and deposits	P56,259,937	P48,643,102
Receivables from real estate buyers* (Note 10)	46,816,693	24,880,776
Long-term notes (Notes 22 and 29)	4,999,359	5,942,878
Deferred input VAT	1,804,670	1,410,699
Defined benefit asset (Note 25)	546,515	95,057
Land use rights	353,217	377,722
Escrow fund (Note 22)	132,460	132,460
Derivative assets (Note 29)	-	826,315
Others	1,405,799	2,066,636
	P112,318,650	P84,375,645

* Pertains to the noncurrent portion of unbilled revenue from sales of real estate.

- Bonds and deposits include other assets used to secure certain obligations of the Group as well as deposits for its leased properties.
- Long-term notes pertain to a 7-year loan amounting to US\$108.4 million that was extended to Carmen Copper Corporation (CCC), a wholly owned subsidiary of Atlas. The Group collected US\$9.0 million and US\$10.8 million from CCC for such loan in 2020 and 2019, respectively. The loan bears a fixed interest that starts at 5.0% and escalates annually up to 10.0%, payable quarterly. In September 2020, the interest rate was renegotiated to 5.4%.

The Group assessed that this change in interest rate does not qualify as a loan modification and therefore, does not require a derecognition of the old loan and recognition of a new loan. The loss from the change in interest rate recognized under “Interest income” amounted to ₱508.5 million. This change has no significant impact to the Group’s ECL assessment.

- 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 pertains mainly to funds deposited by the Parent Company in the account of an escrow agent as required by the SEC, in connection with the corporate restructuring in 2013.

18. Bank Loans

This account consists of:

	2020	2019
	<i>(In Thousands)</i>	
Peso-denominated:		
Parent Company	₱–	₱8,829,900
Subsidiaries	24,126,000	9,880,565
	₱24,126,000	₱18,710,465

These unsecured loans bear fixed interest ranging from 2.8% to 5.3% in 2020 and 3.8% to 7.9% in 2019.

These loans have maturities of less than one year. Interest on bank loans is disclosed in Note 24.

19. Accounts Payable and Other Current Liabilities

This account consists of:

	2020	2019
	<i>(In Thousands)</i>	
Trade	₱82,599,493	₱85,996,862
Accrued expenses	12,713,644	11,324,572
Nontrade	14,474,774	9,790,527
Tenants and customers' deposits*	12,411,589	12,868,406
Payable arising from acquisition of land	7,357,422	4,769,349
Payables to government agencies	4,722,145	6,331,940
Accrued interest (Note 22)	3,112,821	2,833,930
Subscriptions payable	2,021,790	2,021,790
Due to related parties (Note 22)	823,779	1,031,812
Lease liabilities (Note 27)	2,011,714	1,534,154
Gift checks redeemable and others	6,981,937	2,948,422
	₱149,231,108	₱141,451,764

* Includes unearned revenue from sale of real estate amounting to ₱7,615.0 million and ₱6,023.0 million as at December 31, 2020 and 2019, respectively.

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors. These are noninterest-bearing and are normally settled on 30-to 60-day terms.
- Accrued expenses pertain to selling, general and administrative expenses which are normally settled within the next financial year.
- Nontrade payables, accrued interest, subscriptions payable and others are expected to be settled within the next financial year.
- Tenants' 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 represents 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 2020 and 2019, revenue recognized from unearned revenue from sales of real estate at the beginning of the year amounted to ₱3,689.4 million and ₱2,769.2 million, respectively.
- Payable arising from acquisition of land is expected to be settled within the next financial year.
- Payables to government agencies mainly consist of output tax which is normally settled within the next financial year.
- The terms and conditions relating to Due to related parties are discussed in Note 22.
- Gift checks are redeemable at face value.

20. Long-term Debt

This account consists of:

	Availment	Maturity	Interest Rate/Term	Security	2020	2019
(In Thousands)						
Parent Company						
U.S. dollar-denominated	June 10, 2014 - July 16, 2019	March 28, 2022 - June 10, 2024	Fixed 4.9%; three-month LIBOR + margin; semi-annual and quarterly	Unsecured	₱42,604,024	₱44,921,283
Peso-denominated	July 16, 2012 - October 2, 2020	April 23, 2020 - August 8, 2025	Fixed 2.9%-6.9%; three-month PHP BVAL + margin; semi-annual and quarterly	Unsecured	79,023,014	68,498,010
Subsidiaries						
U.S. dollar-denominated	March 21, 2016 - November 10, 2020	January 29, 2021 - April 5, 2024	LIBOR + spread; semi-annual and quarterly	Unsecured	49,754,404	39,749,299
China Yuan Renminbi-denominated	January 14, 2016 - October 16, 2017	June 1, 2020 - October 16, 2022	Fixed 5.9%; CBC rate less 10%; quarterly	Unsecured/Secured*	2,559,639	2,670,803
Peso-denominated	January 12, 2012 - December 29, 2020	March 1, 2020 - August 7, 2029	Fixed 3.6%-6.7%; BVAL+ margin	Unsecured	218,882,964	202,247,332
					392,824,045	358,086,727
Less debt issue cost					1,970,809	1,650,800
					390,853,236	356,435,927
Less current portion					60,121,438	29,077,719
					₱330,731,798	₱327,358,208

BVAL – Bloomberg Valuation

LIBOR – London Interbank Offered Rate

PDST-R2 – Philippine Dealing System Treasury Reference Rate – PM

CBC – Central Bank of China

*Long-term debt secured by portions of investment properties located in China matured in June 2020.

Debt Issue Cost

The movements in unamortized debt issue cost follow:

	2020	2019
	<i>(In Thousands)</i>	
Balance at beginning of year	₱1,650,800	₱1,770,189
Additions	924,470	463,575
Amortization	(604,461)	(582,964)
Balance at end of year	₱1,970,809	₱1,650,800

Repayment Schedule

The repayment schedule of long-term debt as at December 31, 2020 follows:

	Gross Debt	Debt Issue Cost	Net
	<i>(In Thousands)</i>		
Within 1 year	₱60,545,997	₱424,559	₱60,121,438
Over 1 year to 5 years	314,764,588	1,526,249	313,238,339
Over 5 years	17,513,460	20,001	17,493,459
	₱392,824,045	₱1,970,809	₱390,853,236

Covenants

The long-term debt of the Group is covered with certain covenants including adherence to financial ratios. The Parent Company's loan covenants include adherence to certain financial ratios namely: (1) debt-to-equity ratio not to exceed 80:20, and, (2) current ratio at a minimum of 0.30, and, certain restrictions with respect to material change in ownership or control. SM Prime's loan covenants include adherence to certain financial ratios namely: (1) current ratio of not less than 1:1, (2) debt to equity ratio of not more than 70:30 to 80:20, and (3) interest coverage ratio of not less than 2.5x; and, certain restrictions with respect to material change in ownership or control. As at December 31, 2020 and 2019, the Group is in compliance with the terms of its debt covenants.

21. Equity

Capital Stock

a. Common stock

	Number of Shares	
	2020	2019
Authorized - P10 par value per share	2,790,000,000	2,790,000,000
Issued and subscribed	1,204,582,867	1,204,582,867

As at December 31, 2020 and 2019, 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	P250
November 6, 2007		56,000,000	218
June 14, 2007	100,000,000		10
April 25, 2007 (4.3% stock dividends)		25,023,038	10
October 4, 2010 to March 13, 2012			
Conversion of convertible bonds		2,851,582	453
September 24, 2012		9,100,000	700
January 23, 2013 to July 5, 2013			
Conversion of convertible bonds		7,651,851	781
June 14, 2013	500,000,000		10
June 24 and July 12, 2013			
(25.0% stock dividends)		157,657,314	10
July 18, 2013 to November 1, 2013			
Conversion of convertible bonds		738,483	625
August 1, 2013		7,250,000	900
August 27, 2014			
Conversion of convertible bonds		68,378	625
January 15, 2015 to April 9, 2015			
Conversion of convertible bonds		6,714,759	625
July 15, 2016	1,600,000,000		10
July 20, 2016 (50.0% stock dividends)		401,527,462	10

The total number of shareholders of the Company is 1,256 and 1,261 as at December 31, 2020 and 2019, respectively.

b. Redeemable preferred shares

	Number of Shares	
	2020	2019
Authorized - ₱10 par value per share	10,000,000	10,000,000

There are no issued and subscribed preferred shares as at December 31, 2020 and 2019.

Equity Adjustments from Common Control Transactions

Equity adjustments from common control transactions include the following:

- Acquisition of various SM China Companies by SM Prime in 2007.
- Acquisition of various service companies by SM Retail in 2009.
- Corporate restructuring to consolidate the Group's real estate subsidiaries and real estate assets in SM Prime in 2013.
- Merger of SM Retail with other retail affiliates in 2016.
- SM Prime common control business acquisitions in 2016 and 2017.

These acquisitions were considered as a combination of businesses under common control for which the pooling of interests method was applied in the preparation of the consolidated financial statements.

Retained Earnings

▪ Appropriated

Following are the appropriations approved by the BOD:

	Date of BOD Approval	Amount
		<i>(In Thousands)</i>
Balance as at January 1, 2015		₱27,000,000
Reversal	November 4, 2015	(18,000,000)
Addition	November 4, 2015	27,000,000
Reversal	November 8, 2017	(27,800,000)
Addition	November 8, 2017	28,800,000

Retained earnings appropriated as at December 31, 2020 is intended for the payment of certain long-term debts and new investments as follows:

	Timeline	Amount
		<i>(In Thousands)</i>
Debt service	2021 - 2024	₱27,000,000
Investments	2021	10,000,000
		₱37,000,000

• Unappropriated

The Parent Company's cash dividend declarations in 2020 and 2019 follow:

Declaration Date	Record Date	Payment Date	Per Share	Total
				<i>(In Thousands)</i>
June 24, 2020	July 9, 2020	July 23, 2020	₱4.25	₱5,119,477
April 24, 2019	May 9, 2019	May 23, 2019	9.12	10,985,796

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱254,371.2 million and ₱237,286.0 million as at December 31, 2020 and 2019, respectively, that is not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

The retained earnings of the Parent Company available for dividend declaration amounted to ₱17,267.6 million and ₱16,330.0 million as at December 31, 2020 and 2019, respectively.

22. Related Party Disclosures

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The significant transactions with related parties follow:

- Rent

The Group has existing lease agreements for office and commercial spaces with related companies (retail and banking group and other related parties under common stockholders).

- Royalty, Management and Service Fees

The Parent Company and SM Retail receive management and service fees from retail entities under common stockholders for management, consultancy, manpower and other services. In addition to management and 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 Carmen Copper Corporation (see Notes 17 and 28).

- Others

The Group, in the normal course of business, has outstanding receivables from and payables to related companies which are unsecured and normally settled in cash.

The related party transactions and outstanding balances follow:

	Transaction Amount			Outstanding Amount		Terms	Conditions
	2020	2019	2018	2020	2019		
(In Thousands)							
Banking Group							
Cash placement and investment in marketable securities				₱60,776,796	₱60,819,475	Interest-bearing	Unsecured; no impairment
Interest receivable				54,407	96,400	-	-
Interest income	₱1,639,790	₱2,738,310	₱2,253,257			-	-
Interest-bearing debt				34,555,640	25,787,720	Interest-bearing	Unsecured
Interest payable				87,662	85,185	-	-
Interest expense	1,837,740	1,885,429	1,441,884			-	-
Rent receivable				₱60,454	₱130,907	Noninterest-bearing	Unsecured; no impairment
Rent income	₱466,976	₱1,018,963	₱943,474			-	-
Receivable financed	7,170,156	7,689,986	1,663,822			Without recourse	Unsecured
Dividends receivable				13,462	13,462	Noninterest-bearing	Unsecured; no impairment
Bonds and deposits				16,808,050	17,722,250	Interest-bearing 4.5%	Unsecured; no impairment
Royalty, management and service fee receivable				8,077	16,882	Noninterest-bearing	Unsecured; no impairment
Royalty, management and service fee income	15,478	2,799	4,205			-	-
Escrow fund				276,669	250,445	Interest-bearing	Unsecured; no impairment
Retail and Other Entities							
Rent receivable				912,269	301,606	Noninterest-bearing	Unsecured; no impairment
Rent income	937,306	2,144,633	1,926,478			-	-
Royalty, management and service fee receivable				2,049,081	1,938,102	Noninterest-bearing	Unsecured; no impairment
Royalty, management and service fee income	1,448,870	1,713,152	1,233,740			-	-
Due from related parties				1,180,589	1,079,944	Noninterest-bearing	Unsecured; no impairment
Due to related parties				823,779	1,031,812	Noninterest-bearing	Unsecured
Dividend receivable				526,507	369,988	Noninterest-bearing	Unsecured
Interest receivable				7,763	9,905	-	-
Interest income	362,183	387,437	345,700			-	-
Notes receivable				4,999,359	5,942,878	Interest-bearing 5.0% to 7.0%	Unsecured; no impairment

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 2020, 2019 and 2018 consist of short-term employee benefits amounting to ₱3,204.2 million, ₱3,270.9 million and ₱2,544.5 million, respectively, and post-employment benefits amounting to ₱517.8 million, ₱372.7 million and ₱338.2 million, respectively.

23. Selling, General and Administrative Expenses

This account consists of:

	2020	2019	2018
		<i>(In Thousands)</i>	
Personnel cost (Note 22)	₱24,832,719	₱29,924,102	₱23,948,881
Depreciation and amortization (Notes 14, 15, 17 and 27)	18,763,579	19,370,843	15,161,207
Utilities	14,769,462	18,028,601	18,048,050
Taxes and licenses	9,275,332	9,714,573	9,783,825
Outside services	8,180,283	7,048,795	8,339,162
Marketing and selling	3,826,199	6,803,530	5,847,641
Repairs and maintenance	2,984,440	3,067,465	2,977,334
Provisions - net (Note 10)	1,620,414	2,609,386	2,207,458
Supplies	1,577,357	2,474,260	2,584,725
Pension (Note 25)	1,320,622	1,145,678	962,405
Rent (Note 27)	1,114,634	4,474,401	7,668,449
Insurance	953,741	864,113	807,540
Transportation and travel	790,018	1,179,285	1,152,212
Data processing	600,271	788,316	664,778
Entertainment, representation and amusement	382,134	378,813	519,664
Professional fees	379,769	311,659	579,945
Communications	313,823	343,261	353,108
Donations	306,217	359,975	348,486
Royalty, management and service fees (Note 22)	145,011	197,555	183,884
Others	3,346,529	4,173,320	4,280,945
	₱95,482,554	₱113,257,931	₱106,419,699

Others mainly consists of dues and subscriptions, commissions and bank charges.

24. Interest Income and Interest Expense

The sources of interest income and interest expense follow:

	2020	2019	2018
	<i>(In Thousands)</i>		
Interest income on:			
Time deposits and other noncurrent assets (Notes 8 and 17)	₱713,251	₱1,221,890	₱1,551,959
Cash in banks and temporary investments (Note 7)	1,454,905	2,038,322	1,706,201
Financial assets at FVPL (Note 9)	-	-	65,095
Others (Note 12)	267,859	620,944	430,886
	₱2,436,015	₱3,881,156	₱3,754,141
Interest expense on:			
Long-term debt (Note 20)	₱14,857,593	₱16,585,412	₱15,438,325
Bank loans (Note 18)	1,087,746	1,006,880	1,068,852
Lease liabilities (Note 27)	1,874,726	1,676,045	-
Others	203,545	243,408	67,211
	₱18,023,610	₱19,511,745	₱16,574,388

25. Pension Benefits

The Group has funded defined benefit pension plans covering all regular and permanent employees.

Net benefit expense (included under "Selling, general and administrative expenses") consists of:

	2020	2019	2018
	<i>(In Thousands)</i>		
Current service cost	₱1,133,762	₱1,050,358	₱959,134
Net settlement gain	(2,923)	-	-
Net interest cost	196,309	98,138	2,681
Past service cost - curtailment	(6,526)	(2,818)	590
	₱1,320,622	₱1,145,678	₱962,405

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)
<i>(In Thousands)</i>				
As at December 31, 2018	₱8,380,084	₱6,853,702	₱-	₱1,526,382
Net benefit expense (Note 23):				
Current service cost	1,008,560	-	-	1,008,560
Net interest cost	743,511	643,614	108	100,005
	1,752,071	643,614	108	1,108,565
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	-	(8,581)	-	8,581
Actuarial changes arising from:				
Changes in financial assumptions	2,436,454	-	-	2,436,454
Changes in demographic assumptions	17,266	-	-	17,266
Experience adjustment	657,913	-	-	657,913
Others	-	-	(1,689)	(1,689)
	3,111,633	(8,581)	(1,689)	3,118,525
Reclassifications from defined benefit assets	827,328	1,153,704	-	(326,376)
Effect of common control business combination (Note 5)	277	-	-	277
Actual contributions	-	1,607,666	-	(1,607,666)
Benefits paid	(440,647)	(434,477)	-	(6,170)
Transfer to related parties	(9,221)	(9,221)	-	-
Other adjustments	257,003	-	1,581	258,584
As at December 31, 2019	13,878,528	9,806,407	-	4,072,121
Net benefit expense (Note 23):				
Current service cost	886,876	-	-	886,876
Settlement loss	563	-	-	563
Net interest cost	526,669	361,494	15	165,190
	1,414,108	361,494	15	1,052,629
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	-	(523,091)	-	523,091
Actuarial changes arising from:				
Changes in financial assumptions	(1,948,734)	-	-	(1,948,734)
Changes in demographic assumptions	(107,954)	-	-	(107,954)
Experience adjustment	13,285	-	-	13,285
Others	-	-	(32)	(32)
	(2,043,403)	(523,091)	(32)	(1,520,344)
Reclassifications from defined benefit assets	(3,733,524)	(2,810,818)	-	(922,706)
Actual contributions	-	622,667	-	(622,667)
Benefits paid	(1,141,453)	(1,140,586)	-	(867)
Transfer to related parties	(80,911)	(125,999)	-	45,088
Other adjustments	-	-	17	17
As at December 31, 2020	₱8,293,345	₱6,190,074	₱-	₱2,103,271

▪ 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)
<i>(In Thousands)</i>				
As at December 31, 2018	₱1,356,540	₱1,445,254	₱15,245	(₱142,559)
Net benefit expense (Note 23):				
Current service cost	41,798	-	-	41,798
Net interest cost (income)	20,879	23,813	1,067	(1,867)
Past service cost - curtailment	(2,818)	-	-	(2,818)
	59,859	23,813	1,067	37,113
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	-	6,519	-	(6,519)
Actuarial changes arising from:				
Changes in financial assumptions	3,759	-	-	3,759
Changes in demographic assumptions	(120)	-	-	(120)
Experience adjustment	(9,540)	-	-	(9,540)
Others	-	-	(3,529)	(3,529)
	(5,901)	6,519	(3,529)	(15,949)
Reclassifications from defined benefit liabilities	(851,621)	(1,147,177)	-	295,556
Actual contributions	-	104,393	-	(104,393)
Benefits paid	(6,165)	(6,165)	-	-
Transfer from the plan	295	295	-	-
Amount not recognized due to asset limit	-	-	11,299	11,299
Other adjustments	(232,426)	-	(12,788)	(245,214)
As at December 31, 2019	320,581	426,932	11,294	(95,057)
Net benefit expense (Note 23):				
Current service cost	246,886	-	-	246,886
Settlement gain	(3,486)	-	-	(3,486)
Net interest cost	212,714	182,217	622	31,119
Past service cost - curtailment	(6,526)	-	-	(6,526)
	449,588	182,217	622	267,993
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	-	(156,981)	-	156,981
Actuarial changes arising from:				
Changes in financial assumptions	(1,474,549)	-	-	(1,474,549)
Changes in demographic assumptions	(15,423)	-	-	(15,423)
Experience adjustment	195,578	-	-	195,578
Others	-	-	50,700	50,700
	(1,294,394)	(156,981)	50,700	(1,086,713)
Reclassifications from defined benefit liabilities	3,477,855	2,788,251	-	689,604
Actual contributions	-	322,326	-	(322,326)
Benefits paid	(296,125)	(296,125)	-	-
Transfer from the plan	83,842	83,842	-	-
Amount not recognized due to asset limit	-	-	62,605	62,605
Other adjustments	-	-	(62,621)	(62,621)
As at December 31, 2020	₱2,741,347	₱3,350,462	₱62,600	(₱546,515)

The principal assumptions used in determining the pension obligations of the Group follow:

	2020	2019
Discount rate	2.7% - 5.6%	3.8% - 7.7%
Future salary increases	2.0% - 9.0%	2.0% - 9.0%

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:

	2020	2019
	<i>(In Thousands)</i>	
Cash and cash equivalents	P66,755	P485,544
Investment in debt and other securities	2,033,788	2,435,008
Investment in common trust funds	3,720,297	3,852,852
Investment in equity securities	141,993	143,261
Investment in government securities	3,354,562	3,257,911
Others	223,141	58,763
	P9,540,536	P10,233,339

- 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 2.6% to 7.5% and 4.0% to 7.5% in 2020 and 2019, respectively. These have maturities from February 2021 to October 2026 and February 2020 to October 2026 in 2020 and 2019, 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 2.6% to 6.3% and 3.3% to 8.8% in 2020 and 2019, respectively. These bonds have maturities from February 2023 to September 2025 and February 2020 to May 2030 in 2020 and 2019, 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:

	2020	2019
	<i>(In Thousands)</i>	
Balances:		
Cash and cash equivalents	P66,755	P485,544
Investment in common trust funds	3,720,297	3,852,852
Transactions:		
Interest income from cash and cash equivalents	41,161	183,328
Gains from investment in common trust funds	-	110,455

The Group expects to contribute about P893.3 million to its Pension Plan in 2021.

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, 2020 and 2019, with all other assumptions held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation <i>(In Thousands)</i>
2020		
Discount rates	50	(P458,782)
	(50)	451,759
Future salary increases	100	881,326
	(100)	(766,679)
No attrition rate	-	1,772,843
2019		
Discount rates	50	(P554,688)
	(50)	541,759
Future salary increases	100	1,101,148
	(100)	(1,607,872)
No attrition rate	-	2,157,892

The average duration of the Group's defined benefit obligation is 3 to 30 years in 2020 and 3 to 28 years in 2019.

The maturity analysis of the undiscounted benefit payments follows:

	2020	2019
	<i>(In Thousands)</i>	
Year 1	P2,152,675	P1,614,943
Year 2	807,739	548,903
Year 3	889,078	379,677
Year 4	899,571	479,300
Year 5	943,484	476,010
Year 6 -10	5,316,001	3,120,444

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:

	2020	2019
	<i>(In Thousands)</i>	
Deferred tax assets:		
Excess of fair values over cost of investment properties	P936,986	P1,151,366
NOLCO	957,572	413,026
Lease liabilities	5,474,118	7,717,920
Accrued leases	3,327,667	749,979
Provision for doubtful accounts and others	686,475	1,177,356
Unamortized past service cost and defined benefit liability	535,173	1,009,245
MCIT	589,212	17,088
	12,507,203	12,235,980

(Forward)

	2020	2019
	<i>(In Thousands)</i>	
Deferred tax liabilities:		
Appraisal increment on investment property	₱2,843,288	₱3,013,880
ROU assets	6,995,580	7,319,668
Trademarks and brand names	1,879,000	1,879,000
Capitalized interest	2,442,990	1,768,391
Unrealized gross profit on sale of real estate	5,426,854	3,935,005
Excess of fair values over cost of equity instruments	146,893	125,084
Unamortized past service cost and defined benefit asset	83,053	186,000
Accrued/deferred rent income	107,065	114,875
Others	525,490	377,003
	20,450,213	18,718,906
Net deferred tax liabilities	₱7,943,010	₱6,482,926

The net deferred tax assets and liabilities are presented in the consolidated balance sheets as follows:

	2020	2019
	<i>(In Thousands)</i>	
Deferred tax assets	₱4,671,969	₱3,121,117
Deferred tax liabilities	12,614,979	9,604,043
	₱7,943,010	₱6,482,926

The unrecognized deferred tax assets from the deductible temporary differences and carryforward benefits of NOLCO and MCIT amounted to ₱5,737.5 million and ₱5,356.6 million as at December 31, 2020 and 2019, respectively.

The reconciliation between the statutory tax rates and the Group's effective tax rate on income before income tax follows:

	2020	2019	2018
Statutory income tax rate	30%	30%	30%
Income tax effect of reconciling items:			
Equity in net earnings of associate companies and joint ventures	(12)	(9)	(8)
Interest income subjected to final tax	(2)	(1)	(2)
Others	1	-	1
Effective income tax rate	17%	20%	21%

27. Lease Agreements

As Lessor. The Group's lease agreements with its tenants are generally granted for a term of one to twenty-five years. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay a fixed monthly rent which is calculated with reference to a fixed sum per square meter of area leased except for a few tenants which pay either a fixed monthly rent or a percentage of gross sales, whichever is higher.

The future minimum lease receivables under the non-cancellable operating leases follow:

	2020	2019
	<i>(In Millions)</i>	
Within one year	₱8,594	₱6,778
After one year but not more than five years	18,199	19,188
More than five years	9,256	6,520
	₱36,049	₱32,486

As Lessee. The Group leases certain parcels of land where some of its malls are situated as well as retail store, office spaces and warehouses. The terms of the lease are for periods ranging from ten 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:

	2020		
	Land Use Rights	Retail Stores, Office Spaces and Warehouses	Total
	<i>(In Thousands)</i>		
Cost			
As at beginning of year	₱20,955,223	₱20,291,858	₱41,247,081
Additions	3,276,229	4,175,989	7,452,218
Translation adjustment	111,741	-	111,741
Disposals	-	(1,039,117)	(1,039,117)
As at end of year	24,343,193	23,428,730	47,771,923
Accumulated Depreciation and Amortization			
As at beginning of year	505,171	3,077,734	3,582,905
Depreciation and amortization (Note 23)	504,613	2,566,999	3,071,612
Translation adjustment	5,041	-	5,041
Disposals	-	(866,664)	(866,664)
As at end of year	1,014,825	4,778,069	5,792,894
Net Book Value	₱23,328,368	₱18,650,661	₱41,979,029

	2019		
	Land Use Rights	Retail Stores, Office Spaces and Warehouses	Total
	<i>(In Thousands)</i>		
Cost			
As at beginning of year	P18,293,095	P13,727,159	P32,020,254
Additions	3,000,000	5,531,627	8,531,627
Reclassifications	145,995	1,033,072	1,179,067
Translation adjustment	(481,794)	-	(481,794)
Disposals	(2,073)	-	(2,073)
As at end of year	20,955,223	20,291,858	41,247,081
Accumulated Depreciation and Amortization			
As at beginning of year	-	-	-
Depreciation and amortization (Note 23)	510,196	3,077,734	3,587,930
Translation adjustment	(4,415)	-	(4,415)
Disposals	(610)	-	(610)
As at end of year	505,171	3,077,734	3,582,905
Net Book Value	P20,450,052	P17,214,124	P37,664,176

The rollforward analysis of lease liabilities follows:

	2020	2019
	<i>(In Thousands)</i>	
As at beginning of year	P29,134,546	P24,781,169
Additions	4,175,989	5,531,627
Interest expense (Note 24)	1,874,726	1,676,045
Rent concessions (Note 23)	(275,102)	-
Terminations	(192,237)	-
Payments	(3,838,044)	(2,854,295)
As at end of year	30,879,878	29,134,546
Less current portion (Note 19)	2,011,714	1,534,154
Noncurrent portion	P28,868,164	P27,600,392

Following are the amounts recognized in the consolidated statements of income:

	2020	2019
	<i>(In Thousands)</i>	
Depreciation of ROU assets	P3,071,612	P3,587,930
Interest expense on lease liabilities	1,874,726	1,676,045

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:

	2020	2019
	<i>(In Millions)</i>	
Within one year	P4,119	P4,565
Over one year but no more than five years	14,858	12,954
Over five years	40,043	29,350
	P59,020	P46,869

Tenants' deposits amounted to P22,551.7 million and P23,607.1 million as at December 31, 2020 and 2019, respectively.

28. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, consist of cash and cash equivalents, time deposits, financial assets, non-trade receivables, bonds and deposits, receivables from banks, accrued interest receivable, bank loans, long-term debt and lease liabilities. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial instruments such as receivables and accounts payable and other current liabilities, which arise directly from its operations.

The Group also enters into derivative transactions, mainly, cross-currency swaps, interest rate swaps, foreign currency call options and non-deliverable forwards. The purpose is to manage the interest rate and foreign currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments follow:

- *Interest rate risk.* Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly done at intervals of three or six months.
- *Foreign currency risk.* The Group's exposure to foreign currency risk arises as the Parent Company and SM Prime have significant investments and debt issuances which are denominated in U.S. Dollars and China Yuan Renminbi.
- *Liquidity risk.* Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.
- *Credit risk.* Refers to the risk that a borrower will default on any type of debt by failing to make the required payments.
- *Equity price risk.* The Group's exposure to equity price risk pertains to its investments in quoted equity shares which are classified as equity investments at FVOCI in the consolidated balance sheets. Equity price risk arises from changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

The BOD reviews and approves the policies for managing each of these risks.

Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations (see Note 20).

The Group maintains a conservative financing strategy and has preference for longer tenor credit with fixed interest rate that matches the nature of its investments. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps and cross-currency swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed notional amount. The interest rate swaps economically hedge the underlying debt obligations. The cross-currency swaps were designated by the Group under cash flow hedge accounting.

As at December 31, 2020 and 2019, after taking into account the effect of the swaps, approximately 79.8% and 79.0%, respectively of the Group's borrowings, net of debt issue cost, is kept at fixed interest rates.

Interest Rate Risk Sensitivity Analysis. The sensitivity analysis for a reasonably possible change in interest rates, with all other variables held constant, of the Group's interest-bearing debt with floating interest rates, follows:

	Increase (Decrease) in Basis Points	Effect on Income Before Tax <i>(In Millions)</i>
2020	100	(P169.1)
	50	(84.5)
	(100)	169.1
	(50)	84.5
2019	100	(P172.7)
	50	(86.4)
	(100)	172.7
	(50)	86.4

The assumed movement in basis points for interest rate sensitivity analysis is based on observable market conditions.

Foreign Currency Risk

The Group aims to reduce foreign currency risks by employing on-balance sheet hedges and derivatives such as foreign currency swap contracts, foreign cross-currency swaps, foreign currency call options and non-deliverable forwards.

The Group's foreign currency-denominated financial assets and liabilities and their peso equivalents follow:

	2020		2019	
	US\$	PhP	US\$	PhP
	<i>(In Thousands)</i>			
Current assets:				
Cash and cash equivalents	\$3,162	P151,858	\$10,003	P506,525
Receivables and contract assets	986	47,335	1,023	51,800
Noncurrent assets:				
Time deposits	353,502	16,976,245	361,896	18,324,621
Other noncurrent assets	138,486	6,650,501	136,949	6,934,428
Total assets	496,136	23,825,939	509,871	25,817,374
Current liabilities:				
Accounts payable and other current liabilities	1,155	55,446	1,223	61,939
Noncurrent liabilities:				
Long-term debt - net of current portion	475,850	22,851,753	475,028	24,053,060
Total liabilities	477,005	22,907,199	476,251	24,114,999
Net	\$19,131	P918,740	\$33,620	P1,702,375

As at December 31, 2020 and 2019, approximately 22.8% and 23.1%, respectively, of the Group's borrowings, net of debt issue cost, are denominated in foreign currency.

The Group recognized net foreign exchange gain (loss) of P301.7 million gain, P561.7 million gain and P182.5 million loss in 2020, 2019 and 2018, 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, 2020	P48.02
December 31, 2019	50.64
December 31, 2018	52.58

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
		<i>(In Millions)</i>
2020	1.50	P28.7
	1.00	19.1
	(1.50)	(28.7)
	(1.00)	(19.1)
2019	1.50	P50.4
	1.00	33.6
	(1.50)	(50.4)
	(1.00)	(33.6)

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:

	2020	2019
	<i>(In Thousands)</i>	
Cash and cash equivalents	P78,159,197	P76,213,774
Current portion of time deposits	31,012	30,488

The maturity profile of the Group's financial liabilities follow:

	2020			
	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
	<i>(In Thousands)</i>			
Bank loans	P24,126,000	P-	P-	P24,126,000
Accounts payable and other current liabilities *	131,739,712	-	-	131,739,712
Long-term debt (including current portion) **	68,844,675	354,465,676	18,264,810	441,575,161
Derivative liabilities**	357,662	5,767,463	-	6,125,125
Dividends payable	3,829,207	-	-	3,829,207
Lease liabilities	4,118,901	14,857,947	40,042,860	59,019,708
Tenants' deposits **	351,473	21,641,732	130,122	22,123,327
Other noncurrent liabilities ***	61,548	5,694,993	794,710	6,551,251
	P233,429,178	P402,427,811	P59,232,502	P695,089,491

*Excluding payables to government agencies of P4,772.0 million, which are not considered as financial liabilities.

**Based on estimated future cash flows.

***Excluding nonfinancial liabilities amounting to P8,806.2 million.

	2019			
	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
	<i>(In Thousands)</i>			
Bank loans	P18,710,465	P-	P-	P18,710,465
Accounts payable and other current liabilities *	122,251,417	-	-	122,251,417
Long-term debt (including current portion) **	37,745,146	336,519,185	96,164,360	470,428,691
Derivative liabilities**	-	1,966,090	-	1,966,090
Dividends payable	4,204,962	-	-	4,204,962
Lease liabilities	3,859,945	12,334,377	25,810,461	42,004,783
Tenants' deposits **	297,039	21,306,522	64,830	21,668,391
Other noncurrent liabilities ***	-	22,775,561	-	22,775,561
	P187,068,974	P394,901,735	P122,039,651	P704,010,360

*Excluding payables to government agencies of P6,331.9 million, which are not considered as financial liabilities.

**Based on estimated future cash flows.

***Excluding nonfinancial liabilities amounting to P5,086.4 million.

Credit Risk

The Group trades only with recognized and creditworthy related and third parties. The Group policy requires customers who wish to trade on credit terms to undergo credit verification. In addition, receivable balances are monitored on a regular basis to keep exposure to bad debts at the minimum. Given the Group's diverse customer base, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Group which consist of cash and cash equivalents, time deposits and certain derivative instruments, the Group's credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Receivables from sale of real estate have minimal credit risk and are effectively collateralized by the respective units sold since title to the real estate properties are not transferred to the buyers until full payment is made.

As at December 31, 2020 and 2019, 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.

	2020			2019		
	High Quality	Standard Quality	Total	High Quality	Standard Quality	Total
<i>(In Thousands)</i>						
Cash and cash equivalents (excluding cash on hand)	P76,819,031	P-	P76,819,031	P74,274,369	P-	P74,274,369
Time deposits including noncurrent portion	1,387,454	-	1,387,454	2,443,460		2,443,460
Financial assets at FVOCI	26,145,159	1,701,227	27,846,386	22,253,153	2,635,485	24,888,638
Receivables and contract assets - net (including noncurrent portion of receivables from real estate buyers)*	50,056,968	6,736,112	56,793,080	46,018,028	8,873,608	54,891,636
Advances and other receivables - net (includes non-trade receivables, bonds and deposits, receivable from banks, notes receivable and accrued interest receivable under "Other current assets" account in the consolidated balance sheets)**	20,442,625	-	20,442,625	21,431,159	-	21,431,159
Escrow fund	276,669	-	276,669	250,445	-	250,445
Other noncurrent assets:						
Bonds and deposits	16,808,050	-	16,808,050	17,722,250	-	17,722,250
Long-term notes	4,999,359	-	4,999,359	5,942,878	-	5,942,878

(Forward)

	2020			2019		
	High Quality	Standard Quality	Total	High Quality	Standard Quality	Total
<i>(In Thousands)</i>						
Derivative assets (including noncurrent portion)	2,747	–	2,747	826,315	–	826,315
	P196,938,062	P8,437,339	P205,375,401	P191,162,057	P11,509,093	P202,671,150

*Excluding non-financial assets amounting to P44,272.2 million and P20,268.6 million as at December 31, 2020 and 2019, respectively.

**Excluding non-financial assets amounting to P121.7 million and P449.3 million as at December 31, 2020 and 2019, 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
		<i>(In Millions)</i>
2020	+1.2%	P359.1
	-1.2%	(359.1)
2019	+2.9%	P838.5
	-2.9%	(838.5)

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes appropriate adjustments based on changes in economic conditions. Accordingly, the Group may adjust dividend payments to shareholders, secure new and/or pay off existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by maintaining its net debt at no higher than 50% of the sum of net debt and equity.

Net Gearing Ratio

	2020	2019
	<i>(In Thousands)</i>	
Bank loans	P24,126,000	P18,710,465
Long-term debt (current and noncurrent)	390,853,236	356,435,927
Less:		
Cash and cash equivalents (excluding cash on hand)	(76,819,031)	(74,274,369)
Time deposits (current and noncurrent)	(1,387,454)	(2,443,460)
Net interest-bearing debt (a)	336,772,751	298,428,563
Total equity	564,727,898	536,151,478
Net interest-bearing debt and total equity (b)	P901,500,649	P834,580,041
Gearing ratio - net (a/b)	37%	36%

Gross Gearing Ratio

	2020	2019
	<i>(In Thousands)</i>	
Bank loans	P24,126,000	P18,710,465
Long-term debt	390,853,236	356,435,927
Total interest-bearing debt (a)	414,979,236	375,146,392
Total equity	564,727,898	536,151,478
Total interest-bearing debt and total equity (b)	P979,707,134	P911,297,870
Gearing ratio - gross (a/b)	42%	41%

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:

	2020				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<i>(In Thousands)</i>				
Assets Measured at Fair Value					
Financial assets at FVOCI					
Listed shares of stock	P26,133,219	P26,133,219	P26,133,219	P-	P-
Unlisted shares of stock	1,701,227	1,701,227	-	-	1,701,227
Club shares	11,940	11,940	-	11,940	-
Derivative assets	2,747	2,747	-	2,747	-
	27,849,133	27,849,133	26,133,219	14,687	1,701,227
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	1,356,442	1,356,442	-	1,356,442	-
Other noncurrent assets:					
Bonds and deposits	16,808,050	19,271,918	-	-	19,271,918
Long-term notes	4,999,359	6,068,924	-	-	6,068,924
	23,163,851	26,697,284	-	1,356,442	25,340,842
	P51,012,984	P54,546,417	P26,133,219	P1,371,129	P27,042,069
Liabilities Measured at Fair Value					
Derivative liabilities	P6,125,125	P6,125,125	P-	P6,125,125	P-
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion, net of debt issue cost)	330,731,798	332,475,152	-	-	332,475,152
Lease liabilities - noncurrent portion	28,868,164	30,776,929	-	-	30,776,929
Tenants' deposits and others*	30,947,183	18,298,284	-	-	18,298,284
	390,547,145	381,550,365	-	-	381,550,365
	P396,672,270	P387,675,490	P-	P6,125,125	P381,550,365

*Excluding nonfinancial liabilities amounting to P8,806.2 million

2019					
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(In Thousands)</i>					
Assets Measured at Fair Value					
Financial assets at FVOCI					
Listed shares of stock	P22,240,653	P22,240,653	P22,240,653	P-	P-
Unlisted shares of stock	2,635,484	2,635,484	-	-	2,635,484
Club shares	12,500	12,500	-	12,500	-
Derivative assets	826,315	826,315	-	826,315	-
	25,714,952	25,714,952	22,240,653	838,815	2,635,484
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	2,412,972	2,386,637	-	-	2,386,637
Other noncurrent assets:					
Bonds and deposits	17,722,250	19,763,982	-	-	19,763,982
Long-term notes	5,942,878	7,577,904	-	-	7,577,904
	26,078,100	29,728,523	-	-	29,728,523
	P51,793,052	P55,443,475	P22,240,653	P838,815	P32,364,007
Liabilities Measured at Fair Value					
Derivative liabilities	P1,966,090	P1,966,090	P-	P1,966,090	P-
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	327,358,208	331,463,306	-	-	331,463,306
Lease liabilities - noncurrent portion	27,600,392	38,144,838	-	-	38,144,838
Tenants' deposits and others*	35,607,059	32,355,186	-	-	32,355,186
	390,565,659	401,963,330	-	-	401,963,330
	P392,531,749	P403,929,420	P-	P1,966,090	P401,963,330

*Excluding nonfinancial liabilities amounting to P5,086.4 million.

There were no transfers into and out of Levels 1, 2 and 3 fair value measurements as at December 31, 2020 and 2019.

The estimated fair value of the following financial instruments is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used follow:

	2020	2019
Noncurrent portion of time deposits	2.1% - 5.5%	4.4% - 4.7%
Other noncurrent assets:		
Bond and deposits	0.3%	1.7%
Long-term notes	0.2% - 0.3%	1.7% - 1.9%
Tenants' deposits	1.0% - 5.5%	3.1% - 4.7%

Long-term Debt. The fair value of long-term debt is estimated based on the following assumptions:

Debt	Fair Value Assumptions
Fixed Rate	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 0.2% to 4.7% and 1.7% to 6.5% as at December 31, 2020 and 2019, respectively.

(Forward)

Debt	Fair Value Assumptions
Variable Rate	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used were 3.7% to 4.4% and 3.0% to 7.0% as at December 31, 2020 and 2019, 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:

	2020	2019
	<i>(In Thousands)</i>	
Balance at beginning of year	(P1,139,775)	P1,231,780
Net changes in fair value during the year	(4,989,108)	(2,223,363)
Fair value on settled derivatives	6,505	(148,192)
	(P6,122,378)	(P1,139,775)

Derivative Instruments Accounted for as Cash Flow Hedges

As at December 31, 2020, the Parent Company and SM Prime have outstanding arrangements to hedge both foreign currency and interest rate exposure on its foreign currency-denominated debt. Details follow:

Cross-currency swaps:

	Notional Amount			Principal	Fair Value	Receive	Pay	US\$:PhP	US\$:CN¥	Maturity
	<i>(In US\$)</i>	<i>(In PhP)</i>	<i>(In CN¥)</i>							
	<i>(In Thousands)</i>									
Parent:										
	\$53,000	P2,761,300		P2,545,219	(P380,272)	LIBOR + spread	5.3%	P52.10		March 6, 2023
	100,000	5,210,000		4,802,300	(850,606)	LIBOR + spread	5.9%	52.10		April 16, 2023
	56,159	3,000,000		2,696,911	(601,111)	LIBOR + spread	6.1%	53.42		July 26, 2023
	100,000	5,140,000		4,802,300	(761,994)	LIBOR + spread	5.5%	51.40		June 28, 2024
	100,000	5,115,000		4,802,300	(727,202)	LIBOR + spread	5.4%	51.15		June 28, 2024
SM Prime:										
	100,000	4,827,000		4,802,300	(40,795)	LIBOR + spread	3.3%	48.27		September 30, 2022
	50,000	2,666,500		2,401,150	(502,857)	LIBOR + spread	6.4%	53.33		June 14, 2023
	60,000	3,199,200		2,881,380	(606,281)	LIBOR + spread	6.4%	53.32		June 14, 2023
	75,000	3,639,000		3,601,725	(103,354)	LIBOR + spread	3.6% - 3.7%	48.52		April 5, 2024
	75,000	3,637,500		3,601,725	(103,101)	LIBOR + spread	3.6% - 3.7%	48.50		April 5, 2024
	25,000		¥172,100	1,200,575	(110,883)	LIBOR + spread	5.4%		¥6.884	March 27, 2022
	25,000		172,300	1,200,575	(110,032)	LIBOR + spread	5.4%		6.892	March 27, 2022
	50,000		327,315	2,401,150	(89,893)	LIBOR + spread	5.0%		6.546	June 30, 2022
	50,000		335,940	2,401,150	(140,845)	LIBOR + spread	4.0%		6.719	February 28, 2024
	50,000		335,725	2,401,150	(110,383)	LIBOR + spread	3.9%		6.715	February 28, 2024
	50,000		335,750	2,401,150	(140,323)	LIBOR + spread	3.9%		6.715	February 28, 2024
	50,000		334,400	2,401,150	(148,846)	LIBOR + spread	3.9%		6.688	February 28, 2024
	50,000		335,750	2,401,150	(137,616)	LIBOR + spread	3.9%		6.715	February 28, 2024
	36,000		241,643	1,728,828	(100,525)	LIBOR + spread	3.9%		6.712	February 28, 2024

Principal only and interest rate swaps:

	Notional Amount	Principal	Fair Value		US\$:CNY	Interest Rate	Maturity
			Principal Only Swap	Interest Rate Swap			
		(In Thousands)					
SM Prime	US\$270,000	₱12,966,270	(₱299,700)	(₱55,216)	¥6.458-6.889	6.2%	January 29, 2021

As the terms of the swaps have been negotiated to match the terms of the hedged loans and advances, the hedges were assessed to be highly effective.

Other Derivative Instruments Not Designated as Accounting Hedges

Non-deliverable Forwards and Swaps. The net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statements of income amounted to loss of ₱6.5 million and ₱2.0 million in 2020 and 2019, respectively.

30. EPS Computation

	2020	2019	2018
	(In Thousands Except Per Share Data)		
Net income attributable to owners of the Parent (a)	₱23,389,950	₱44,568,244	₱37,078,325
Weighted average number of common shares outstanding (b)	1,204,583	1,204,583	1,204,583
EPS (a/b)	₱19.42	₱37.00	₱30.78

31. Change in Liabilities Arising From Financing Activities

	2020			2019		
	Bank Loans (Note 18)	Long-term Debt (Note 20)	Lease Liabilities (Note 27)	Bank Loans (Note 18)	Long-term Debt (Note 20)	Lease Liabilities (Note 27)
	(In Thousands)					
Balance at beginning of year	₱18,710,465	₱356,435,927	₱29,134,546	₱18,885,465	₱367,036,243	₱24,781,169
Availments	82,880,520	75,253,912	4,175,989	25,266,865	52,895,468	5,531,627
Payments	(77,464,985)	(36,158,696)	(3,838,044)	(21,376,865)	(64,799,259)	(2,854,295)
Cumulative translation adjustment on cash flow hedges	-	(702,490)	-	-	(1,841,637)	-
Foreign exchange movement	-	(3,685,613)	-	-	(929,710)	-
Reclassification	-	-	-	(4,065,000)	4,065,000	-
Others	-	(289,804)	1,407,387	-	9,822	1,676,045
Balance at end of year	₱24,126,000	₱390,853,236	₱30,879,878	₱18,710,465	₱356,435,927	₱29,134,546

There are no non-cash changes in accrued interest and dividends payable. Others include debt accretion and debt issue cost amortization.

32. Reclassification

The Group reclassified certain income accounts in 2019 to conform to the 2020 presentation and classification. The reclassification has no impact on the 2020 and 2019 profit or loss and equity of the Group.

33. Other Matters

COVID-19 Outbreak

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region (NCR) effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an ECQ throughout the island of Luzon until April 12, 2020, which was subsequently extended to April 30, 2020 and further extended to May 15, 2020. The ECQ shifted to modified enhanced community quarantine (MECQ) until May 31, 2020 and to general community quarantine (GCQ) for NCR and certain provinces until the first part of the third quarter. Subsequently, MECQ was once again imposed on select areas including Metro Manila and a few other provinces in the National Capital Region from August 4 to 18, 2020 then back again to GCQ until December 31, 2020.

The COVID-19 pandemic has caused disruptions in the Group's business activities. As this global problem evolves, the Group will continually adapt and adjust its business model according to the business environment in the areas where the Group operates, in full cooperation with the national and local government units.

List of Member Associations

ASEAN Business Advisory
 Asia Business Council
 Asia Society Philippine Foundation
 Canadian Chamber of Commerce of the Philippines
 East Asia Business Council
 Financial Executives Institute of the Philippines
 Good Governance Advocates and Practitioners of the Philippines
 Institute of Corporate Directors
 Philippine Trade Foundation
 Makati Business Club
 Management Association of the Philippines
 People Association of Management Accountants
 Philippine Chamber of Commerce and Industry
 Tax Management Association of the Philippines
 United Nations Global Compact Network Philippines
 World Economic Forum

Corporate Information

Company Headquarters

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 Pasay City, 1300 Philippines

Stockholder Inquiries

SM Investments Corporation's common stock is listed and traded in the Philippine Stock Exchange under the symbol 'SM.' Inquiries regarding dividend payments, account status, address change, stock certificates and other pertinent matters may be addressed to the company's transfer agent:

BDO Unibank, Inc.
 Stock Transfer Unit
 15th Floor, South Tower, BDO Corporation Center
 7899 Makati Avenue, Makati City 0726
 Trunk Line: 8840-700
 Direct Lines: 8878-4961, 8878-4963 to 4965
 Fax: 8878-4056
 E-mail: bdo-stock-transfer@bdo.com.ph

Sustainability Inquiries

Inquiries regarding SM Investments Corporation's sustainability programs or this Integrated Report may be addressed to: ir@sminvestments.com or sustainability@sminvestments.com



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