SM PRIME

Together, We Rise

2021 Integrated Report

SGV
Building a better working world

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INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
SM Prime Holdings, Inc.
10th Floor, Mall of Asia Arena Annex Building
Coral Way cor. J.W. Diokno Blvd.
Mall of Asia Complex
Brgy. 76, Zone 10, CBP-1A, Pasay City, Philippines

Opinion

We have audited the consolidated financial statements of SM Prime Holdings, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2021 and 2020, 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, 2021, 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 Company as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2021 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Real Estate Revenue and Cost Recognition

The Company's real estate revenue recognition process, policies and procedures are significant to our audit because these involve application of significant judgment and estimation in the following areas: (1) assessment of the probability that the entity will collect the consideration from the buyer; (2) determination of the transaction price; (3) application of the output method as the measure of progress in determining revenue from sale of real estate; (4) determination of the actual costs incurred as cost of real estate sold; and (5) recognition of cost to obtain a contract.

In evaluating whether collectability of the amount of consideration is probable, the Company considers the significance of the buyer's initial payments in relation to the total contract price (or buyer's equity). Collectability is also assessed by considering factors such as 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 buyer's equity before commencing revenue recognition.

Effective January 1, 2021, the Company adopted PIC Q&A 2018-12-D (as amended by PIC Q&A 2020-04). In determining the transaction price, the Company considers whether the selling price of the real estate property includes significant financing component.

Effective January 1, 2021, the Company adopted PIC Q&A 2018-12-E (as amended by PIC Q&A 2020-02). In measuring the progress of its performance obligation over time, the Company uses the output method. This method measures progress of work based on physical proportion of work done, including the impact of customized uninstalled materials, on the real estate project which requires technical determination by the Company's project engineers. This is based on the monthly project accomplishment report prepared by the third-party project managers as approved by the construction managers.

In determining the actual costs incurred to be recognized as cost of real estate sold, the Company estimates costs incurred on materials, labor and overhead which have not yet been billed by the contractor.

The Company identifies sales commissions after contract inception as cost of obtaining a contract. For contracts which qualified for revenue recognition, the Company capitalizes the total sales commissions due to sales agent as cost to obtain a contract and recognizes the related commissions payable. The Company uses percentage of completion (POC) method in amortizing sales commissions consistent with the Company's revenue recognition policy.

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

Audit Response

We obtained an understanding of the Company's real estate revenue recognition process.

For the buyer's equity, we evaluated management's basis of the buyer's equity by comparing this to the historical analysis of sales cancellations from buyers with accumulated payments above the collection threshold. We also considered the impact of the coronavirus pandemic to the level of cancellations during the year. We traced the analysis to supporting documents such as notice of sales cancellation.

For the determination of the transaction price, we obtained an understanding of the Company's process in implementing PIC Q&A 2018-12-D (as amended by PIC Q&A 2020-04), including the determination of the population of contracts with customers related to real estate sale, the selection of the transition approach and election of available practical expedient. We selected sample contracts from the sales contract database and identified their payment terms. We traced these selected contracts to the financing component calculation prepared by management, which covers the calculation on whether the financing component of the Company's contract with customers is significant. For selected contracts, we traced the underlying data and assumptions used in the financing component calculation such as transaction price, cash discount, payment scheme, payment amortization table, percentage of completion to the contract provision and projected percentage of completion schedule. We evaluated the Company's application of portfolio approach in the financing component calculation by understanding the rationale and basis of the parameters used (i.e., grouping of performance obligation based on percentage of completion, grouping of contracts based on payment scheme). We test computed the financing component of each portfolio as prepared by management.

For the application of the output method, in determining revenue from sale of real estate, we obtained an understanding of the Company's processes for determining the POC, including implementation of PIC Q&A 2018-12-E (as amended by PIC Q&A 2020-02), 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 Company'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 and accomplishment reports, among others.

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2021, 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, 2021 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Belinda T. Beng Hui.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
Tax Identification No. 153-978-243
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 88823-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-078-2020, December 3, 2020, valid until December 2, 2023
PTR No. 8853472, January 3, 2022, Makati City

February 24, 2022

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 19, 26 and 27)	**₱39,775,852**	₱30,661,614
Receivables and contract assets (Notes 7, 14, 19, 26 and 27)	**73,019,966**	58,944,930
Real estate inventories (Note 8)	**56,575,047**	43,691,877
Equity instruments at fair value through other comprehensive income (FVOCI) (Notes 9, 19, 26 and 27)	**547,041**	568,146
Derivative assets (Notes 26 and 27)	**753,506**	2,747
Prepaid expenses and other current assets (Notes 10, 19, 26 and 27)	**24,993,357**	23,205,662
Total Current Assets	**195,664,769**	157,074,976
Noncurrent Assets		
Equity instruments at FVOCI - net of current portion (Notes 9, 19, 26 and 27)	**17,400,372**	16,131,568
Investment properties (Notes 12, 17 and 25)	**467,391,988**	436,159,081
Investments in associates and joint ventures (Note 13)	**29,187,435**	27,735,239
Property and equipment - net (Notes 11 and 25)	**1,372,276**	1,311,208
Deferred tax assets - net (Note 24)	**734,975**	831,546
Derivative assets - net of current portion (Notes 26 and 27)	**1,043,670**	–
Other noncurrent assets (Notes 14, 19, 23, 26 and 27)	**91,607,795**	83,115,307
Total Noncurrent Assets	**608,738,511**	565,283,949
	₱804,403,280	₱722,358,925
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Notes 15, 19, 26 and 27)	**₱6,487,427**	₱10,900,000
Accounts payable and other current liabilities (Notes 16, 19, 26 and 27)	**91,377,717**	81,033,985
Current portion of long-term debt (Notes 17, 19, 26 and 27)	**42,261,601**	42,738,350
Derivative liabilities (Notes 26 and 27)	**335,367**	357,662
Income tax payable	**563,387**	957,906
Total Current Liabilities	**141,025,499**	135,987,903
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 17, 19, 26 and 27)	**264,969,216**	218,830,647
Tenants' and customers' deposits - net of current portion (Notes 16, 25, 26 and 27)	**21,458,281**	21,331,869
Liability for purchased land - net of current portion (Notes 16, 26 and 27)	**2,540,050**	1,251,227
Deferred tax liabilities - net (Note 24)	**9,688,555**	6,786,018
Derivative liabilities - net of current portion (Notes 26 and 27)	**1,748,186**	2,445,735
Other noncurrent liabilities (Notes 16, 23, 26 and 27)	**28,612,720**	25,007,898
Total Noncurrent Liabilities	**329,017,008**	275,653,394
Total Liabilities *(Carried Forward)*	**470,042,507**	411,641,297

	December 31	
	2021	2020
Total Liabilities *(Brought Forward)*	**₱470,042,507**	₱411,641,297
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 18 and 28)	**33,166,300**	33,166,300
Additional paid-in capital - net (Notes 5 and 18)	**38,056,016**	38,022,913
Cumulative translation adjustment	**3,083,184**	1,524,439
Net fair value changes of equity instruments at fair value through other comprehensive income (Note 9)	**14,708,368**	13,460,669
Net fair value changes on cash flow hedges (Note 27)	**(432,883)**	(1,769,030)
Remeasurement loss on defined benefit obligation (Note 23)	**(548,643)**	(587,796)
Retained earnings (Note 18):		
Appropriated	**42,200,000**	42,200,000
Unappropriated	**205,671,557**	186,251,267
Treasury stock (Notes 18 and 28)	**(2,984,695)**	(2,984,695)
Total Equity Attributable to Equity Holders of the Parent	**332,919,204**	309,284,067
Non-controlling Interests (Note 18)	**1,441,569**	1,433,561
Total Equity	**334,360,773**	310,717,628
	₱804,403,280	₱722,358,925

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

	Years Ended December 31		
	2021	2020	2019
REVENUE			
Real estate sales	**₱45,116,120**	₱46,973,399	₱44,465,454
Rent (Notes 12, 19 and 25)	**34,694,185**	32,013,024	61,759,921
Others (Notes 19 and 20)	**2,505,179**	2,912,875	12,086,115
	82,315,484	81,899,298	118,311,490
COSTS AND EXPENSES (Note 21)	**49,900,933**	52,825,112	61,619,162
INCOME FROM OPERATIONS	**32,414,551**	29,074,186	56,692,328
OTHER INCOME (CHARGES)			
Interest expense (Notes 15, 17, 19, 22, 26 and 27)	**(9,357,616)**	(8,596,750)	(8,832,770)
Interest and dividend income (Notes 6, 7, 9, 10, 14, 19 and 22)	**1,025,066**	1,207,227	1,746,406
Others - net (Notes 12, 13, 16, 17, 19 and 27)	**3,651,524**	779,078	(443,970)
	(4,681,026)	(6,610,445)	(7,530,334)
INCOME BEFORE INCOME TAX	**27,733,525**	22,463,741	49,161,994
PROVISION FOR INCOME TAX (Note 24)			
Current	**2,816,720**	1,761,051	9,282,069
Deferred	**3,005,402**	2,562,953	1,091,252
	5,822,122	4,324,004	10,373,321
NET INCOME	**₱21,911,403**	₱18,139,737	₱38,788,673
Attributable to:			
Equity holders of the Parent (Notes 18 and 28)	**₱21,786,516**	₱18,006,512	₱38,085,601
Non-controlling interests (Note 18)	**124,887**	133,225	703,072
	₱21,911,403	₱18,139,737	₱38,788,673
Basic/Diluted earnings per share (Note 28)	**₱0.755**	₱0.624	₱1.320
Dividend per share (Note 18)	**₱0.082**	₱0.185	₱0.350

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2021	2020	2019
NET INCOME	**₱21,911,403**	₱18,139,737	₱38,788,673
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified to profit or loss in subsequent periods:			
Unrealized gain (loss) due to changes in fair value of financial assets at fair value through other comprehensive income (Note 9)	**1,247,699**	(4,380,321)	1,635,574
Remeasurement gain (loss) on defined benefit obligation (Note 23)	**38,020**	329,172	(567,868)
	1,285,719	(4,051,149)	1,067,706
Items that may be reclassified to profit or loss in subsequent periods:			
Cumulative translation adjustment	**1,558,745**	180,165	(611,725)
Net fair value changes on cash flow hedges (Note 27)	**1,336,147**	(440,863)	(486,069)
	4,180,611	(4,311,847)	(30,088)
TOTAL COMPREHENSIVE INCOME	**₱26,092,014**	₱13,827,890	₱38,758,585
Attributable to:			
Equity holders of the Parent (Note 18)	**₱25,968,260**	₱13,688,396	₱38,058,471
Non-controlling interests (Note 5)	**123,754**	139,494	700,114
	₱26,092,014	₱13,827,890	₱38,758,585

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent											
	Capital Stock (Notes 18 and 28)	**Additional Paid-in Capital - Net** (Notes 5 and 18)	**Cumulative Translation Adjustment**	**Net fair value changes of equity instruments at fair value through other comprehensive income** (Note 9)	**Net Fair Value Changes on Cash Flow Hedges** (Note 27)	**Remeasurement Loss on Defined Benefit Obligation** (Note 23)	**Retained Earnings** (Note 18) **Appropriated**	**Unappropriated**	**Treasury Stock** (Notes 18 and 28)	**Total**	**Non-controlling Interests** (Note 18)	**Total Equity**
At January 1, 2021	**₱33,166,300**	**₱38,022,913**	**₱1,524,439**	**₱13,460,669**	**(₱1,769,030)**	**(₱587,796)**	**₱42,200,000**	**₱186,251,267**	**(₱2,984,695)**	**₱309,284,067**	**₱1,433,561**	**₱310,717,628**
Net income for the year	–	–	–	–	–	–	–	**21,786,516**	–	**21,786,516**	**124,887**	**21,911,403**
Other comprehensive income (loss)	–	–	**1,558,745**	**1,247,699**	**1,336,147**	**39,153**	–	–	–	**4,181,744**	**(1,133)**	**4,180,611**
Total comprehensive income (loss) for the year	–	–	**1,558,745**	**1,247,699**	**1,336,147**	**39,153**	–	**21,786,516**	–	**25,968,260**	**123,754**	**26,092,014**
Cash dividends (Note 18)	–	–	–	–	–	–	–	**(2,368,097)**	–	**(2,368,097)**	–	**(2,368,097)**
Cash dividends received by a subsidiary	–	–	–	–	–	–	–	**1,871**	–	**1,871**	–	**1,871**
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	**(129,050)**	**(129,050)**
Sale of non-controlling interest	–	**33,103**	–	–	–	–	–	–	–	**33,103**	**13,304**	**46,407**
At December 31, 2021	**₱33,166,300**	**₱38,056,016**	**₱3,083,184**	**₱14,708,368**	**(₱432,883)**	**(₱548,643)**	**₱42,200,000**	**₱205,671,557**	**(₱2,984,695)**	**₱332,919,204**	**₱1,441,569**	**₱334,360,773**
At January 1, 2020	₱33,166,300	₱38,007,668	₱1,344,274	₱17,840,990	(₱1,328,167)	(₱913,390)	₱42,200,000	₱173,583,191	(₱2,984,695)	₱300,916,171	₱1,600,103	₱302,516,274
Net income for the year	–	–	–	–	–	–	–	18,006,512	–	18,006,512	133,225	18,139,737
Other comprehensive income (loss)	–	–	180,165	(4,380,321)	(440,863)	322,903	–	–	–	(4,318,116)	6,269	(4,311,847)
Total comprehensive income (loss) for the year	–	–	180,165	(4,380,321)	(440,863)	322,903	–	18,006,512	–	13,688,396	139,494	13,827,890
Cash dividends (Note 18)	–	–	–	–	–	–	–	(5,342,658)	–	(5,342,658)	–	(5,342,658)
Cash dividends received by a subsidiary	–	–	–	–	–	–	–	4,222	–	4,222	–	4,222
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(288,100)	(288,100)
Acquisition of non-controlling interest - net (Notes 2 and 5)	–	15,245	–	–	–	2,691	–	–	–	17,936	(17,936)	–
At December 31, 2020	₱33,166,300	₱38,022,913	₱1,524,439	₱13,460,669	(₱1,769,030)	(₱587,796)	₱42,200,000	₱186,251,267	(₱2,984,695)	₱309,284,067	₱1,433,561	₱310,717,628

	Equity Attributable to Equity Holders of the Parent											
	Capital Stock (Notes 18 and 28)	Additional Paid-in Capital - Net (Notes 5 and 18)	Cumulative Translation Adjustment	Net fair value changes of equity instruments at fair value through other comprehensive income (Note 9)	Net Fair Value Changes on Cash Flow Hedges (Note 27)	Remeasurement Gain (Loss) on Defined Benefit Obligation (Note 23)	Retained Earnings (Note 18)		Treasury Stock (Notes 18 and 28)	Total	Non-controlling Interests (Note 18)	Total Equity
							Appropriated	Unappropriated				
At January 1, 2019	₱33,166,300	₱39,953,218	₱1,955,999	₱19,084,597	(₱842,098)	(₱348,480)	₱42,200,000	₱143,118,153	(₱2,984,695)	₱275,302,994	₱3,774,968	₱279,077,962
Net income for the year	–	–	–	–	–	–	–	38,085,601	–	38,085,601	703,072	38,788,673
Transfer of unrealized gain on equity instruments at fair value through other comprehensive income	–	–	–	(2,879,181)	–	–	–	2,879,181	–	–	–	–
Other comprehensive income (loss)	–	–	(611,725)	1,635,574	(486,069)	(564,910)	–	–	–	(27,130)	(2,958)	(30,088)
Total comprehensive income (loss) for the year	–	–	(611,725)	(1,243,607)	(486,069)	(564,910)	–	40,964,782	–	38,058,471	700,114	38,758,585
Cash dividends (Note 18)	–	–	–	–	–	–	–	(10,507,731)	–	(10,507,731)	–	(10,507,731)
Cash dividends received by a subsidiary	–	–	–	–	–	–	–	7,987	–	7,987	–	7,987
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(633,700)	(633,700)
Acquisition of non-controlling interest - net (Notes 2 and 5)	–	(1,945,550)	–	–	–	–	–	–	–	(1,945,550)	(2,241,279)	(4,186,829)
At December 31, 2019	₱33,166,300	₱38,007,668	₱1,344,274	₱17,840,990	(₱1,328,167)	(₱913,390)	₱42,200,000	₱173,583,191	(₱2,984,695)	₱300,916,171	₱1,600,103	₱302,516,274

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱27,733,525**	₱22,463,741	₱49,161,994
Adjustments for:			
Depreciation and amortization (Notes 11, 12, 21 and 25)	**10,816,869**	10,341,611	10,825,078
Interest expense (Notes 15, 17 and 22)	**9,357,616**	8,596,750	8,832,770
Equity in net earnings of associates and joint ventures (Note 13)	**(1,187,419)**	(694,473)	(1,492,093)
Interest and dividend income (Notes 6, 7, 9, 10, 14, 19 and 22)	**(1,025,066)**	(1,207,227)	(1,746,406)
Loss (gain) on:			
Sale of investment properties (see Note 12)	**(551,974)**	–	–
Unrealized foreign exchange and fair value changes on derivatives – net	**(623,782)**	(45,610)	209,624
Operating income before working capital changes	**44,519,769**	39,454,792	65,790,967
Decrease (increase) in:			
Receivables and contract assets	**(16,304,309)**	(27,104,505)	(17,302,352)
Real estate inventories	**(4,696,521)**	2,409,763	(1,514,160)
Prepaid expenses and other current assets	**(1,639,817)**	(3,702,091)	(4,368,606)
Increase (decrease) in:			
Accounts payable and other liabilities	**12,048,707**	8,783,131	15,222,583
Tenants' and customers' deposits	**(28,558)**	(334,662)	3,045,680
Cash generated from operations	**33,899,271**	19,506,428	60,874,112
Income tax paid	**(3,232,110)**	(2,316,144)	(9,146,530)
Net cash provided by operating activities	**30,667,161**	17,190,284	51,727,582
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	**648,143**	1,009,478	1,438,318
Dividends received	**292,898**	385,916	615,349
Additions to:			
Investment properties (Note 12)	**(39,294,964)**	(37,559,444)	(51,267,038)
Property and equipment - net (Note 11)	**(168,077)**	(113,073)	(136,560)
Proceeds from sale of:			
Investment properties(Note 12)	**453,298**	–	–
Equity instruments at FVOCI (Note 9)	–	–	4,100,951
Investments in associates and joint ventures and acquisition of a subsidiary - net of cash acquired (Note 13)	–	–	15,867
Increase in bonds and deposits and other noncurrent assets (Note 14)	**(6,044,976)**	(7,666,858)	(3,382,131)
Net cash used in investing activities	**(44,113,678)**	(43,943,981)	(48,615,244)

(*Forward)*

	Years Ended December 31		
	2021	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bank loans and long-term debt (Notes 15 and 17)	**₱86,849,381**	₱91,403,912	₱42,393,638
Payments of:			
Long-term debt (Note 17)	**(35,336,466)**	(28,993,349)	(25,466,777)
Bank loans (Note 15)	**(15,959,528)**	(25,700,000)	(519,400)
Interest	**(9,837,833)**	(8,469,609)	(8,712,493)
Dividends (Note 18)	**(2,675,277)**	(5,338,436)	(11,133,444)
Lease liabilities (Notes 16 and 25)	**(47,933)**	(85,013)	(80,437)
Proceeds from (payments of) matured derivatives	**(368,799)**	–	395,722
Acquisition of non-controlling interest - net (Note 5)	**–**	–	(4,186,829)
Net cash provided by (used in) financing activities	**22,623,545**	22,817,505	(7,310,020)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(62,790)**	(2,153)	31,174
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**9,114,238**	(3,938,345)	(4,166,508)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**30,661,614**	34,599,959	38,766,467
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱39,775,852**	₱30,661,614	₱34,599,959

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

SM Prime Holdings, Inc. (SMPH or the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on January 6, 1994. SMPH and its subsidiaries (collectively known as the "Company") are incorporated to acquire by purchase, exchange, assignment, gift or otherwise, and to own, use, improve, subdivide, operate, enjoy, sell, assign, transfer, exchange, lease, let, develop, mortgage, pledge, traffic, deal in and hold for investment or otherwise, including but not limited to real estate and the right to receive, collect and dispose of, any and all rentals, dividends, interest and income derived therefrom; the right to vote on any proprietary or other interest on any shares of stock, and upon any bonds, debentures, or other securities; and the right to develop, conduct, operate and maintain modernized commercial shopping centers and all the businesses appurtenant thereto, such as but not limited to the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, movie or cinema theatres within the compound or premises of the shopping centers, to construct, erect, manage and administer buildings such as condominium, apartments, hotels, restaurants, stores or other structures for mixed use purposes.

SMPH's shares of stock are publicly traded in the Philippine Stock Exchange (PSE).

The Company's ultimate parent company is SM Investments Corporation (SMIC). SMIC is a Philippine corporation whose common shares is listed with the PSE in 2005. SMIC and all its subsidiaries are herein referred to as the "SM Group".

The registered office and principal place of business of the Parent Company is at 10th Floor, Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City, Philippines.

The accompanying consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on February 24, 2022.

2. Basis of Preparation

The accompanying consolidated financial statements of the Company have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI) and derivative financial instruments which have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest thousand peso, except when otherwise indicated.

The accompanying consolidated financial statements have been prepared under the going concern assumption. The Company believes that its business would remain relevant despite the challenges posed by the coronavirus disease 2019 (COVID-19) pandemic. While the pandemic may adversely impact the short-term business results, long-term prospects remain attractive.

Statement of Compliance
The accompanying consolidated financial statements have been prepared in compliance with PFRS.

Basis of Consolidation
The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries:

Company	Country of Incorporation	Percentage of Ownership	
		2021	2020
Mall			
First Asia Realty Development Corporation	Philippines	**74.2**	74.2
Premier Central, Inc. and Subsidiary	- do -	**100.0**	100.0
Consolidated Prime Dev. Corp.	- do -	**100.0**	100.0
Premier Southern Corp.	- do -	**100.0**	100.0
San Lazaro Holdings Corporation	- do -	**100.0**	100.0
Southernpoint Properties Corp.	- do -	**100.0**	100.0
First Leisure Ventures Group Inc. (FLVGI)	- do -	**50.0**	50.0
CHAS Realty and Development Corporation and Subsidiaries	- do -	**100.0**	100.0
Springfield Global Enterprises Limited	- do -	**100.0**	100.0
Simply Prestige Limited and Subsidiaries	- do -	**100.0**	100.0
SM Land (China) Limited and Subsidiaries (SM Land China)	Hong Kong	**100.0**	100.0
Rushmore Holdings, Inc.	Philippines	**100.0**	100.0
Prime_Commercial Property Management Corp. and Subsidiaries	- do -	**100.0**	100.0
Magenta Legacy, Inc.	- do -	**100.0**	100.0
Associated Development Corporation	- do -	**100.0**	100.0
Prime Metroestate, Inc. and Subsidiary (PMI)	- do -	**100.0**	100.0
SM Arena Complex Corporation	- do -	**100.0**	100.0
Mindpro Incorporated	- do -	**70.0**	70.0
A. Canicosa Holdings, Inc.	- do -	**100.0**	100.0
AD Canicosa Properties, Inc.	- do -	**100.0**	100.0
Cherry Realty Development Corporation	- do -	**100.0**	100.0
Supermalls Transport Services, Inc. (STSI)	- do -	**100.0**	100.0
Residential			
SM Development Corporation and Subsidiaries (SMDC)	- do -	**100.0**	100.0
Highlands Prime Inc.	- do -	**100.0**	100.0
Costa del Hamilo, Inc. and Subsidiary	- do -	**100.0**	100.0
Commercial			
Tagaytay Resort Development Corporation	- do -	**100.0**	100.0
MOA Esplanade Port, Inc.	- do -	**100.0**	100.0
Premier Clark Complex, Inc.	- do -	**100.0**	100.0
SM Smart City Infrastructure and Development Corporation	- do -	**100.0**	100.0
Hotels and Convention Centers			
SM Hotels and Conventions Corp. and Subsidiaries	- do -	**100.0**	100.0

FLVGI is accounted for as a subsidiary by virtue of control, as evidenced by the majority members of the BOD representing the Parent Company.

The individual financial statements of the Parent Company and its subsidiaries, which are prepared for the same reporting period using their own set of accounting policies, are adjusted to the accounting policies of the Company when the consolidated financial statements are prepared. All intracompany balances, transactions, income and expenses, and profits and losses resulting from intracompany transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and when the Company has the ability to affect those returns through its power over the investee. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences 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's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Company and are presented separately in the consolidated statements of income and within equity section in the consolidated balance sheets, separately from equity attributable to equity holders of the parent.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Existence of a Contract. The Company's primary document for a contract with a customer is a signed contract to sell or the combination of its other signed documentation such as reservation agreement, official receipts, quotation sheets and other documents, would contain all the criteria to qualify as contract with the customer under PFRS 15.

In addition, part of the assessment process of the Company before revenue recognition is to assess the probability that the Company will collect the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity considers the significance of the buyer's initial payments in relation to the total contract price.

Measure of Progress. The Company has determined that output method used in measuring the progress of the performance obligation faithfully depicts the Company's performance in transferring control of real estate development (which include customized uninstalled materials) to the customers. The Company determined that in the case of customized materials, the Company is not just providing a simple procurement service to the customer as it is significantly involved in the design and details of the manufacture of the materials.

Determining Transaction Price of Sale of Real Estate. The Company determines whether a contract contains a significant financing component using portfolio approach by considering (1) the difference, if any, between the amount of promised considerations and the cash selling price of the promised goods or services; and (2) the effect of the expected length of time between when the entity transfers the promised goods or service to the customer and when the customer pays for those goods or services and the prevailing effective interest rate. The Company applied practical expedient by not adjusting the effect of financing component when the period when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. The Company determined that its transaction price on sale of real estate recognized over time do not include a significant financing component.

Operating Lease Commitments - as Lessor. The Company has entered into commercial property leases in its investment property portfolio. Management has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the properties and thus accounts for the contracts as operating leases. The ownership of the asset is not transferred to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable, and, the lease term is not for the major part of the asset's economic life.

Rent income amounted to ₱34,694 million, ₱32,013 million and ₱61,760 million for the years ended December 31, 2021, 2020 and 2019, respectively (see Note 25).

Lease Modification - as Lessor. Throughout the government-imposed community quarantine, the Company waived rentals and other charges amounting to ₱20,781 million and ₱23,299 million for the years ended December 31, 2021 and 2020, respectively which significantly reduced rental income. Such rental waivers are not accounted as a lease modification under PFRS 16 since COVID-19 is a force majeure under the general law.

Determining the Lease Term of Contract. The Company applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate its lease contracts with extension and/or termination options. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. The Company typically exercises its option to renew its leases of various parcels of land since its lease term periods are generally covered by an automatic renewal option. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Determining Taxable Profit, Tax Bases, Unused Tax Losses, Unused Tax Credits and Tax Rates. Upon adoption of the Philippine Interpretation on International Financial Reporting Interpretations Committee (IFRIC)-23, *Uncertainty over Income Tax Treatments,* the Company has assessed whether it has any uncertain tax position. The Company applies significant judgment in identifying uncertainties over its income tax treatments. The Company determined based on its assessment, in consultation with its tax

counsel, that it is probable that its income tax treatments (including for its subsidiaries) will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the consolidated financial statements of the Company.

Estimates and Assumptions

The key estimates and assumptions that may have significant risks of causing material adjustments to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Revenue Recognition Method. The Company concluded that revenue from sale of real estate is to be recognized over time because (a) the Company's performance does not create an asset with an alternative use and; (b) the Company has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on the Company's ability to direct the promised property for another use is substantive. This is because the property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. In addition, under the current legal framework, the customer is contractually obliged to make payments to the developer up to the performance completed to date. The cost to obtain contract (e.g., commission) is determined using the percentage of completion.

Revenue from sale of real estate amounted to ₱45,116 million, ₱46,973 million and ₱44,465 million for the years ended December 31, 2021, 2020, and 2019, respectively, while the cost of real estate sold amounted to ₱18,687 million, ₱20,578 million and ₱20,794 million for the years ended December 31, 2021, 2020 and 2019, respectively (see Note 21).

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

The allowance for ECLs amounted to ₱723 million and ₱1,066 million as at December 31, 2021 and December 31, 2020, respectively (see Note 7).

Net Realizable Value of Real Estate Inventories. The net realizable value of real estate inventories is assessed with reference to market price at the balance sheet date for similar completed property, less estimate cost to complete the construction and estimated cost to sell. The Company reviews the carrying value regularly for any decline in value due to changes in market price or other causes.

The carrying values of real estate inventories amounted to ₱56,575 million and ₱43,692 million as at December 31, 2021 and 2020, respectively (see Note 8).

Estimated Useful Lives of Property and Equipment and Investment Properties (except for Right-of-use Asset). The useful life of each of the Company's property and equipment and investment properties, excluding right-of-use asset (ROUA), is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal

technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of the asset. It is possible, however, that future financial performance could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any property and equipment and investment properties, excluding ROUA, would increase the recorded costs and expenses and decrease noncurrent assets.

The aggregate carrying values of property and equipment and investment properties, excluding ROUA, amounted to ₱442,271 million and ₱412,971 million as at December 31, 2021 and 2020, respectively (see Notes 11 and 12).

Impairment of Other Nonfinancial Assets. The Company assesses at each reporting date whether there is an indication that an item of investments in associates and joint ventures, property and equipment, investment properties and other noncurrent assets (excluding time deposits) may be impaired. Determining the value in use of the assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Company to conclude that these assets are impaired. Any resulting impairment loss could have a material impact on the consolidated financial position and performance.

The preparation of the estimated future cash flows involves judgment and estimations. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and may lead to future impairment charges.

There was no impairment on other nonfinancial assets for each of the three years in the period ended December 31, 2021. The aggregate carrying values of investments in associates and joint ventures, property and equipment, investment properties and other noncurrent assets (excluding time deposits) amounted to ₱585,654 million and ₱546,964 million as at December 31, 2021 and 2020, respectively (see Notes 11, 12, 13 and 14).

Realizability of Deferred Tax Assets. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and net operating loss carryover (NOLCO) is based on the projected taxable income in future periods.

Deferred tax assets recognized in the consolidated balance sheets amounted to ₱3,901 million and ₱4,700 million as at December 31, 2021 and 2020, respectively. Unrecognized deferred tax assets, bulk of which pertains to NOLCO from SM China, amounted to ₱196 million and ₱184 million as at December 31, 2021 and 2020, respectively (see Note 24).

Fair Value of Assets and Liabilities. The Company carries and discloses certain assets and liabilities at fair value, which requires extensive use of accounting judgments and estimates. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates). The amount of changes in fair value would differ if the Company utilized different valuation methodologies and assumptions. Any changes in the fair value of

these assets and liabilities that are carried in the consolidated financial statements would directly affect consolidated statements of income and consolidated other comprehensive income.

The fair value of assets and liabilities are discussed in Note 27.

Contingencies. The Company is currently involved in various legal and administrative proceedings. The estimate of the probable costs for the resolution of these proceedings has been developed in consultation with in-house as well as outside legal counsel handling defense in these matters and is based upon an analysis of potential results. The Company currently does not believe that these proceedings will have a material adverse effect on its consolidated financial position and performance. It is possible, however, that future consolidated financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No provisions were made in relation to these proceedings.

Estimating Incremental Borrowing Rate (IBR) for Leases. The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain the asset of similar value in a similar economic environment. The Company estimates the IBR using the available market interest rates adjusted with the Company's credit rating.

3. Summary of Significant Accounting and Financial Reporting Policies

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2021. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- *Philippine Interpretations Committee (PIC) Q&A 2018-12* provides guidance on some PFRS 15 (*Revenue from Contracts with Customers*) implementation issues affecting the real estate industry, which include the following:

  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)

  b. Treatment of uninstalled materials in the determination of the percentage of completion (POC) discussed in PIC Q&A 2018-12-E (as amended by PIC Q&A 2020-02)

  c. Accounting for Common Usage Service Area charges discussed in PIC Q&A No. 2018-12-H

  On October 25, 2018 and February 08, 2019, the Philippine SEC issued SEC memorandum circular (MC) No. 14-2018 and SEC MC No. 3-2019, respectively, providing relief to the real estate industry by deferring the application of certain provisions of this PIC Q&A, including those mentioned above, for a period of three years until December 31, 2020. On December 15, 2020, the Philippine SEC issued SEC MC No. 34-2020 which further extended the deferral of certain provisions of this PIC Q&A until December 31, 2023.

On July 8, 2021, to assist real estate companies to finally adopt the above mentioned PIC Q&A and enable them to fully comply with PFRS 15 and revert to full PFRS, the SEC issued memorandum circular (MC) No. 8, series of 2021 amending the transition provision of the above PIC Q&A, which would provide real estate companies the accounting policy option of applying either the full retrospective approach or modified retrospective approach when they apply the provisions of the above PIC Q&A.

The Company did not avail the deferral of the application of PIC Q&A 2018-12-D (as amended by PIC Q&A 2020-04) and adopted the PIC Q&A provisions above starting January 1, 2021 using modified retrospective approach.

- *IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (Philippine Accounting Standards (PAS) 23, Borrowing Cost) for the Real Estate Industry*, concludes 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 considering that these inventories are ready for their intended sale in their current condition.

  On December 15, 2020, SEC extended the relief on the application of this IFRIC Agenda Decision until December 31, 2023, early adoption is permitted. The Company adopted the IFRIC agenda decision effective January 1, 2021, using modified retrospective approach as provided under the SEC MC No. 8, series of 2021.

- Amendment to PFRS 16, *COVID-19-related Rent Concessions beyond 30 June 2021,* provides 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, 2022; 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 amendment is effective for annual reporting periods beginning on or after April 1, 2021. Early adoption is permitted.

  The Company adopted the amendment beginning January 1, 2021.

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform - Phase 2,* 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 Company shall also disclose information about:
- The 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
- Their 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 and apply prospectively, however, the Company is not required to restate prior periods.

Future Changes in Accounting Policies and Disclosures
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework,* 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-IFRIC 21, *Levies*, 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 must be applied prospectively.

- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*, prohibit entities deducting 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. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

  The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract,* 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 they are explicitly chargeable to the counterparty under the contract.

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,* 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.

  Earlier adoption of the amendments are permitted.

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

  Earlier adoption of the amendment is permitted. The standard will be applicable to future accounting for modifications of financial liabilities of the Company.

- Amendments to PAS 41, *Agriculture, Taxation in Fair Value Measurements,* 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 amendments prospectively to fair value measurements with earlier adoption permitted.

Effective beginning on or after January 1, 2023

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction,* narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

  The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

  An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

- Amendments to PAS 8, *Definition of Accounting Estimates* introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

  Earlier adoption of the amendments are permitted. The amendments are not expected to have a material impact on the Company.

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies* provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

  - Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and
  - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

  The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1*, Classification of Liabilities as Current or Non-current* clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. 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
  - 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 initially effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2021, the International Accounting Standards Board (IASB) tentatively decided to defer the effective date to no earlier than January 1, 2024.

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts,* 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

On December 15, 2021, the Financial Reporting Standards Council (FRSC) amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

PFRS 17 requires comparative figures. 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* 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 FRSC deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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 from acquisition date and are subject to an insignificant risk of change in value.

Determination of Fair Value

Fair value is the estimated 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 absence of a principal market, in the most advantageous market for the asset or liability.

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

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 market participants act in their economic best interest.

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

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

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period and recognizes transfers as at the date of the event or change in circumstances that caused the transfer.

The Company determines the policies and procedures for both recurring and non-recurring fair value measurements. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

"Day 1" Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company 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 unobservable data is used, 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 Company determines the appropriate method of recognizing the "Day 1" difference amount.

Financial Instruments - Initial Recognition and Subsequent Measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

Initial recognition and measurement. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through profit or loss (FVTPL), and FVOCI.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement. For purposes of subsequent measurement, financial assets are classified in four categories:

- *Financial assets at amortized cost (debt instruments)*: The Company measures financial assets at amortized cost if both of the following conditions are met:

  - The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  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 Company's financial assets at amortized cost includes cash and cash equivalents, receivables, cash in escrow (included under "Prepaid expenses and other current assets" account) and time deposits (included under "Other noncurrent assets" account). Other than those financial assets at amortized cost whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial assets under this category amounted to ₱3,906 million and ₱1,356 million as at December 31, 2021 and 2020, respectively (see Note 27).

- *Financial assets at FVOCI (debt instruments):* The Company measures debt instruments at FVOCI if both of the following conditions are met:

  - The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

  - Selling and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- *Financial assets at FVTPL.* Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

  Financial assets at FVTPL are carried in the consolidated balance sheet at fair value with net changes in fair value recognized in the consolidated statement of income.

  This category includes derivative instruments. The carrying values of financial assets classified under this category amounted to ₱1,797 million and ₱3 million as at December 31, 2021 and 2020, respectively (see Note 27).

  A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at FVTPL. Embedded derivatives are measured at fair value with changes in FVTPL. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVTPL category.

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

- *Financial assets at FVOCI (equity instruments).* Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation*, and are not held for trading. The classification is determined on an instrument-by-instrument basis.

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

  The Company elected to classify irrevocably its investments in equity instruments under this category.

  Classified under this category are the investments in shares of stocks of certain companies. The carrying values of financial assets classified under this category amounted to ₱17,947 million and ₱16,700 million as at December 31, 2021 and 2020, respectively (see Note 27).

Modification of financial assets. The Company 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 Company considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not.

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 Company 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 the statement of income.

Derecognition. A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is primarily derecognized (i.e., removed from the Company's consolidated balance sheet) when:

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what 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 Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognized an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets. The Company recognizes an allowance for ECLs for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. The Company uses a provision matrix for rent and other receivables, vintage approach for receivables from sale of real estate (billed and unbilled) and general approach for treasury assets to calculate ECLs.

The Company applies provision matrix and has calculated ECLs based on lifetime ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date, adjusted for forward-looking factors specific to the debtors and the economic environment.

Vintage approach accounts for expected credit losses by calculating the cumulative loss rates of a given real estate receivable pool. It derives the probability of default from the historical data of a homogenous portfolio that share the same origination period. The information on the number of defaults during fixed time intervals of the accounts is utilized to create the probability model. It allows the evaluation of the loan activity from its origination period until the end of the contract period. In addition to life of loan loss data, primary drivers like macroeconomic indicators of qualitative factors such as, but not limited to, forward-looking data on inflation rate was added to the expected loss calculation to reach a forecast supported by both quantitative and qualitative data points. The probability of default is applied to the estimate of the loss arising on default which is based on the difference between the contractual cash flows due and those that the Company would expect to receive, including from the repossession of the subject real estate property, net of cash outflows. For purposes of calculating loss given default, accounts are segmented based on the type of unit. In calculating the recovery rates, the Company considered collections of cash and/or cash from resale of real estate properties after foreclosure, net of direct costs of obtaining and selling the real estate properties after the default event such as commission, refurbishment, payment required under Maceda law, cost to complete (for incomplete units). As these are future cash flows, these are discounted back to the time of default using the appropriate effective interest rate, usually being the original EIR or an approximation thereof.

The Company considers a financial asset in default generally when contractual payments are 120 days past due or when the sales are cancelled supported by a notarized cancellation letter executed by the Company and unit buyer. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Liabilities

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

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

Subsequent measurement. The Company classifies its financial liabilities in the following categories:

- *Financial liabilities at FVTPL.* Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

  Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Derivatives, including any separated derivatives, are also classified under liabilities at FVTPL, unless these are designated as hedging instruments in an effective hedge or financial guarantee contracts. Gains or losses on liabilities held for trading are recognized in the consolidated statement of income under “Others - net” account. Classified as financial liabilities at

FVTPL are the Company's derivative liabilities amounting to ₱2,084 million and ₱2,803 million as at December 31, 2021 and 2020, respectively (see Note 27).

- *Loans and borrowings.* This category pertains to financial liabilities that are not held for trading or not designated as at FVTPL upon the inception of the liability. These include liabilities arising from operations or borrowings. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of income when the loans and borrowings are derecognized, as well as through the amortization process. Loans and borrowings are included under current liabilities if settlement is within twelve months from reporting period. Otherwise, these are classified as noncurrent liabilities.

  Classified under this category are loans payable, accounts payable and other current liabilities, long-term debt, tenants' deposits, liability for purchased land and other noncurrent liabilities (except for taxes payables and other payables covered by other accounting standards). Other than those other financial liabilities whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial liabilities under this category amounted to ₱294,523 million and ₱246,352 million as at December 31, 2021 and 2020, respectively (see Note 27).

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross in the consolidated balance sheet.

Classification of Financial Instruments Between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Debt Issue Costs

Debt issue costs are presented as reduction in long-term debt and are amortized over the terms of the related borrowings using the effective interest method.

Derivative Financial Instruments

Initial recognition and subsequent measurement. The Company uses derivative financial instruments, such as foreign exchange swap, cross currency swaps, interest rate swaps and principal only swaps contracts to hedge its foreign currency risks and interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The Company only has hedges classified as cash flow hedges. These hedge the exposures to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge effectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is ‘an economic relationship’ between the hedged item and the hedging instrument.
- The effect of credit risk does not ‘dominate the value changes’ that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the net fair value changes on cash flow hedges, while any ineffective portion is recognized immediately in the consolidated statement of income. The net fair value changes on cash flow hedges is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Company uses foreign exchange swap, cross currency swaps, interest rate swaps and principal only swaps contracts to hedge its foreign currency risks and interest rate risks.

Changes in the fair value of the foreign exchange swap, cross currency swaps, interest rate swaps and principal only swaps contracts are recognized in OCI and accumulated as a separate component of equity under "Net fair value changes on cash flow hedges".

The Company designates only the elements of the foreign exchange swap, cross currency swaps, interest rate swaps and principal only swaps contracts as hedging instruments to achieve its risk management objective. These elements are recognized in OCI and accumulated in a separate component of equity under net fair value changes on cash flow hedges.

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

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

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Real Estate Inventories

Real estate inventories are stated at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less costs to complete and the estimated cost to make the sale. Real estate inventories include properties being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation.

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

- Land cost;
- Amounts paid to contractors for construction and development; and
- Planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

Prepaid Expenses and Other Current Assets

Other current assets consist of advances to suppliers and contractors, advances for project development, input tax, creditable withholding taxes, deposits, cash in escrow, prepayments, supplies and inventories and others. Advances to suppliers and contractors are carried at cost. These represent advance payments to contractors for the construction and development of the projects. These are recouped upon every

progress billing payment depending on the percentage of accomplishment. Prepaid taxes and other prepayments are carried at cost less amortized portion. These include prepayments for taxes and licenses, rent, advertising and promotions and insurance.

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 corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises. Otherwise, the acquisition is accounted for as a business combination.

Business combinations are accounted for using the acquisition method. Applying the acquisition method requires the (a) determination whether the Company will be identified as the acquirer, (b) determination of the acquisition date, (c) recognition and measurement of the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree and (d) recognition and measurement of goodwill or a gain from a bargain purchase.

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 Company measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in the costs and expenses.

When the Company 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 Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognized in accordance with PFRS 9 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled and final difference is recognized within equity.

Common Control Business Combinations
Business combinations involving entities or businesses under common control are business combinations in which all of the entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations under common control are accounted for similar to pooling of interests method. Under the pooling of interests method:

- The assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur and for the comparative periods presented, are included in the consolidated financial statements at their carrying amounts as if the consolidation had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the acquisition;
- No adjustments are made to reflect the fair values, or recognize any new assets or liabilities at the date of the combination. The only adjustments would be to harmonize accounting policies between the combining entities;
- No 'new' goodwill is recognized as a result of the business combination;
- The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities of the acquired companies is considered as equity adjustment from business combinations, included under "Additional paid-in capital - net" account in the equity section of the consolidated balance sheet; and
- The consolidated statement of income in the year of acquisition reflects the results of the combining entities for the full year, irrespective of when the combination took place.

Acquisition of Non-controlling Interests
Changes in a parent'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 and included under "Additional paid-in capital - net" account in the equity section of the consolidated balance sheet.

Property and Equipment
The Company's property and equipment consist of land, building, equipment and ROUA. Property and equipment, except land and construction in progress, is stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs necessary in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation and interest incurred during the construction period on funds borrowed to finance the construction of the projects. When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. Expenditures incurred after the item has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures

have improved the condition of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives of the assets:

Land improvements	5 years	
Buildings	10–25 years	
Leasehold improvements	5-10 years	or term of the lease, whichever is shorter
Data processing equipment	5–8 years	
Transportation equipment	5–6 years	
Furniture, fixtures and equipment	5–10 years	
ROUA – Office spaces	10–25 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 each reporting period.

The carrying values of property and equipment are 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 they are no longer in use and no further depreciation and amortization is credited or charged to current operations.

An item of property and equipment is derecognized when either it has been disposed or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gains or losses arising on the retirement and disposal of an item of property and equipment are recognized in the consolidated statements of income in the period of retirement or disposal.

Investment Properties

These consist of commercial spaces/properties held for rental and/or capital appreciation, ROUA and land held for future development. These accounts are measured initially at cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable costs. Subsequently, these accounts, except land and construction in progress, are measured at cost, less accumulated depreciation and amortization and accumulated impairment in value, if any. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Property under construction or development for future use as an investment property is classified as investment property.

Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives of the assets:

Leasehold improvements	5 years	or term of the lease, whichever is shorter
Land improvements	5 years	
Buildings and improvements	20–40 years	
Building equipment, furniture and others	3-15 years	or term of the lease, whichever is shorter
ROUA – land	Remaining lease term	

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

Construction in progress represents structures under construction and is stated at cost. This includes cost of construction, machineries and equipment, and other direct costs. Cost also includes interest on borrowed funds incurred during the construction period. Construction in progress is not depreciated until such time that the relevant assets are completed and are ready for use.

Investment property is derecognized when either it has been disposed or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the period of retirement or disposal.

Transfers are made from investment property to inventories when, and only when, there is a change in use, as evidenced by an approved plan to construct and develop condominium and residential units for sale. Transfers are made to investment property from inventories when, and only when, there is change in use, as evidenced by commencement of an operating lease to a third party or change in the originally approved plan. The cost of property for subsequent accounting is its carrying value at the date of change in use.

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

Investments in Associates and Joint Ventures

An associate is an entity over which the Company 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 type of 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 are similar to those necessary to determine control over subsidiaries.

The Company's investments in shares of stocks of associates and joint ventures are accounted for under the equity method of accounting.

Under the equity method, investment in an associate or a joint venture is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Company's share in the net asset of the associate or joint venture. The consolidated statements of income reflect the share in the result of operations of the associate or joint venture under "Others-net" account. Where there has been a change recognized directly in the equity of the associate or joint venture, the Company recognizes its share in any changes and discloses this, when applicable, in the consolidated statement of income. Profit and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. After application of the equity method, the

Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investment in the associate or joint venture. An investment in associate or joint venture is accounted for using the equity method from the date when it becomes an 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 identifiable assets, liabilities and contingent liabilities is accounted for as follows:

- Goodwill relating to an associate or joint venture is included in the carrying amount of the investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the Company's share in the associate's or joint venture's profits or losses.

- Any excess of the Company's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor's share in the associate's or joint venture's profit or loss in the period in which the investment is acquired.

Also, appropriate adjustments to the Company's share of the associate's or joint venture's profit or loss after acquisition are made to account for the depreciation of the depreciable assets based on their fair values at the acquisition date and for impairment losses recognized by the associate or joint venture.

The Company discontinues the use of equity method from the date when it ceases to have significant influence or joint control over an associate or joint venture and accounts for the investment in accordance with PFRS 9, from that date, provided the associate or joint venture does not become a subsidiary. Upon loss of significant influence or joint control over the associate or joint venture, the Company measures and recognizes any remaining investment at its fair value. Any difference in the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the remaining investment and proceeds from disposal is recognized in the consolidated statement of income. When the Company's interest in an investment in associate or joint venture is reduced to zero, additional losses are provided only to the extent that the Company has incurred obligations or made payments on behalf of the associate or joint venture to satisfy obligations of the investee that the Company has guaranteed or otherwise committed. If the associate or joint venture subsequently reports profits, the Company resumes recognizing its share of the profits if it equals the share of net losses not recognized.

The financial statements of the associates and joint ventures are prepared for the same reporting period as the Company. The accounting policies of the associates and joint ventures conform to those used by the Company for like transactions and events in similar circumstances.

Other Noncurrent Assets

Other noncurrent assets consist of bonds and deposits, receivables from sale of real estate - net of current portion, land use rights, time deposits, deferred input tax and others. Other noncurrent assets are carried at cost.

Impairment of Nonfinancial Assets

The carrying values of investments in associates and joint ventures, property and equipment, investment properties and other noncurrent assets (excluding time deposits) are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or

cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income. After such a reversal, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Customers' Deposits
Customers' deposits mainly represent reservation fees and advance payments. These deposits will be recognized as revenue in the consolidated statement of income as the related obligations to the real estate buyers are fulfilled.

Capital Stock and Additional Paid-in Capital
Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as "Additional paid-in capital - net" account.

Retained Earnings
Retained earnings represent accumulated net profits, net of dividend distributions and other capital adjustments.

Treasury Stock
Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at cost. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issuance or cancellation of own equity instruments.

Dividends
Dividends on common shares are recognized as liability and deducted from equity when declared and approved by the BOD. Dividends for the year that are approved after balance sheet date are dealt with as an event after the reporting period.

Revenue Recognition

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

Rent. Revenue is recognized on a straight-line basis over the lease term or based on the terms of the lease as applicable.

Sale of Amusement Tickets and Merchandise. Revenue is recognized upon receipt of cash from the customer which coincides with the rendering of services or the delivery of merchandise. Revenue from sale of amusement tickets and merchandise are included in the "Revenue - Others" account in the consolidated statement of income.

Dividend. Revenue is recognized when the Company's right as a shareholder to receive the payment is established. These are included in the "Interest and dividend income" account in the consolidated statement of income.

Management and Service Fees. Revenue is recognized when earned in accordance with the terms of the agreements.

Interest. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

Room Rentals, Food and Beverage, and Others. Revenue from room rentals is recognized on actual occupancy, food and beverage sales when orders are served, and other operated departments when the services are rendered. Revenue from other operated departments include, among others, business center, laundry service, and telephone service. Revenue from food and beverage sales and other hotel revenue are included under the "Revenue - Others" account in the consolidated statement of income.

Revenue and Cost from Sale of Real Estate. The Company derives its real estate revenue from sale of lots, house and lot and condominium units. Revenue from the sale of these real estate projects under pre-completion stage are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Company's performance does not create an asset with an alternative use and the Company has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Company uses output method. The Company recognizes revenue on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract. Progress is measured using survey of performance completed to date/milestones reached/time elapsed. This is based on the monthly project accomplishment report prepared by the third-party project managers as approved by the construction managers which integrates the surveys of performance to date of the construction activities.

Any excess of progress of work over the right to an amount of consideration that is unconditional, recognized as receivables from sale of real estate, under trade receivables, is accounted for as unbilled revenue from sale of real estate.

Any excess of collections over the total of recognized installment real estate receivables is included in the contract liabilities (or referred also in the consolidated financial statements as "Unearned revenue from sale of real estate").

Information about the Company's performance obligation. The Company entered into contracts to sell with one identified performance obligation which is the sale of the real estate unit together with the services to transfer the title to the buyer upon full payment of contract price. The amount of consideration indicated in the contract to sell is fixed and has no variable consideration.

Payment commences upon signing of the contract to sell and the consideration is payable in cash or under a financing scheme entered with the customer. The financing scheme would include payment of certain percentage of the contract price spread over a certain period (e.g. one to three years) at a fixed monthly payment with the remaining balance payable in full at the end of the period either through cash or external financing. The amount due for collection under the amortization schedule for each of the customer does not necessarily coincide with the progress of construction.

The Company has a quality assurance warranty which is not treated as a separate performance obligation.

Cost of Real Estate Sold. The Company recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets such as land and connection fees. These include costs of land, land development costs, building costs, professional fees, depreciation and permits and licenses. These costs are allocated to the saleable area, with the portion allocable to the sold area being recognized as costs of real estate sold while the portion allocable to the unsold area being recognized as part of real estate inventories. In addition, the Company recognizes as an asset only costs that give rise to resources that will be used in satisfying performance obligations in the future and that are expected to be recovered.

Contract Balances

Receivables. A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract assets. These pertain to unbilled revenue from sale of real estate. This is the right to consideration that is conditional in exchange for goods or services transferred to the customer. This is reclassified as trade receivable from sale of real estate when the monthly amortization of the customer is already due for collection.

Contract liabilities. These pertain to unearned revenue from sale of real estate. This is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. These also include customers' deposits related to sale of real estate. These are recognized as revenue when the Company performs its obligation under the contract.

Costs to obtain contract. The incremental costs of obtaining a contract with a customer are recognized as an asset if the Company expects to recover them. The Company has determined that commissions paid to brokers and marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the "Costs and expenses" account in the consolidated statement of income. Costs incurred prior to obtaining contract with customer are not capitalized but are expensed as incurred.

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

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

The Company's contract fulfillment assets mainly pertain to land acquisition costs (included under real estate inventories).

Amortization, derecognition and impairment of contract fulfillment assets and capitalized costs to obtain a contract. The Company amortizes contract fulfillment assets and capitalized costs to obtain a contract to cost of sales over the expected construction period using POC following the pattern of real estate revenue recognition. The amortization is included within cost of real estate sold.

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

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

Where the relevant costs are demonstrating indicators of impairment, judgment is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets.

Management Fees
Management fees are recognized as expense in accordance with the terms of the agreements.

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

Pension Benefits
The Company is a participant in the SM Corporate and Management Companies Employer. *Retirement Plan*. The plan is a funded, noncontributory defined benefit retirement plan administered by a Board of Trustees covering all regular full-time employees. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, if any, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit pension costs comprise the following:

- Service cost;
- Net interest on the net defined benefit obligation or asset; and
- Remeasurements of net defined benefit obligation or asset

Service cost which includes current service costs, past service costs and gains or losses on non-routine settlements are recognized as part of "Costs and expenses" under "Administrative" account in the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit obligation or asset is the change during the period in the net defined benefit obligation or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit obligation or asset is recognized as part of "Costs and expenses" under "Administrative" account in the consolidated statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Foreign Currency-denominated Transactions
The consolidated financial statements are presented in Philippine peso, which is SMPH's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are

restated at the functional currency rate of exchange at reporting period. Nonmonetary items denominated in foreign currency are translated using the exchange rates as at the date of initial recognition. All differences are taken to the consolidated statements of income.

Foreign Currency Translation

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

Leases

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

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

Lease Modification. Lease modification is defined as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).

A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease. If a change in lease payments does not meet the definition of a lease modification, that change would generally be accounted for as a negative variable lease payment. In the case of an operating lease, a lessor recognizes the effect of the rent concession by recognizing lower income from leases.

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

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments which includes in substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the IBR at the lease commencement date. After the commencement date, the amount of lease liabilities is adjusted to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Company also recognized ROUA in property and equipment (office spaces) and investment properties (land lease and land use rights The Company recognizes ROUA at the commencement date of the lease (i.e., the date the underlying asset is available for use). The initial cost of ROUA includes the amount of lease liabilities recognized less any lease payments made at or before the commencement date.

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of bridgeway, machineries and equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The Company recognizes deferred tax asset and liability based from the lease liability and ROUA, respectively, on a gross basis, as of balance sheet date.

Provisions

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

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset as part of the cost of that asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use or sale. Borrowing costs are capitalized when it is probable that they will result in future economic benefits to the Company.

The interest capitalized is calculated using the Company's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amount capitalized is the gross interest incurred on those borrowings less any investment income arising on the temporary investment of those borrowings. Interest is capitalized from the commencement of the development work until the date of practical completion, i.e., when substantially all of the development work is completed.

Borrowing costs include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest cost. The Company limits exchange losses taken as amount of borrowing costs to the extent that the total borrowing costs capitalized do not exceed the amount of borrowing costs that would be incurred on functional currency equivalent borrowings. The amount of foreign exchange differences eligible for capitalization is determined for each period separately. Foreign exchange losses that did not meet the criteria for capitalization in previous years are not capitalized in subsequent years. All other borrowing costs are expensed as incurred.

Taxes

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

Current income tax relating to item recognized directly in equity is recognized in equity and not in the profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Tax. Deferred tax is provided, using the balance sheet liability method, on temporary differences at reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of excess MCIT and NOLCO, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of excess MCIT and NOLCO can be utilized, except:

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

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

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

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

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

Value Added Tax (VAT). Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as part of "Accounts payable and other current liabilities" account in the consolidated balance sheets. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as part of "Prepaid expenses and other current assets" account in the consolidated balance sheets to the extent of the recoverable amount.

Business Segments

The Company is organized and managed separately according to the nature of business. The four operating business segments are mall, residential, commercial and hotels and convention centers. These operating businesses are the basis upon which the Company reports its segment information presented in Note 4 to the consolidated financial statements.

Basic/Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to owners of the Parent by the weighted-average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

For the purpose of computing diluted EPS, the net income for the period attributable to owners of the Parent and the weighted-average number of issued and outstanding common shares are adjusted for the effects of all dilutive potential ordinary shares, if any.

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

Events after the Reporting Period
Post year-end events that provide additional information about the Company's financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Segment Information

For management purposes, the Company is organized into business units based on their products and services, and has four reportable operating segments as follows: mall, residential, commercial and hotels and convention centers.

Mall segment develops, conducts, operates and maintains the business of modern commercial shopping centers and all businesses related thereto such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, or cinema theaters within the compound of the shopping centers.

Residential and commercial segments are involved in the development and transformation of major residential, commercial, entertainment and tourism districts through sustained capital investments in buildings and infrastructure.

Hotels and convention centers segment engages in and carry on the business of hotel and convention centers and operates and maintains any and all services and facilities incident thereto.

Management, through the Executive Committee, monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with the operating profit or loss in the consolidated financial statements.

The amount of segment assets and liabilities and segment profit or loss are based on measurement principles that are similar to those used in measuring the assets and liabilities and profit or loss in the consolidated financial statements, which is in accordance with PFRS.

Inter-segment Transactions
Transfer prices between business segments are set on an arm's length basis similar to transactions with nonrelated parties. Such transfers are eliminated in the consolidated financial statements.

Business Segment Data

	2021					
	Mall	**Residential**	**Commercial**	**Hotels and Convention Centers**	**Eliminations**	**Consolidated Balances**
			(In Thousands)			
Revenue:						
External customers	**₱29,922,445**	**₱45,895,228**	**₱4,917,695**	**₱1,580,116**	**₱–**	**₱82,315,484**
Inter-segment	**159,270**	**1,799**	**89,389**	**7,364**	**(257,822)**	**–**
	₱30,081,715	**₱45,897,027**	**₱5,007,084**	**₱1,587,480**	**(₱257,822)**	**₱82,315,484**
Segment results:						
Income (loss) before income tax	**₱6,650,157**	**₱19,175,121**	**₱3,244,013**	**(₱924,580)**	**(₱411,186)**	**₱27,733,525**
Provision for income tax	**(1,023,400)**	**(3,948,973)**	**(849,749)**	**–**	**–**	**(5,822,122)**
Net income (loss)	**₱5,626,757**	**₱15,226,148**	**₱2,394,264**	**(₱924,580)**	**(₱411,186)**	**₱21,911,403**
Net income (loss) attributable to:						
Equity holders of the Parent	**₱5,506,062**	**₱15,221,956**	**₱2,394,264**	**(₱924,580)**	**(₱411,186)**	**₱21,786,516**
Non-controlling interests	**120,695**	**4,192**	**–**	**–**	**–**	**124,887**
Segment assets	**₱429,964,176**	**₱291,750,749**	**₱69,722,832**	**₱14,930,876**	**(₱1,965,353)**	**₱804,403,280**
Segment liabilities	**₱297,231,939**	**₱166,632,085**	**₱7,302,994**	**₱840,842**	**(₱1,965,353)**	**₱470,042,507**
Other information:						
Capital expenditures	**₱26,005,686**	**₱33,710,404**	**₱3,659,529**	**₱1,542,416**	**₱–**	**₱64,918,035**
Depreciation and amortization	**9,006,949**	**120,416**	**1,046,482**	**643,022**	**–**	**10,816,869**

	2020					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
			(In Thousands)			
Revenue:						
External customers	₱28,167,017	₱47,476,884	₱4,677,139	₱1,578,258	₱–	₱81,899,298
Inter-segment	129,575	–	69,958	2,672	(202,205)	–
	₱28,296,592	₱47,476,884	₱4,747,097	₱1,580,930	(₱202,205)	₱81,899,298
Segment results:						
Income (loss) before income tax	₱3,920,670	₱16,910,196	₱3,104,126	(₱1,017,072)	(₱454,179)	₱22,463,741
Provision for income tax	(1,053,610)	(3,089,875)	(180,519)	–	–	(4,324,004)
Net income (loss)	₱2,867,060	₱13,820,321	₱2,923,607	(₱1,017,072)	(₱454,179)	₱18,139,737
Net income (loss) attributable to:						
Equity holders of the Parent	₱2,733,043	₱13,821,113	₱2,923,607	(₱1,017,072)	(₱454,179)	₱18,006,512
Non-controlling interests	134,017	(792)	–	–	–	133,225
Segment assets	₱385,347,592	₱254,869,649	₱69,633,712	₱14,065,747	(₱1,557,775)	₱722,358,925
Segment liabilities	₱258,218,748	₱147,833,429	₱6,230,590	₱916,305	(₱1,557,775)	₱411,641,297
Other information:						
Capital expenditures	₱26,033,777	₱24,823,848	₱7,393,535	₱1,337,054	₱–	₱59,588,214
Depreciation and amortization	8,659,470	149,450	893,658	639,033	–	10,341,611

	2019					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
			(In Thousands)			
Revenue:						
External customers	₱63,333,633	₱45,213,765	₱4,730,496	₱5,033,596	₱–	₱118,311,490
Inter-segment	85,072	–	74,100	13,662	(172,834)	–
	₱63,418,705	₱45,213,765	₱4,804,596	₱5,047,258	(₱172,834)	₱118,311,490
Segment results:						
Income before income tax	₱30,700,318	₱15,020,332	₱3,380,591	₱1,073,816	(₱1,013,063)	₱49,161,994
Provision for income tax	(7,020,933)	(2,428,262)	(658,358)	(265,768)	–	(10,373,321)
Net income	₱23,679,385	₱12,592,070	₱2,722,233	₱808,048	(₱1,013,063)	₱38,788,673
Net income attributable to:						
Equity holders of the Parent	₱22,982,796	₱12,585,587	₱2,722,233	₱808,048	(₱1,013,063)	₱38,085,601
Non-controlling interests	696,589	6,483	–	–	–	703,072
Segment assets	₱380,892,340	₱217,788,016	₱59,105,027	₱13,570,408	(₱4,076,117)	₱667,279,674
Segment liabilities	₱237,486,362	₱124,277,871	₱5,982,687	₱1,092,597	(₱4,076,117)	₱364,763,400
Other information:						
Capital expenditures	₱29,283,828	₱27,578,564	₱10,216,823	₱1,618,631	₱–	₱68,697,846
Depreciation and amortization	9,347,105	143,438	729,756	604,779	–	10,825,078

For the years ended December 31, 2021, 2020 and 2019, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customers. The main revenues of the Company are substantially earned from the Philippines.

The Company disaggregates its revenue information in the same manner as it reports its segment information.

Seasonality

Except for the significant impact of COVID-19 pandemic to the Company's operations starting March 2020, there were no other trends, events or uncertainties that have had or that are reasonably expected to have a material impact on net sales or revenues or income from continuing operations.

5. Acquisition of Non-controlling Interest and Business Combinations

Business Combination

In December 2020, the Parent Company entered into a Share Purchase Agreement with its wholly owned subsidiary, SM Land China, and transferred its 100% interest in Affluent Capital Enterprises Limited and Subsidiaries and Mega Make Enterprises Limited and Subsidiaries in exchange for SM Land China's 1,000 ordinary shares and 1 ordinary share, respectively. The Company recorded the additional investment in SM Land China at the carrying value of the asset given up and treated the transaction as common control business combination.

Acquisition of Non-controlling Interest

In December 2020, the Company (through Landfactors Incorporated, a wholly owned subsidiary of SMDC) purchased additional 12,500 common shares of Greenmist Property Management Corporation for a total consideration of ₱2 million increasing its ownership from 91.67% to 100%. The transaction was accounted for as an equity transaction since there was no change in control.

In December 2019, the Parent Company acquired the remaining 49% stake in STSI for ₱25 million, increasing the total ownership of the Company to 100%.

In August 2019, the Parent Company acquired the remaining 40% of the outstanding common stock of PMI from SMIC for a total consideration of ₱4,106 million. The valuation of the non-controlling interest was based on the appraised values of the real estate assets of PMI as at January 25, 2019. The acquisition resulted to equity reserve adjustment, included under "Additional paid-in capital-net" account in the equity section of the consolidated balance sheets amounting to ₱1,946 million.

6. Cash and Cash Equivalents

This account consists of:

	2021	2020
	(In Thousands)	
Cash on hand and in banks (see Note 19)	**₱15,297,181**	₱12,484,610
Temporary investments (see Note 19)	**24,478,671**	18,177,004
	₱39,775,852	₱30,661,614

Cash in banks earn interest at the respective bank deposit rates. Temporary investments are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the respective temporary investment rates.

Credit risk from balances with banks and financial institutions is managed by the Company's treasury department in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

Interest income earned from cash in banks and temporary investments amounted to ₱627 million, ₱900 million and ₱1,304 million for the years ended December 31, 2021, 2020 and 2019, respectively (see Note 22).

7. Receivables and Contract Assets

This account consists of:

	2021	2020
	(In Thousands)	
Trade (billed and unbilled):		
Sale of real estate*	**₱110,916,242**	₱97,140,164
Rent:		
Third parties	**6,517,038**	5,161,293
Related parties (see Note 19)	**2,466,874**	2,249,505
Others (see Note 20)	**28,997**	28,429

(Forward)

	2021	2020
		(In Thousands)
Nontrade	**179,727**	50,548
Accrued interest (see Note 19)	**320,350**	129,226
Others (see Note 19)	**2,833,035**	2,068,588
	123,262,263	106,827,753
Less allowance for ECLs	**723,319**	1,066,130
	122,538,944	105,761,623
Less noncurrent portion of trade receivables from sale of real estate (see Note 14)	**49,518,978**	46,816,693
	₱73,019,966	₱58,944,930

**Includes unbilled revenue from sale of real estate amounting to ₱98,589 million and ₱86,631 million as at December 31, 2021 and 2020, respectively.*

The terms and conditions of the above receivables are as follows:

- Trade receivables from tenants are noninterest-bearing and are normally collectible on a 30 to 90 days' term. Trade receivables from sale of real estate pertain to sold real estate inventories at various terms of payments, which are noninterest-bearing.

  The Company assigned billed and unbilled receivables from sale of real estate on a without recourse basis to local banks amounting to ₱359 million and ₱7,170 million for the years ended December 31, 2021 and 2020, respectively (see Note 19).

  The Company also has assigned billed and unbilled receivables from real estate on a with recourse basis to local banks with outstanding balance of ₱324 million and ₱1,809 million as at December 31, 2021 and 2020, respectively. The related liability from assigned receivables, which is of equal amount with the assigned receivables, bear interest rates of 4.50% in 2021 and 4.25% to 4.50% in 2020. The fair value of the assigned receivables and liability from assigned receivables approximates their costs.

- Accrued interest and other receivables are normally collected throughout the financial period.

Interest income earned from receivables totaled ₱86 million, ₱65 million and ₱92 million for the years ended December 31, 2021, 2020 and 2019, respectively (see Note 22).

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored.

There is no allowance for ECLs on unbilled revenue from sale of real estate as of December 31, 2021. The movements in the allowance for ECLs related to receivables from sale of real estate and other receivables are as follows:

	2021	2020
	(In Thousands)	
At beginning of year	**₱1,066,130**	₱1,053,549
Provision (reversal) – net	**(342,811)**	12,581
At end of year	**₱723,319**	₱1,066,130

The aging analysis of receivables and unbilled revenue from sale of real estate as at December 31 are as follows:

	2021	2020
	(In Thousands)	
Neither past due nor impaired	**₱107,898,754**	₱92,546,447
Past due but not impaired:		
Less than 30 days	**2,541,228**	1,476,075
31–90 days	**2,943,344**	2,162,134
91–120 days	**1,289,381**	3,692,283
Over 120 days	**7,866,237**	5,884,684
Impaired	**723,319**	1,066,130
	₱123,262,263	₱106,827,753

Receivables, except for those that are impaired, are assessed by the Company's management as not impaired, good and collectible.

The transaction price allocated to the remaining performance obligations totaling ₱34,308 million and ₱28,108 million as at December 31, 2021 and 2020, respectively are expected to be recognized over the construction period ranging from one to five years.

8. Real Estate Inventories

The movements in this account are as follows:

	Land and Development	Condominium, Residential Units and Subdivision Lots for Sale	Total
		(In Thousands)	
Balance as at December 31, 2019	₱37,930,932	₱6,015,177	₱43,946,109
Development cost incurred	18,139,127	–	18,139,127
Cost of real estate sold (see Note 21)	(18,447,010)	(2,131,396)	(20,578,406)
Transfers	(4,850,263)	4,850,263	–
Reclassifications from investment properties (see Note 12)	2,031,711	–	2,031,711
Translation adjustment and others	123,820	29,516	153,336
Balance as at December 31, 2020	34,928,317	8,763,560	43,691,877
Development cost incurred	25,415,208	–	25,415,208

(Forward)

	Land and Development	Condominium, Residential Units and Subdivision Lots for Sale	Total
		(In Thousands)	
Cost of real estate sold (see Note 21)	(₱16,867,821)	(₱1,818,887)	(₱18,686,708)
Transfers	(12,318,838)	12,318,838	–
Reclassifications from investment properties (see Note 12)	5,448,333	–	5,448,333
Translation adjustment and others	624,327	82,010	706,337
Balance as at December 31, 2021	**₱37,229,526**	**₱19,345,521**	**₱56,575,047**

Land and development pertains to the Company's on-going residential units and condominium projects. Estimated cost to complete the projects amounted to ₱111,500 million and ₱106,679 million as at December 31, 2021 and 2020, respectively.

Condominium and residential units for sale pertain to completed projects. These are stated at cost as at December 31, 2021 and 2020.

Contract fulfillment assets, included under land and development, mainly pertain to unamortized portion of land cost totaling ₱1,840 million and ₱1,745 million as at December 31, 2021 and 2020, respectively.

9. Equity Instruments at FVOCI

This account consists of investments in:

	2021	2020
		(In Thousands)
Shares of stock:		
Listed (see Note 19)	**₱17,942,096**	₱16,696,333
Unlisted	**5,317**	3,381
	17,947,413	16,699,714
Less noncurrent portion	**17,400,372**	16,131,568
	₱547,041	₱568,146

- Listed shares of stock pertain to investments in publicly-listed companies.
- Unlisted shares of stock pertain to stocks of private corporations.

In August 2019, the Parent Company sold a portion of its listed shares to SMIC based on 30-day volume-weighted average price as of July 26, 2019 resulting to a realized gain amounting to ₱2,879 million directly recognized in retained earnings.

Dividend income from investments at FVOCI amounted to ₱186 million, ₱197 million and ₱314 million for the years ended December 31, 2021, 2020 and 2019, respectively (see Note 19).

The movements in the "Net fair value changes of equity instruments at FVOCI" account are as follows:

	2021	2020
	(In Thousands)	
At beginning of the year	**₱13,460,669**	₱17,840,990
Unrealized gain (loss) due to changes in fair value	**1,247,699**	(4,380,321)
At end of the year	**₱14,708,368**	₱13,460,669

10. Prepaid Expenses and Other Current Assets

This account consists of:

	2021	2020
	(In Thousands)	
Input and creditable withholding taxes	**₱10,703,951**	₱9,655,119
Advances and deposits	**8,595,612**	9,052,663
Prepaid taxes and other prepayments	**4,813,602**	3,839,114
Supplies and inventories	**358,957**	407,203
Cash in escrow and others (see Notes 19 and 26)	**521,235**	251,563
	₱24,993,357	₱23,205,662

- Input tax represents VAT paid to suppliers that can be claimed as credit against the future output VAT liabilities without prescription. Creditable withholding tax is the tax withheld by the withholding agents from payments to the Company which can be applied against the income tax payable.

- Advances and deposits pertain to downpayments made to suppliers or contractors to cover preliminary expenses of the contractors in construction projects. The amounts are noninterest-bearing and are recouped upon every progress billing payment depending on the percentage of accomplishment. This account also includes construction bonds, rental deposits and deposits for utilities and advertisements.

- Prepaid taxes and other prepayments consist of prepayments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial period.

- Cash in escrow pertains to the amounts deposited in the account of an escrow agent as required by the Department of Human Settlements and Urban Development in connection with the incentive compliance provisions of the Urban Development and Housing Act.

  Interest income earned from the cash in escrow amounted to ₱1 million, ₱2 million and ₱4 million for the years ended December 31, 2021, 2020 and 2019 respectively (see Note 22).

11. Property and Equipment - net

The movements in this account are as follows:

	Land and Improvements	Buildings and Leasehold Improvements	Data Processing Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	ROUA-Office spaces	Construction in Progress	Total
				(In Thousands)				
Cost								
Balance at December 31, 2019	₱262,544	₱1,862,647	₱348,567	₱96,247	₱723,731	₱10,290	₱108	₱3,304,134
Additions	10,312	44,289	30,183	5,650	20,298	–	8,357	119,089
Disposals/retirements	–	(7,543)	(455)	–	(705)	–	–	(8,703)
Reclassifications	–	6,564	–	–	–	–	(6,564)	–
Balance at December 31, 2020	272,856	1,905,957	378,295	101,897	743,324	10,290	1,901	3,414,520
Additions	17,596	60,640	57,408	5,497	26,203	1,746	1,010	170,100
Disposals/retirements	–	–	(3,639)	(1,004)	–	(4,582)	–	(9,225)
Reclassifications (see Note 12)	–	58,780	–	–	–	–	(2,215)	56,565
Balance at December 31, 2021	₱290,452	₱2,025,377	₱432,064	₱106,390	₱769,527	₱7,454	₱696	₱3,631,960
Accumulated Depreciation and Amortization								
Balance at December 31, 2019	₱10,704	₱961,151	₱278,748	₱77,832	₱589,959	₱2,420	₱–	₱1,920,814
Depreciation and amortization (see Note 21)	4,274	104,434	25,787	5,968	41,324	3,398	–	185,185
Disposals/retirements	–	(1,937)	(421)	–	(329)	–	–	(2,687)
Balance at December 31, 2020	14,978	1,063,648	304,114	83,800	630,954	5,818	–	2,103,312
Depreciation and amortization (see Note 21)	5,430	76,615	35,781	6,316	37,302	2,128	–	163,572
Disposals/retirements	–	–	(3,639)	(1,004)	–	(2,557)	–	(7,200)
Balance at December 31, 2021	₱20,408	₱1,140,263	₱336,256	₱89,112	₱668,256	₱5,389	₱–	₱2,259,684
Net Book Value								
As at December 31, 2020	₱257,878	₱842,309	₱74,181	₱18,097	₱112,370	₱4,472	₱1,901	₱1,311,208
As at December 31, 2021	**₱270,044**	**₱885,114**	**₱95,808**	**₱17,278**	**₱101,271**	**₱2,065**	**₱696**	**₱1,372,276**

12. Investment Properties

The movements in this account are as follows:

	Land Held for Future Development	Land and Leasehold Improvements	Buildings and Improvements	Building Equipment, Furniture and Others	ROUA - Land	Construction in Progress	Total
				(In Thousands)			
Cost							
Balance as at December 31, 2019	₱70,842,765	₱70,247,314	₱237,616,734	₱42,588,024	₱22,203,470	₱53,779,717	₱497,278,024
Additions	6,585,159	3,535,214	2,045,713	1,478,530	3,276,229	24,409,153	41,329,998
Reclassifications (see Notes 8 and 11)	(1,829,378)	(628,379)	7,517,657	862,027	–	(7,953,638)	(2,031,711)
Translation adjustment	–	15,655	469,724	37,418	111,741	42,657	677,195
Disposals	(4,113,632)	(44,242)	(80)	(121,219)	–	–	(4,279,173)
Balance as at December 31, 2020	71,484,914	73,125,562	247,649,748	44,844,780	25,591,440	70,277,889	532,974,333
Additions	10,356,046	6,235,334	1,646,033	1,864,888	1,629,863	21,353,889	43,086,053
Reclassifications (see Notes 8 and 11)	(3,555,419)	411,912	12,966,489	2,403,259	–	(17,731,139)	(5,504,898)
Translation adjustment	–	151,173	3,718,179	292,203	1,173,704	617,031	5,952,290
Disposals and others	(189,848)	(92,550)	(236)	(310,873)	(191,483)	–	(784,990)
Balance as at December 31, 2021	₱78,095,693	₱79,831,431	₱265,980,213	₱49,094,257	₱28,203,524	₱74,517,670	₱575,722,788
Accumulated Depreciation and Amortization							
Balance as at December 31, 2019	₱–	₱2,270,162	₱56,648,135	₱27,175,335	₱544,814	₱–	₱86,638,446
Depreciation and amortization (see Note 21)	–	236,598	7,024,320	2,349,180	546,328	–	10,156,426
Translation adjustment	–	12,180	111,470	25,372	5,042	–	154,064
Disposals	–	(26,301)	(7)	(107,376)	–	–	(133,684)
Balance as at December 31, 2020	–	2,492,639	63,783,918	29,442,511	1,096,184	–	96,815,252
Depreciation and amortization (see Note 21)	–	266,523	7,185,824	2,570,102	630,848	–	10,653,297
Translation adjustment	–	90,772	837,982	183,511	34,083	–	1,146,348
Disposals and others	–	(59,694)	(168)	(175,893)	(48,342)	–	(284,097)
Balance as at December 31, 2021	₱–	₱2,790,240	₱71,807,556	₱32,020,231	₱1,712,773	₱–	₱108,330,800
Net Book Value							
As at December 31, 2020	₱71,484,914	₱70,632,923	₱183,865,830	₱15,402,269	₱24,495,256	₱70,277,889	₱436,159,081
As at December 31, 2021	**₱78,095,693**	**₱77,041,191**	**₱194,172,657**	**₱17,074,026**	**₱26,490,751**	**₱74,517,670**	**₱467,391,988**

In 2020, SMDC sold its 100% interest in Summerhills Estate Holdings, Inc. (SEHI), a wholly owned subsidiary of SMDC, for a total consideration of ₱80 million. SEHI's net assets totaled to ₱82 million, including land held for future development amounting to ₱4,114 million. The loss on disposal of subsidiary amounting to ₱2 million is recognized in the consolidated statement of income under "Others - net" account in 2020.

Portions of investment properties located in China with total carrying value of ₱1,872 million as at December 31, 2021 are mortgaged as collaterals to secure domestic borrowings (see Note 17).

Consolidated rent income from investment properties amounted to ₱34,694 million, ₱32,013 million and ₱61,760 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Consolidated costs and expenses from investment properties, which generate income, amounted to ₱23,942 million, ₱25,404 million and ₱34,060 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Construction in progress includes shopping mall complex under construction, land and commercial building constructions amounting to ₱74,518 million and ₱70,278 million as at December 31, 2021 and 2020, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱77,564 million and ₱65,458 million as at December 31, 2021 and 2020, 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 ₱18,731 million and ₱22,641 million as at December 31, 2021 and 2020, respectively.

Interest capitalized to the construction of investment properties amounted to ₱4,005 million, ₱3,540 million and ₱3,143 million for the years ended December 31, 2021, 2020 and 2019, respectively. Capitalization rates used range from 2.35% to 4.58%, from 2.35% to 4.70%, and from 2.35% to 5.13% for the years ended December 31, 2021, 2020 and 2019, respectively.

The most recent fair value of investment properties is determined by an independent appraiser who holds a recognized and relevant professional qualification. The valuation of investment properties was based on market values using income approach and market value approach. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards as set out by the International Valuation Standards Committee.

The Company has no restriction on the realizability of its investment properties.

13. Investments in Associates and Joint Ventures

The ownership interests in associate and joint ventures accounted for under the equity method mainly consist of the following:

Company	Country of Incorporation	Percentage of Ownership **December 31, 2021**	December 31, 2020
Associates			
Feihua Real Estate (Chongqing) Company Ltd. (FHREC)	People's Republic of China	**50,00**	50.00
Ortigas Land Corporation (OLC) (formerly OCLP Holdings, Inc.)	Philippines	**39.96**	39.96
Joint Ventures			
Winsome Development Corporation*	Philippines	**51.00**	51.00
Willin Sales, Inc.*	- do -	**51.00**	51.00
Willimson, Inc. *	- do -	**51.00**	51.00
Waltermart Ventures, Inc. *	- do -	**51.00**	51.00
WM Development, Inc. *	- do -	**51.00**	51.00
WM Shopping Center Management Inc.*	- do -	**51.00**	51.00
Metro Rapid Transit Service Inc.	- do -	**51.00**	51.00
ST 6747 Resources Corporation (STRC)	- do -	**50.00**	50.00

**collectively, Waltermart*

The movements in this account are as follows:

	Associates	Joint Ventures	Total
	(In Thousands)		
Balance as at December 31, 2019	₱18,914,405	₱8,299,993	₱27,214,398
Equity in net earnings	323,473	371,000	694,473
Dividends	(127,450)	(61,200)	(188,650)
Translation	15,018	–	15,018
Balance as at December 31, 2020	19,125,446	8,609,793	27,735,239
Additions	–	255,000	255,000
Equity in net earnings	697,998	489,421	1,187,419
Dividends	–	(107,099)	(107,099)
Translation	116,876	–	116,876
Balance as at December 31, 2021	**₱19,940,320**	**₱9,247,115**	**₱29,187,435**

The carrying value of investment in OLC amounted to ₱18,533 million and ₱17,835 million as at December 31, 2021 and 2020, respectively, which consists of its proportionate share in the net assets of OLC and fair value adjustments. The share in profit, net of dividend received of OLC amounted to ₱698 million, ₱196 million and ₱719 million for the years ended December 31, 2021, 2020 and 2019, respectively. There is no share in other comprehensive income for the years ended December 31, 2021, 2020 and 2019.

The carrying value of investment in FHREC amounted to ₱1,408 million and ₱1,291 million as at December 31, 2021 and 2020, respectively, with cumulative equity in net earnings amounting to ₱1,101 million and ₱1,009 million as at December 31, 2021 and 2020, respectively.

The carrying values of investments in Waltermart amounted to ₱7,356 million and ₱6,885 million as at December 31, 2021 and 2020, respectively. The aggregate share in profit and total comprehensive income, net of dividends received amounted to ₱216 million, ₱164 million and ₱371 million for the years ended December 31, 2021, 2020 and 2019, respectively.

In 2021, the Company's investment in Waltermart increased by ₱255 million through application of the Company's deposits to Waltermart for its proportionate subscription in Waltermart's increased authorized capital stock. In 2021, the Company also received stock dividends from Waltermart.

The carrying value of investment in STRC amounted to ₱1,876 million and ₱1,678 million as at December 31, 2021 and December 31, 2020, respectively. The aggregate share in profit and total comprehensive income amounted to ₱198 million and ₱178 million for the years ended December 31, 2021 and 2020, respectively.

The Company has no outstanding contingent liabilities or capital commitments related to its investments in associates and joint ventures as at December 31, 2021 and 2020.

14. Other Noncurrent Assets

This account consists of:

	2021	2020
		(In Thousands)
Receivables from sale of real estate - net of current portion* (see Note 7)	**₱49,518,978**	₱46,816,693
Bonds and deposits and others	**36,997,876**	33,831,172
Time deposits (see Notes 19 and 27)	**3,905,618**	1,356,442
Deferred input tax	**1,185,323**	1,111,000
	₱91,607,795	₱83,115,307

**Pertains to noncurrent portion of unbilled revenue from sale of real estate (see Note 7).*

Bonds and Deposits

Bonds and deposits consist of deposits to contractors and suppliers to be applied throughout construction and advances, deposits paid for leased properties to be applied at the last term of the lease and advance payments for land acquisitions which will be applied against the purchase price of the properties upon fulfillment by both parties of certain undertakings and conditions.

Time Deposits

Time deposits were used as collateral for use of credit lines obtained by the Company. Interest income earned amounted to ₱125 million, ₱43 million and ₱32 million for the years ended December 31, 2021, 2020 and 2019, respectively (see Note 22).

15. Loans Payable

This account consists of unsecured Philippine peso and China yuan renminbi denominated loans obtained from local and foreign banks amounting to ₱6,487 million and ₱10,900 million as at December 31, 2021 and 2020, respectively, with due dates of less than one year. These loans bear interest rates of 2.15% to 3.30% and China loan prime rate (LPR) in 2021 and 3.15% to 4.00% in 2020.

Interest expense incurred from loans payable amounted to ₱177 million, ₱189 million and ₱28 million for the years ended December 31, 2021, 2020 and 2019, respectively (see Note 22).

16. Accounts Payable and Other Current Liabilities

This account consists of:

	2021	2020
	(In Thousands)	
Trade:		
Third parties	**₱42,780,505**	₱37,994,767
Related parties (see Note 19)	**297,600**	490,247
Tenants' and customers' deposits* (see Note 25)	**39,881,582**	37,540,373
Accrued operating expenses:		
Third parties	**13,556,961**	9,863,058
Related parties (see Note 19)	**407,443**	407,443
Lease liabilities	**12,419,338**	11,076,316
Liability for purchased land	**10,458,828**	8,608,649
Deferred output VAT	**10,377,783**	8,228,236
Accrued interest (see Note 19)	**2,209,812**	2,237,044
Payable to government agencies	**2,134,117**	1,268,136
Nontrade	**396,827**	400,110
Liability from assigned receivables and others (see Note 7)	**2,618,728**	4,447,540
	137,539,524	122,561,919
Less noncurrent portion	**46,161,807**	41,527,934
	₱91,377,717	₱81,033,985

** Includes unearned revenue from sale of real estate amounting to ₱6,102 million and ₱7,615 million as at December 31, 2021 and 2020, respectively.*

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled within a 30-day term.

- Accrued operating expenses pertain to accrued selling, general and administrative expenses which are normally settled throughout the financial period. Accrued operating expenses - third parties consist of:

	2021	2020
	(In Thousands)	
Payable to contractors	**₱7,153,158**	₱4,045,630
Utilities	**2,363,348**	2,532,449
Marketing and advertising and others	**4,040,455**	3,284,979
	₱13,556,961	₱9,863,058

- Tenants' deposits refer to security deposits received from various tenants upon inception of the respective lease contracts on the Company's investment properties. At the termination of the lease contracts, the deposits received by the Company are returned to tenants, reduced by unpaid rental fees, penalties and/or deductions from repairs of damaged leased properties, if any. Customers' deposits mainly represent excess of collections from buyers over the related revenue recognized based on the percentage of completion method. The amount of revenue recognized in 2021 and 2020 from amounts included in unearned revenue from sale of real estate at the beginning of the year amounted to ₱1,491 million and ₱3,689 million, respectively.

- Deferred output VAT represents output VAT on unpaid portion of recognized receivable from sale of real estate. This amount is reported as output VAT upon collection of the receivables.

- Liability for purchased land, payable to government agencies, accrued interest and other payables are normally settled throughout the financial period.

- Lease liabilities included in "Other noncurrent liabilities" amounted to ₱12,284 million and ₱11,009 million as at December 31, 2021 and December 31, 2020, respectively. Interest on lease liabilities included under "Others - net" in the consolidated statements of income amounted to ₱404 million and ₱323 million as at December 31, 2021 and December 31, 2020, respectively.

17. Long-term Debt

This account consists of:

	Availment Date	Maturity Date	Weighted Average Interest Rate	Condition	Outstanding Balance	
					2021	2020
					(In Thousands)	
Parent Company						
Philippine peso-denominated loans						
Retail bonds	September 1, 2014 - November 15, 2021	February 25, 2021 - November 15, 2028	5.04%	Unsecured	**₱99,632,740**	₱99,964,260
Other bank loans	June 19, 2012 - April 26, 2021	June 19, 2022 - April 26, 2028	Floating BVAL + margin; Fixed - 4.61%	Unsecured	**45,420,000**	31,548,000
U.S. dollar-denominated loans*	July 30, 2018 - August 26, 2021	October 2, 2022 - March 30, 2026	LIBOR + spread; quarterly	Unsecured	**31,109,390**	10,084,830
Subsidiaries						
Philippine peso-denominated loans	June 3, 2013 - December 28, 2021	February 8, 2021 - August 7, 2029	Floating BVAL + margin; Fixed - 4.71%	Unsecured	**82,469,520**	78,992,080
U.S. dollar-denominated loans*	March 21, 2016 - September 27, 2021	January 29, 2021 - January 25, 2026	LIBOR + spread; semi-annual/quarterly	Unsecured	**42,067,976**	39,669,574
China yuan renminbi-denominated loans	October 16, 2017 - October 28, 2021	October 16, 2022 - June 1, 2031	LPR; annually; Fixed - 5.84%	Secured**	**8,497,291**	2,559,639
					309,196,917	262,818,383
Less debt issue cost					**1,966,100**	1,249,386
					307,230,817	261,568,997
Less current portion					**42,261,601**	42,738,350
					₱264,969,216	₱218,830,647

LIBOR – London Interbank Offered Rate
BVAL – Bloomberg Valuation Service
**Hedged against foreign exchange and interest rate risks using derivative instruments (see Note 27)*
***Secured by portions of investment properties located in China (see Note 12)*

Debt Issue Cost
The movements in unamortized debt issue cost of the Company follow:

	2021	2020
	(In Thousands)	
Balance at beginning of the year	**₱1,249,386**	₱1,126,048
Additions	**1,261,530**	540,881
Amortization	**(544,816)**	(417,543)
Balance at end of the year	**₱1,966,100**	₱1,249,386

Amortization of debt issuance costs is recognized in the consolidated statements of income under "Others - net" account.

Repayment and Debt Issue Cost Schedule
The repayments of long-term debt are scheduled as follows:

	Gross	Debt Issue Cost	Net
		(In Thousands)	
Within 1 year	₱42,912,185	(₱650,584)	₱42,261,601
More than 1 year to 5 years	246,592,899	(1,270,376)	245,322,523
More than 5 years	19,691,833	(45,140)	19,646,693
	₱309,196,917	(₱1,966,100)	₱307,230,817

The loan agreements of the Company provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As at December 31, 2021 and 2020, the Company is in compliance with the terms of its loan covenants.

Interest expense incurred from long-term debt amounted to ₱9,148 million, ₱8,224 million and ₱8,663 million for the years ended December 31, 2021, 2020 and 2019, respectively (see Note 22).

18. Equity

Capital Stock
As at December 31, 2021 and 2020, the Company has an authorized capital stock of 40,000 million with a par value of ₱1 a share, of which 33,166 million shares were issued. The Company has 28,856 million outstanding shares as at December 31, 2021 and 2020.

The following summarizes the information on SMPH's registration of securities under the Securities Regulation Code:

Date of SEC Approval/ Notification to SEC	Authorized Shares	No. of Shares Issued	Issue/Offer Price
March 15, 1994	10,000,000,000	–	₱–
April 22, 1994	–	6,369,378,049	5.35
May 29, 2007	10,000,000,000	–	–
May 20, 2008	–	912,897,212	11.86
October 14, 2010	–	569,608,700	11.50
October 10, 2013	20,000,000,000	15,773,765,315	19.50

SMPH declared stock dividends in 2012, 2007, 1996 and 1995. The total number of shareholders is 2,386 as at December 31, 2021.

Additional Paid-in Capital - Net
Following represents the nature of the consolidated "Additional paid-in capital - net":

	2021	2020
	(In Thousands)	
Paid-in subscriptions in excess of par value	**₱33,549,808**	₱33,549,808
Net equity adjustments from common control business combinations	**9,309,730**	9,309,730
Arising from sale (acquisition) of non-controlling interests (see Note 5)	**(4,803,522)**	(4,836,625)
As presented in the consolidated balance sheets	**₱38,056,016**	₱38,022,913

Retained Earnings
In 2021, the BOD approved the declaration of cash dividend of ₱0.082 per share or ₱2,368 million to stockholders of record as of May 5, 2021, ₱2 million of which was received by SMDC. This was paid on May 19, 2021. In 2020, the BOD approved the declaration of cash dividend of ₱0.185 per share or ₱5,343 million to stockholders of record as of June 30, 2020, ₱4 million of which was received by SMDC. This was paid on July 14, 2020. In 2019, the BOD approved the declaration of cash dividend of ₱0.35 per share or ₱10,108 million to stockholders of record as of May 8, 2019, ₱8 million of which was received by SMDC. This was paid on May 22, 2019.

As at December 31, 2021 and 2020, the amount of retained earnings appropriated for the corporate and mall expansions amounted to ₱42,200 million. This represents appropriation for land banking activities and planned construction projects for the next two to three years. The appropriation is being fully utilized to cover part of the annual capital expenditure requirement of the Company. Approval of malls expansions and new projects is delegated by the BOD to the Executive Committee of the Company.

For the year 2022, the Company expects to incur capital expenditures of approximately ₱80,000 million.

The retained earnings account is restricted for the payment of dividends to the extent of ₱119,252 million and ₱104,746 million as at December 31, 2021 and 2020, respectively, representing the cost of shares held in treasury (₱2,985 million as at December 31, 2021 and 2020) and accumulated equity in net earnings of SMPH subsidiaries, associates and joint ventures ₱116,267 million and ₱101,761 million as at December 31, 2021 and 2020, respectively. The accumulated equity in net earnings of subsidiaries, associates and joint venture is not available for dividend distribution until such time that the Parent Company receives the dividends from its subsidiaries, associates and joint ventures.

Treasury Stock
As at December 31, 2021 and 2020, this includes 4,310 million reacquired capital stock and shares held by a subsidiary stated at acquisition cost of ₱2,985 million.

19. Related Party Transactions

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

Terms and Conditions of Transactions with Related Parties

There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the years ended December 31, 2021 and 2020, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates. Settlement of the outstanding balances normally occur in cash. The Company has approval process and established limits when entering into material related party transactions.

The significant related party transactions entered into by the Company with its related parties and the amounts included in the accompanying consolidated financial statements with respect to these transactions follow:

	Amount of Transactions			Outstanding Amount [Asset (Liability)]			
	2021	2020	2019	**2021**	2020	Terms	Conditions
			(In Thousands)				
Ultimate Parent							
Rent income	**₱59,175**	₱54,752	₱46,314	**₱–**	₱–		
Rent receivable	**–**	–	–	**7,874**	4,426	Non-interest bearing	Unsecured; not impaired
Other revenue	**41,600**	50,790	60,783	**–**	–		
Other receivable	**–**	–	–	**5,097**	4,480	Non-interest bearing	Unsecured; not impaired
Rent expense	**25,298**	38,360	61,606	**–**	–		
Trade payable	**–**	11,887	7,955	**(25,952)**	(36,646)	Non-interest bearing	Unsecured
Equity instruments at FVOCI	**–**	–	–	**137,776**	153,263		
Dividend income	**621**	621	1,332	**–**	–		
Bank and Retail Affiliates							
Cash and cash equivalents	**127,864,300**	118,698,095	123,976,281	**23,561,195**	17,670,812	Interest bearing based on prevailing rates	Unsecured; not impaired
Rent income	**10,107,826**	10,067,227	17,103,118	**–**	–		
Rent receivable	**–**	–	–	**2,443,955**	2,221,901	Non-interest bearing	Unsecured; not impaired
Other revenue	**159**	31,233	20,151	**–**	–		
Other receivable	**–**	–	–	**10,083**	8,441	Non-interest bearing	Unsecured; not impaired
Interest income	**213,906**	435,107	862,812	**–**	–		
Accrued interest receivable	**–**	–	–	**14,650**	12,049	Non-interest bearing	Unsecured; not impaired
Receivable financed	**358,861**	7,170,156	7,689,986	–	–	Without recourse	Unsecured
Time deposits	**–**	–	30,375	**856,650**	1,356,442	Interest bearing	Unsecured
Loans payable and long-term debt	**1,700,000**	2,500,412	2,500,330	**(10,743,442)**	(10,538,976)	Interest bearing	Unsecured
Interest expense	**503,515**	711,528	714,250	**–**	–		
Accrued interest payable	**–**	–	–	**(36,598)**	(53,452)	Non-interest bearing	Unsecured
Rent expense	**–**	38	461	**–**	–		
Trade payable	**–**	225,008	–	**(144,305)**	(288,144)	Non-interest bearing	Unsecured
Equity instruments at FVOCI	**–**	–	–	**10,865,944**	9,614,605		
Cash in escrow	**161,034**	25,952	149,038	**355,583**	144,209	Interest bearing based on prevailing rates	Unsecured; not impaired
Dividend income	**108,029**	108,029	186,098	**–**	–		

	Amount of Transactions			Outstanding Amount [Asset (Liability)]		Terms	Conditions
	2021	2020	2019	**2021**	2020		
			(In Thousands)				
Other Related Parties							
Rent income	**₱120,962**	₱153,434	₱187,219	**₱–**	₱–		
Rent receivable	**–**	–	–	**15,045**	23,178	Non-interest bearing	Unsecured; not impaired
Other revenue	**155,683**	88,442	108,314	**–**	–		
Other receivable	**–**	–	–	**30,180**	6,862	Non-interest bearing	Unsecured; not impaired
Rent expense	**376**	5,638	8,602	**–**	–		
Accrued payable	**–**	–	–	**(407,443)**	(407,443)	Non-interest bearing	Unsecured
Trade payable	**–**	154,587	–	**(127,343)**	(165,457)	Non-interest bearing	Unsecured

Affiliate refers to an entity that is neither a parent, subsidiary, nor an associate, with stockholders common to the SM Group or under common control.

Below are the nature of the Company's transactions with the related parties:

Rent
The Company has existing lease agreements for office and commercial spaces with related companies (SM Retail (Retail Affiliates), BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank) (Bank Affiliates) and other affiliates).

Other Revenues
The Company provides manpower and other related services to affiliates.

Dividend Income
The Company's equity instruments at FVOCI of certain affiliates earn income upon the declaration of dividends by the investees.

Cash Placements and Loans
The Company has certain bank accounts and cash placements that are maintained with BDO and China Bank. Such accounts earn interest based on prevailing market interest rates (see Note 6).

The Company also availed of bank loans and long-term debt from BDO and China Bank and pays interest based on prevailing market interest rates (see Notes 15 and 17).

The Company also entered into financing arrangements with BDO and China Bank. There were no assigned receivables on a with recourse basis to BDO and China Bank in 2021 and 2020 (see Note 7).

Others
The Company, in the normal course of business, has outstanding receivables from and payables to related companies as at reporting period which are unsecured and normally settled in cash.

Compensation of Key Management Personnel
The aggregate compensation and benefits related to key management personnel for the years ended December 31, 2021, 2020 and 2019 consist of short-term employee benefits amounting to ₱1,059 million, ₱1,126 million and ₱1,179 million, respectively, and post-employment benefits (pension benefits) amounting to ₱229 million, ₱274 million and ₱182 million, respectively.

20. Other Revenue

Details of other revenue follows:

	2021	2020	2019
		(In Thousands)	
Food and beverages	**₱611,751**	₱438,755	₱1,733,424
Amusement and others	**226,423**	182,994	925,485
Net merchandise sales	**193,278**	223,432	973,897
Advertising income	**87,155**	72,788	220,331
Cinema events and ticket sales	**49,923**	632,984	5,548,469
Bowling and ice skating fees	**29,301**	56,035	291,909
Others (see Note 19)	**1,307,348**	1,305,887	2,392,600
	₱2,505,179	₱2,912,875	₱12,086,115

Others include service fees, parking terminal, sponsorships, commissions and membership revenue.

21. Costs and Expenses

This account consists of:

	2021	2020	2019
		(In Thousands)	
Cost of real estate sold (see Note 8)	**₱18,686,708**	₱20,578,406	₱20,794,360
Depreciation and amortization (see Notes 11 and 12)	**10,816,869**	10,341,611	10,825,078
Administrative (see Notes 19 and 23)	**7,967,372**	8,945,926	12,100,309
Marketing and selling	**5,445,482**	5,152,576	6,408,579
Business taxes and licenses	**5,141,919**	5,082,801	4,819,840
Rent (see Notes 19 and 25)	**581,803**	564,602	1,255,788
Insurance	**497,387**	611,317	542,349
Film rentals	**20,539**	355,055	3,048,427
Others	**742,854**	1,192,818	1,824,432
	₱49,900,933	₱52,825,112	₱61,619,162

Rent expense pertain to variable payments for various lease agreements.

Others include bank charges, donations, dues and subscriptions, services fees and transportation and travel.

22. Interest Income and Interest Expense

The details of the sources of interest income and interest expense follow:

	2021	2020	2019
		(In Thousands)	
Interest income on:			
Cash and cash equivalents (see Note 6)	**₱627,033**	₱899,615	₱1,304,094
Time deposits (see Note 14)	**124,776**	43,101	32,149
Others (see Notes 7 and 10)	**87,458**	67,245	96,017
	₱839,267	₱1,009,961	₱1,432,260
Interest expense on:			
Long-term debt (see Note 17)	**₱9,147,532**	₱8,223,671	₱8,663,340
Loans payable (see Note 15)	**176,792**	189,244	28,055
Others	**33,292**	183,835	141,375
	₱9,357,616	₱8,596,750	₱8,832,770

23. Pension Benefits

The Company has funded defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. The latest actuarial valuation report is as at December 31, 2021.

The following tables summarize the components of the pension plan as at December 31:

Net Pension Cost (included under "Costs and expenses" account under "Administrative")

	2021	2020	2019
		(In Thousands)	
Current service cost	**₱376,779**	₱446,968	₱327,853
Interest - net and others	**8,348**	34,321	(9,973)
	₱385,127	₱481,289	₱317,880

Net Pension Asset (included under "Other noncurrent assets" account)

	2021	2020
		(In Thousands)
Fair value of plan assets	**₱1,419,845**	₱207,458
Defined benefit obligation	**(1,246,137)**	(115,900)
Effect of asset ceiling limit	**(25,477)**	(10,691)
Net pension asset	**₱148,231**	₱80,867

Net Pension Liability (included under "Other noncurrent liabilities" account)

	2021	2020
		(In Thousands)
Defined benefit obligation	**₱2,159,721**	₱3,120,026
Fair value of plan assets	**(1,565,128)**	(2,682,509)
Net pension liability	**₱594,593**	₱437,517

The changes in the present value of the defined benefit obligation are as follows:

	2021	2020
	(In Thousands)	
Balance at beginning of the year	**₱3,235,926**	₱3,741,233
Actuarial loss (gain) on:		
Changes in financial assumptions	**(198,344)**	(420,558)
Experience adjustments	**177,952**	(390,767)
Changes in demographic assumptions	**(3,017)**	2,890
Current service cost	**376,779**	446,968
Interest cost and others	**116,924**	206,376
Benefits paid	**(259,521)**	(343,525)
Transfers	**(40,841)**	(6,691)
Balance at end of the year	**₱3,405,858**	₱3,235,926

The above present value of defined benefit obligation are broken down as follows:

	2021	2020
	(In Thousands)	
Related to pension asset	**₱1,246,137**	₱115,900
Related to pension liability	**2,159,721**	3,120,026
	₱3,405,858	₱3,235,926

The changes in the fair value of plan assets are as follows:

	2021	2020
	(In Thousands)	
Balance at beginning of year	**₱2,889,967**	₱3,102,867
Contributions	**201,277**	343,507
Interest income	**108,925**	172,683
Benefits paid from assets	**(259,521)**	(343,525)
Transfers	**(40,841)**	(6,691)
Remeasurement gain (loss)	**85,166**	(378,874)
Balance at end of year	**₱2,984,973**	₱2,889,967

The changes in the fair value of plan assets are broken down as follows:

	2021	2020
	(In Thousands)	
Related to pension asset	**₱1,419,845**	₱207,458
Related to pension liability	**1,565,128**	2,682,509
	₱2,984,973	₱2,889,967

The changes in the effect of asset ceiling limit are as follows:

	2021	2020
	(In Thousands)	
Asset ceiling limit at beginning of year	**₱10,691**	₱11,186
Remeasurement gain	**14,437**	(1,123)
Interest cost	**349**	628
	₱25,477	₱10,691

The carrying amounts and fair values of the plan assets as at December 31, 2021 and 2020 are as follows:

	2021		2020	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
	(In Thousands)			
Cash and cash equivalents	**₱42,810**	**₱42,810**	₱42,936	₱42,936
Investments in:				
Common trust funds	**1,193,209**	**1,193,209**	1,147,925	1,147,925
Government securities	**1,343,150**	**1,343,150**	1,068,491	1,068,491
Debt and other securities	**363,200**	**363,200**	588,723	588,723
Equity securities	**28,969**	**28,969**	29,653	29,653
Other financial assets	**13,635**	**13,635**	12,239	12,239
	₱2,984,973	**₱2,984,973**	₱2,889,967	₱2,889,967

- Cash and cash equivalents includes regular savings and time deposits;
- Investments in common trust funds pertain to unit investment trust fund;
- Investments in government securities consist of retail treasury bonds which bear interest ranging from 1.79% to 11.88% and have maturities ranging from 2022 to 2028;
- Investments in debt and other securities consist of short-term and long-term corporate loans, notes and bonds which bear interest ranging from 2.58% to 8.01% and have maturities ranging from 2022 to 2028;
- Investments in equity securities consist of listed and unlisted equity securities; and
- Other financial assets include accrued interest income on cash deposits held by the Retirement Plan.

Debt and other securities, equity securities and government securities have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse instruments and do not have any concentration of risk.

The following table summarizes the outstanding balances and transactions of the pension plan with BDO as at and for the years ended December 31:

	2021	2020
	(In Thousands)	
Cash and cash equivalents	**₱42,810**	₱42,936
Interest income from cash and cash equivalents	**40**	960
Investments in common trust funds	**1,193,209**	1,147,925
Gain (loss) from investments in common trust funds	**10,848**	(72,170)

The principal assumptions used in determining pension obligations for the Company's plan are shown below:

	2021	2020	2019
Discount rate	**4.3%–5.1%**	3.0%–4.4%	5.5%–5.6%
Future salary increases	**3.0%–6.5%**	2.0%–9.0%	3.0%–9.0%

Remeasurement effects recognized in other comprehensive income at December 31 follow:

	2021	2020	2019
		(In Thousands)	
Actuarial loss (gain)	**(₱108,575)**	(₱429,561)	₱772,055
Remeasurement loss (gain) - excluding amounts recognized in net interest cost	**14,437**	(1,123)	(5,137)
	(₱94,138)	(₱430,684)	₱766,918

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2021 and 2020, respectively, assuming all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
2021		*(In Thousands)*
Discount rates	**50**	**(₱243,017)**
	(50)	**281,371**
Future salary increases	**100**	**300,193**
	(100)	**(263,259)**
2020		
Discount rates	50	(₱146,942)
	(50)	160,226
Future salary increases	100	311,481
	(100)	(270,495)

The Company and the pension plan has no specific matching strategies between the pension plan assets and the defined benefit obligation under the pension plan.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2021 and 2020, respectively:

Year 2021	**Amount**
	(In Thousands)
2022	**₱770,505**
2023	**279,433**
2024–2025	**581,013**
2026–2031	**2,214,566**

Year 2020	Amount
	(In Thousands)
2021	₱633,747
2022	228,286
2023–2024	556,135
2025–2030	2,005,553

The Company expects to contribute about ₱309 million to its defined benefit pension plan in 2022.

The weighted average duration of the defined benefit obligation is 7.8 years and 9.6 years as of December 31, 2021 and 2020, respectively.

24. Income Tax

The current provision for income tax presented in the consolidated statements of income represents RCIT and MCIT.

The details of the Company's deferred tax assets and liabilities are as follows:

	2021	2020
	(In Thousands)	
Deferred tax assets:		
Lease liabilities	**₱1,878,505**	₱1,993,521
NOLCO	**606,912**	965,328
Unrealized foreign exchange losses	**408,356**	408,353
Excess of fair value over cost of investment properties and others	**263,934**	331,415
Excess MCIT over RCIT	**219,553**	324,262
Unamortized past service cost	**34,394**	17,624
Provision for ECLs on receivables	**21,632**	122,272
Others	**468,209**	536,864
	3,901,495	4,699,639
Deferred tax liabilities:		
Unrealized gross profit on sale of real estate	**(8,379,622)**	(6,405,984)
Undepreciated capitalized interest, unrealized foreign exchange gains and others	**(2,794,261)**	(2,442,990)
Right-of-use assets	**(1,498,651)**	(1,595,884)

(Forward)

	2021	2020
Pension asset	**(₱21,332)**	(₱71,718)
Others	**(161,209)**	(137,535)
	(12,855,075)	(10,654,111)
Net deferred tax liabilities	**(₱8,953,580)**	(₱5,954,472)

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

	2021	2020
	(In Thousands)	
Deferred tax assets - net	**₱734,975**	₱831,546
Deferred tax liabilities - net	**(9,688,555)**	(6,786,018)
	(₱8,953,580)	(₱5,954,472)

On September 30, 2020, the Bureau of Internal Revenue issued Revenue Regulations No. 25-2020 implementing Section 4(bbb) of "Bayanihan to Recover As One Act ("Bayanihan Act")" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five consecutive taxable years immediately following the year of such loss. The Company has incurred NOLCO amounting to ₱690 million and ₱2,085 million in taxable years 2021 and 2020, respectively.

The reconciliation between the statutory tax rates and the effective tax rates on income before income tax as shown in the consolidated statements of income follows:

	2021	2020	2019
Statutory tax rate	**25.0%**	30.0%	30.0%
Income tax effects of:			
Adjustment of prior year income tax provision due to change in tax rate	**(1.06)**	–	–
Equity in net earnings of associates and joint ventures	**(1.07)**	(0.9)	(0.9)
Availment of income tax holiday	**(0.25)**	(3.4)	(4.1)
Interest income subjected to final tax and dividend income exempt from income tax	**(0.33)**	(1.5)	(0.8)
Nondeductible expenses and others	**(1.3)**	(4.9)	(3.1)
Effective tax rates	**21.0%**	19.3%	21.1%

The Company's certain real estate sales are registered with the Philippine Board of Investments as a new developer of low-cost mass housing projects. Under such registration, the Company is entitled to a three to four-year income tax holiday incentive for certain projects.

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act
On March 26, 2021, President Rodrigo Duterte signed into law the CREATE Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It took effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Company:

- Effective July 1, 2020, RCIT rate is reduced from 30% to 25%. For entities with net taxable income not exceeding ₱5 million and with total assets not exceeding ₱100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.
- MCIT rate reduced from 2% to 1% of gross income effective July 1, 2020.
- Imposition of improperly accumulated earnings tax is repealed.

Applying the provisions of the CREATE Act, the Company have been subjected to the lower tax rate of 15% (optional standard deduction) to 25% (itemized deduction) of taxable income and 1% MCIT of gross income effective July 1, 2020.

The Company recognized one-time impact of CREATE in the consolidated statement of comprehensive income for the period ended December 31, 2021 amounting to ₱293 million and ₱39 million for provision for income tax (current and deferred) and remeasurement loss on defined benefit obligation, respectively. Deferred tax liabilities - net also decreased by ₱218 million.

25. Lease Agreements

Company as Lessor
The Company's lease agreements with its mall tenants are generally granted for a term of one year, with the exception of some of the larger tenants operating nationally, which are granted initial lease terms of five years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay either a fixed monthly rent, which is calculated by reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises of a basic monthly amount and a percentage of gross sales or a minimum set amount, whichever is higher.

Also, the Company's lease agreements with its commercial property tenants are generally granted for a term of one year, with the exception of some tenants, which are granted initial lease terms of 2 to 20 years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants pay either a fixed monthly rent or a percentage of sales, depending on the terms of the lease agreements, whichever is higher.

The Company's future minimum rent receivables for the noncancellable portions of the operating commercial property leases follow:

	2021	2020
	(In Millions)	
Within one year	**₱5,955**	₱6,263
After one year but not more than five years	**10,618**	14,102
After more than five years	**7,139**	6,648
	₱23,712	₱27,013

Consolidated rent income amounted to ₱34,694 million, ₱32,013 million and ₱61,760 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Company as Lessee

The Company also leases certain parcels of land where some of their malls are situated or constructed. The terms of the lease are for periods ranging from 5 to 50 years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of the gross rental income or a certain fixed amount, whichever is higher.

Also, the Company has various operating lease commitments with third party and related parties. The noncancellable periods of the lease range from 2 to 30 years, mostly containing renewal options. Several lease contracts provide for the payment of additional rental based on certain percentage of sales of the tenants.

Depreciation expense on ROUA, interest expense on lease liabilities and rent expense on other leases amounting to ₱633 million, ₱404 million and ₱582 million, respectively, and ₱550 million, ₱323 million and ₱565 million, respectively, are recognized in the consolidated statements of income for the years ended December 31, 2021 and 2020, respectively (see Notes 11, 12, 16 and 21).

The maturity analysis of the undiscounted lease payments as at December 31, 2021 and 2020, respectively, are presented in Note 26 to the consolidated financial statements.

26. Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, accrued interest and other receivables, equity instruments at FVOCI and bank loans. The main purpose of these financial instruments is to finance the Company's operations. The Company has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions, principally, cross currency swaps, principal only swaps, interest rate swaps and non-deliverable forwards. The purpose is to manage the interest rate and foreign currency risks arising from the Company's operations and its sources of finance (see Note 27).

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk. The Company's BOD and management review and agree on the policies for managing each of these risks and they are summarized in the following tables.

Interest Rate Risk

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, it enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As at December 31, 2021 and 2020, after taking into account the effect of interest rate swaps, approximately 86% and 80%, respectively, of its long-term borrowings, are at a fixed rate of interest (see Note 27).

Interest Rate Risk

The following tables set out the carrying amount, by maturity, of the Company's long-term financial liabilities that are exposed to interest rate risk as at December 31, 2021 and 2020:

				2021			
	Interest Rate	**1–<2 Years**	**2–<3 Years**	**3–<4 Years**	**4–<5 Years**	**=>5 Years**	**Total**
Floating Rate							
Philippine peso-denominated loans	**BVAL+margin%**	**₱11,358,000**	**₱19,247,500**	**₱95,500**	**₱5,674,000**	**₱950,000**	**₱37,325,000**
China yuan renminbi-denominated loans	**LPR**	**¥29,592**	**¥49,592**	**¥148,280**	**¥217,420**	**¥264,946**	**5,695,392**
							43,020,392
Less debt issue cost							**92,016**
							₱42,928,376

				2020			
	Interest Rate	1–<2 Years	2–<3 Years	3–<4 Years	4–<5 Years	=>5 Years	Total
Floating Rate							
Philippine peso-denominated loans	BVAL+margin%	₱1,268,600	₱12,273,600	₱19,247,600	₱3,795,600	₱15,701,400	52,286,800
Less debt issue cost							219,732
							₱52,067,068

Interest Rate Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Company's income before income tax.

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax
		(In Thousands)
2021	**100**	**(₱18,314)**
	50	**(9,157)**
	(100)	**18,314**
	(50)	**9,157**
2020	100	(₱14,453)
	50	(7,227)
	(100)	14,453
	(50)	7,227

Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs. The assumed movement in basis points for interest rate sensitivity analysis is based on currently observable market environment, showing a significantly higher volatility as in prior years.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's policy is to manage its foreign currency risk mainly from its debt issuances which are denominated in U.S. dollars by entering into foreign currency swap contracts, cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flow.

The Company's foreign currency-denominated monetary net assets amounted to US$57 million (₱2,904 million) as at December 31, 2021 and US$25 million (₱1,179 million) as at December 31, 2020.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱51.00 to US$1.00 and ₱48.02 to US$1.00, the Philippine peso to U.S. dollar exchange rate as at December 31, 2021 and 2020, respectively.

Foreign Currency Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in U.S. dollar to Philippine peso exchange rate with all other variables held constant, of the Company's income before income tax (due to changes in the fair value of monetary assets, including the impact of derivative instruments). There is no impact on the Company's equity.

	Appreciation (Depreciation) of $	Effect on Income Before Tax
		(In Thousands)
2021	**1.50**	**₱85,412**
	1.00	**56,941**

	Appreciation (Depreciation) of $	Effect on Income Before Tax
		(In Thousands)
	(1.50)	**(₱85,412)**
	(1.00)	**(56,941)**
2020	1.50	₱36,843
	1.00	24,562
	(1.50)	(36,843)
	(1.00)	(24,562)

Liquidity Risk

Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstance.

The Company seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Company intends to use internally generated funds and proceeds from debt and equity issues.

As part of its liquidity risk management program, the Company regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans and debt capital and equity market issues.

The Company's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents and equity instruments at FVOCI amounting to ₱39,776 million and ₱547 million, respectively, as at December 31, 2021 and ₱30,662 million and ₱568 million, respectively, as at December 31, 2020 (see Notes 6 and 9). The Company also has readily available credit facility with banks and affiliates to meet its long-term financial liabilities.

The tables below summarize the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments as at December 31:

	2021			
	Within 1 Year	**More than 1 Year to 5 Years**	**More than 5 Years**	**Total**
		(In Thousands)		
Loans payable	**₱6,518,138**	**₱–**	**₱–**	**₱6,518,138**
Accounts payable and other current liabilities*	**69,941,596**	**–**	**–**	**69,941,596**
Long-term debt (including current portion)	**53,626,924**	**271,237,960**	**21,189,605**	**346,054,489**
Derivative liabilities	**335,367**	**1,748,186**	**–**	**2,083,553**
Liability for purchased land - net of current portion	**–**	**1,918,283**	**621,767**	**2,540,050**
Tenants' deposits - net of current portion**	**–**	**19,364,482**	**1,796,763**	**21,161,245**
Lease liabilities	**788,697**	**3,330,446**	**24,779,903**	**28,899,046**
Other noncurrent liabilities***	**–**	**4,232,633**	**1,619,598**	**5,852,231**
	₱131,210,722	**₱301,831,990**	**₱50,007,636**	**₱483,050,348**

	2020			
	Within 1 Year	More than 1 Year to 5 Years	More than 5 Years	Total
		(In Thousands)		
Loans payable	₱10,956,069	₱–	₱–	₱10,956,069
Accounts payable and other current liabilities*	63,449,508	–	–	63,449,508
Long-term debt (including current portion)	51,645,867	228,715,038	17,274,810	297,635,715
Derivative liabilities	357,662	2,445,735	–	2,803,397
Liability for purchased land - net of current portion	–	1,251,227	–	1,251,227
Tenants' deposits - net of current portion**	–	21,023,323	54,549	21,077,872
Lease liabilities	655,840	2,636,354	22,131,323	25,423,517
Other noncurrent liabilities***	–	4,397,581	794,710	5,192,291
	₱127,064,946	₱260,469,258	₱40,255,392	₱427,789,596

* *Excluding nonfinancial liabilities and lease liabilities amounting to ₱21,436 million and ₱17,585 million as at December 31, 2021 and 2020, respectively.*
** *Excluding residential customers' deposits amounting to ₱297 million and ₱254 million as at December 31, 2021 and 2020, respectively.*
*** *Excluding nonfinancial liabilities and lease liabilities amounting to ₱22,760 million and ₱19,815 million as at December 31, 2021 and 2020, respectively.*

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments (see Notes 6, 7, 9 and 10).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The fair values of these financial assets are disclosed in Note 27. For receivables from real estate sale, the title of the real estate property is only transferred to the customer if the consideration had been fully paid. In case of default, after enforcement activities, the Company has the right to cancel the sale and enter into another contract to sell to another customer after certain proceedings (e.g. grace period, referral to legal, cancellation process, reimbursement of previous payments) had been completed. Given this, based on the experience of the Company, the maximum exposure to credit risk at the reporting date is nil considering that fair value less cost to repossess of the real estate projects is higher than the exposure at default. The Company evaluates the concentration of risk with respect to trade receivables and unbilled revenue from sale of real estate as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

The changes in the gross carrying amount of receivables and unbilled revenue from sale of real estate during the year and impact of COVID-19 pandemic did not materially affect the allowance for ECLs.

As at December 31, 2021 and 2020, the financial assets, except for certain receivables, are generally viewed by management as good and collectible considering the credit history of the counterparties (see Note 7). Past due or impaired financial assets are very minimal in relation to the Company's consolidated total financial assets.

Credit Quality of Financial Assets. The credit quality of financial assets is managed by the Company using high quality and standard quality as internal credit ratings.

High Quality. Pertains to counterparty who is not expected by the Company to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies and government agencies.

Standard Quality. Other financial assets not belonging to high quality financial assets are included in this category.

As at December 31, 2021 and 2020, the credit quality of the Company's financial assets is as follows:

	2021			
	Neither Past Due nor Impaired		**Past Due**	
	High Quality	**Standard Quality**	**but not Impaired**	**Total**
	(In Thousands)			
Financial assets at amortized cost				
Cash and cash equivalents*	**₱39,707,135**	**₱–**	**₱–**	**₱39,707,135**
Receivables**	**63,578**	**5,618,748**	**14,640,189**	**20,322,515**
Cash in escrow (included under "Prepaid expenses and other current assets")	**335,583**	**–**	**–**	**335,583**
Time deposits (included under "Other noncurrent assets")	**3,905,618**	**–**	**–**	**3,905,618**
Financial assets at FVTPL				
Derivative assets	**1,797,176**	**–**	**–**	**1,797,176**
Financial assets at FVOCI				
Equity instruments	**17,942,096**	**5,317**	**–**	**17,947,413**
	₱63,751,186	**₱5,624,065**	**₱14,640,189**	**₱84,015,440**

** Excluding cash on hand amounting to ₱69 million*
*** Excluding nonfinancial assets amounting to ₱52,697 million*

	2020			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
	(In Thousands)			
Financial assets at amortized cost				
Cash and cash equivalents*	₱30,560,051	₱–	₱–	₱30,560,051
Receivables**	129,226	1,328,309	13,215,176	14,672,711
Cash in escrow (included under "Prepaid expenses and other current assets")	144,209	–	–	144,209
Time deposits (included under "Other noncurrent assets")	1,356,442	–	–	1,356,442
Financial assets at FVTPL				
Derivative assets	2,747	–	–	2,747
Financial assets at FVOCI				
Equity instruments	16,696,333	3,381	–	16,699,714
	₱48,889,008	₱1,331,690	₱13,215,176	₱63,435,874

** Excluding cash on hand amounting to ₱102 million*
*** Excluding nonfinancial assets amounting to ₱44,272 million*

Equity Price Risk

Equity price risk arises from the changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

As a policy, management monitors its equity price risk pertaining to its investments in quoted equity securities which are classified as equity instruments designated at FVOCI in the consolidated balance sheets based on market expectations. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

The effect on equity after income tax (as a result of change in fair value of equity instruments at FVOCI as at December 31, 2021 and 2020) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

	2021	
	Change in Equity Price	**Effect on Equity**
		(In Millions)
Equity instruments at FVOCI	**+0.81%**	**₱147**
	-0.81%	**(147)**

	2020	
	Change in Equity Price	Effect on Equity
		(In Millions)
Equity instruments at FVOCI	+1.19%	₱199
	-1.19%	(199)

Capital Management

Capital includes equity attributable to the owners of the Parent.

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

The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Company monitors capital using the following gearing ratios as at December 31:

Interest-bearing Debt to Total Capital plus Interest-bearing Debt

	2021	2020
	(In Thousands)	
Loans payable	**₱6,487,427**	₱10,900,000
Current portion of long-term debt	**42,261,601**	42,738,350
Long-term debt - net of current portion	**264,969,216**	218,830,647
Total interest-bearing debt (a)	**313,718,244**	272,468,997
Total equity attributable to equity holders of the parent	**332,919,204**	309,284,067
Total interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱646,637,448**	₱581,753,064
Gearing ratio (a/b)	**49%**	47%

Net Interest-bearing Debt to Total Capital plus Net Interest-bearing Debt

	2021	2020
	(In Thousands)	
Loans payable	**₱6,487,427**	₱10,900,000
Current portion of long-term debt	**42,261,601**	42,738,350
Long-term debt - net of current portion	**264,969,216**	218,830,647
Less cash and cash equivalents	**(39,775,852)**	(30,661,614)
Total net interest-bearing debt (a)	**273,942,392**	241,807,383
Total equity attributable to equity holders of the parent	**332,919,204**	309,284,067
Total net interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱606,861,596**	₱551,091,450
Gearing ratio (a/b)	**45%**	44%

27. Financial Instruments

Fair Values

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities and nonfinancial assets, by category and by class, other than those whose carrying values are reasonable approximations of fair values, as at December 31:

	December 31, 2021				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
			(In Thousands)		
Financial Assets					
Financial assets at FVTPL:					
Derivative assets	**₱1,797,176**	**₱1,797,176**	**₱–**	**₱1,797,176**	**₱–**
Financial assets at amortized cost:					
Time deposits (included under "Other noncurrent assets - net")	**3,905,618**	**3,930,229**	**–**	**3,930,229**	**–**
Financial assets at FVOCI:					
Equity instruments	**17,947,413**	**17,947,413**	**17,941,996**	**–**	**5,417**
Nonfinancial Assets* (see Note 12)	**467,391,988**	**1,925,059,685**			**1,925,059,685**
	₱491,042,195	**₱1,948,734,503**	**₱17,941,996**	**₱5,727,405**	**₱1,925,065,102**
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	**₱2,083,553**	**₱2,083,553**	**₱–**	**₱2,083,553**	**₱–**
Loans and borrowings:					
Liability for purchased land - net of current portion	**2,540,050**	**2,386,784**	**–**	**–**	**2,386,784**
Long-term debt - net of current portion	**264,969,216**	**262,884,613**	**–**	**–**	**262,884,613**
Tenants' deposits - net of current portion	**21,161,245**	**20,503,065**	**–**	**–**	**20,503,065**
Other noncurrent liabilities**	**5,852,230**	**5,716,525**	**–**	**–**	**5,716,525**
	₱296,606,294	**₱293,574,540**	**₱–**	**₱2,083,553**	**₱291,490,987**

**Consists of investment properties (fair value as of December 31, 2021 valuation date)*
***Excluding lease liabilities and nonfinancial liabilities amounting to ₱22,760 million as at December 31, 2021.*

	December 31, 2020				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
			(In Thousands)		
Financial Assets					
Financial assets at FVTPL:					
Derivative assets	₱2,747	₱2,747	₱–	₱2,747	₱–
Financial assets at amortized cost:					
Time deposits (included under "Other noncurrent assets")	1,356,442	1,356,442	–	1,356,442	–
Financial assets at FVOCI:					
Equity instruments	16,699,714	16,699,714	16,696,333	–	3,381
Nonfinancial Assets* (see Note 12)	436,159,081	1,305,810,359			1,305,810,359
	₱454,217,984	₱1,323,869,262	₱16,696,333	₱1,359,189	₱1,305,813,740
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱2,803,397	₱2,803,397	₱–	₱2,803,397	₱–
Loans and borrowings:					
Liability for purchased land - net of current portion	1,251,227	1,204,295	–	–	1,204,295
Long-term debt - net of current portion	218,830,647	214,950,879	–	–	214,950,879
Tenants' deposits - net of current portion	21,077,872	20,772,115	–	–	20,772,115
Other noncurrent liabilities**	5,192,291	5,147,613	–	–	5,147,613
	₱249,155,434	₱244,878,299	₱–	₱2,803,397	₱242,074,902

**Consists of investment properties (fair value as of September 30, 2018 valuation date)*
*** Excluding lease liabilities and nonfinancial liabilities amounting to ₱19,816 million as at December 31, 2020.*

Fair Value Hierarchy

The Company uses the fair value hierarchy discussed in Note 3 for determining and disclosing the fair value of financial instruments.

During the years ended December 31, 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Derivative Instruments. The fair values are based on quotes obtained from counterparties.

Equity Instruments at FVOCI. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business.

Long-term Debt. Fair value is based on the following:

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 1.13% to 6.24% and from 1.24% to 4.67% as at December 31, 2021 and 2020, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 4.73% to 5.24% and 3.72% to 4.44% as at December 31, 2021 and 2020, respectively.

Tenants' Deposits, Liability for Purchased Land and Other Noncurrent Liabilities. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 2.00% to 3.84% and 2.13% to 5.47% as at December 31, 2021 and 2020, respectively.

The Company assessed that the carrying values of cash and cash equivalents, receivables, cash in escrow, bank loans and accounts payable and other current liabilities approximate their fair values due to the short-term nature and maturities of these financial instruments.

There were no financial instruments subject to an enforceable master netting arrangement that were not set-off in the consolidated balance sheets.

Nonfinancial Assets. As at December 31, 2021, the significant assumptions used in the valuation are discount rates of 8.00% to 9.00% and average growth rate of 5.00%, respectively. As at September 30, 2018, the significant assumptions used in the valuation are discount rates and capitalization rates of 4.00% to 6.00% and average growth rate of 1.00% to 5.00%. Management believes that the carrying values of additions to investment properties subsequent to the most recent valuation date would approximate their fair values.

Derivative Instruments Accounted for as Cash Flow Hedges

As at December 31, 2021, the Company have outstanding arrangements to hedge both foreign currency and interest rate exposure on its foreign currency denominated debts. Details as follow:

Cross currency Swaps

Hedged Loan	Outstanding Notional Amount	Agreed Equivalent	Fair Value	US$ Swap Rate	Fixed Interest Rate	Maturity
	(In Thousands)					
Two - year term loans	$100,000	₱4,828,000	₱265,854	₱48.2800	2.8800%	2022
Four - year term loans	$150,000	₱7,276,500	419,073	₱48.5000 - ₱48.5200	3.6350% - 3.7000%	2024
Five - year term loans	$286,000	¥1,919,208	(917,770)	¥6.6880 - ¥6.7188	3.8600% - 3.9700%	2024
Five - year term syndicated loans	$110,000	₱5,865,700	(530,069)	₱53.3200 - ₱53.3300	6.3700% - 6.3900%	2023
Five - year term loans	$100,000	¥671,715	(335,367)	¥6.4850 - ¥6.5473	4.9500% - 5.4300%	2022

Principal Only, Foreign Exchange and Interest Rate Swap

Hedged Loan	Outstanding Notional Amount	Agreed Equivalent	Fair Value Principal Only Swap	Fair Value Foreign Exchange Swap	Fair Value Interest Rate Swap	US$ Swap Rate	Fixed Interest Rate	Maturity
	(In Thousands)							
Five - year term syndicated loans	$375,000	₱18,875,060	₱–	₱426,170	₱–	₱48.8000 - ₱50.9050	–	2022
Five - year term syndicated loans	$400,000	–	–	–	383,752	–	2.2800% - 2.4645%	2026
Five - year term loans	$170,000	¥1,100,515	(300,347)	–	162,180	¥6.4845 - ¥6.6496	2.6330% - 2.6340%	2026
Four - year term syndicated loans	$100,000	₱5,111,500	–	61,482	–	₱51.1150	–	2022
Four - year term syndicated loans	$100,000	–	–	–	78,664	–	2.3980%	2025

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

The net movements in fair value of all derivative instruments are as follows:

	December 31, 2021	December 31, 2020
	(In Thousands)	
Balance at beginning of period	**(₱2,800,650)**	₱114,698
Net changes in fair value during the period	**2,844,482**	(2,915,348)
Fair value of settled derivatives	**(330,209)**	–
Balance at end of year	**(₱286,377)**	(₱2,800,650)

28. EPS Computation

Basic/diluted EPS is computed as follows:

	2021	2020	2019
	(In Thousands, Except Per Share Data)		
Net income attributable to equity holders of the parent (a)	**₱21,786,516**	₱18,006,512	₱38,085,601
Common shares issued	**33,166,300**	33,166,300	33,166,300
Less weighted average number treasury stock (see Note 18)	**4,309,888**	4,309,888	4,309,888
Weighted average number of common shares outstanding (b)	**28,856,412**	28,856,412	28,856,412
Earnings per share (a/b)	**₱0.755**	₱0.624	₱1.320

29. Change in Liabilities Arising from Financing Activities

Movements in loans payable, long-term debt and lease liabilities accounts are as follows (see Notes 15, 16 and 17):

	2021			2020		
	Loans Payable	**Long-term Debt**	**Lease Liabilities**	Loans Payable	Long-term Debt	Lease Liabilities
			(In Thousands)			
Balance at beginning of year	**₱10,900,000**	**₱261,568,997**	**₱11,076,316**	₱100,000	₱237,854,423	₱11,213,547
Availments	**8,769,596**	**78,079,785**	**1,390,955**	36,500,000	54,903,912	–
Payments	**(15,959,528)**	**(35,336,466)**	**(47,933)**	(25,700,000)	(28,993,349)	(85,013)
Cumulative translation adjustment	**187,596**	**3,250,295**	**–**	–	366,233	–
Foreign exchange movement	**–**	**781,913**	**–**	–	(2,443,642)	–
Loan refinancing	**415,000**	**(415,000)**	**–**	–	–	–
Non-cash and others	**2,174,763**	**(698,707)**	**–**	–	(118,580)	(52,218)
Balance at end of year	**₱6,487,427**	**₱307,230,817**	**₱12,419,338**	₱10,900,000	₱261,568,997	₱11,076,316

There are no non-cash changes in accrued interest and dividends payable. Others include debt issue cost additions and rental concession on certain land leases due to COVID-19.

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Building a better working world

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
SM Prime Holdings, Inc.
10th Floor, Mall of Asia Arena Annex Building
Coral Way cor. J.W. Diokno Blvd.
Mall of Asia Complex
Brgy. 76, Zone 10, CBP-1A, Pasay City, Philippines

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SM Prime Holdings, Inc. and its Subsidiaries (the "Company") as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021 and have issued our report thereon dated February 24, 2022. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
Tax Identification No. 153-978-243
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 88823-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-078-2020, December 3, 2020, valid until December 2, 2023
PTR No. 8853472, January 3, 2022, Makati City

February 24, 2022

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INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors
SM Prime Holdings, Inc.
10th Floor, Mall of Asia Arena Annex Building
Coral Way cor. J.W. Diokno Blvd.
Mall of Asia Complex
Brgy. 76, Zone 10, CBP-1A, Pasay City, Philippines

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SM Prime Holdings, Inc. and its Subsidiaries (the "Company") as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021, and have issued our report thereon dated February 24, 2022. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's consolidated financial statements as at December 31, 2021 and for each of the three years in the period ended December 31, 2021 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
Tax Identification No. 153-978-243
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
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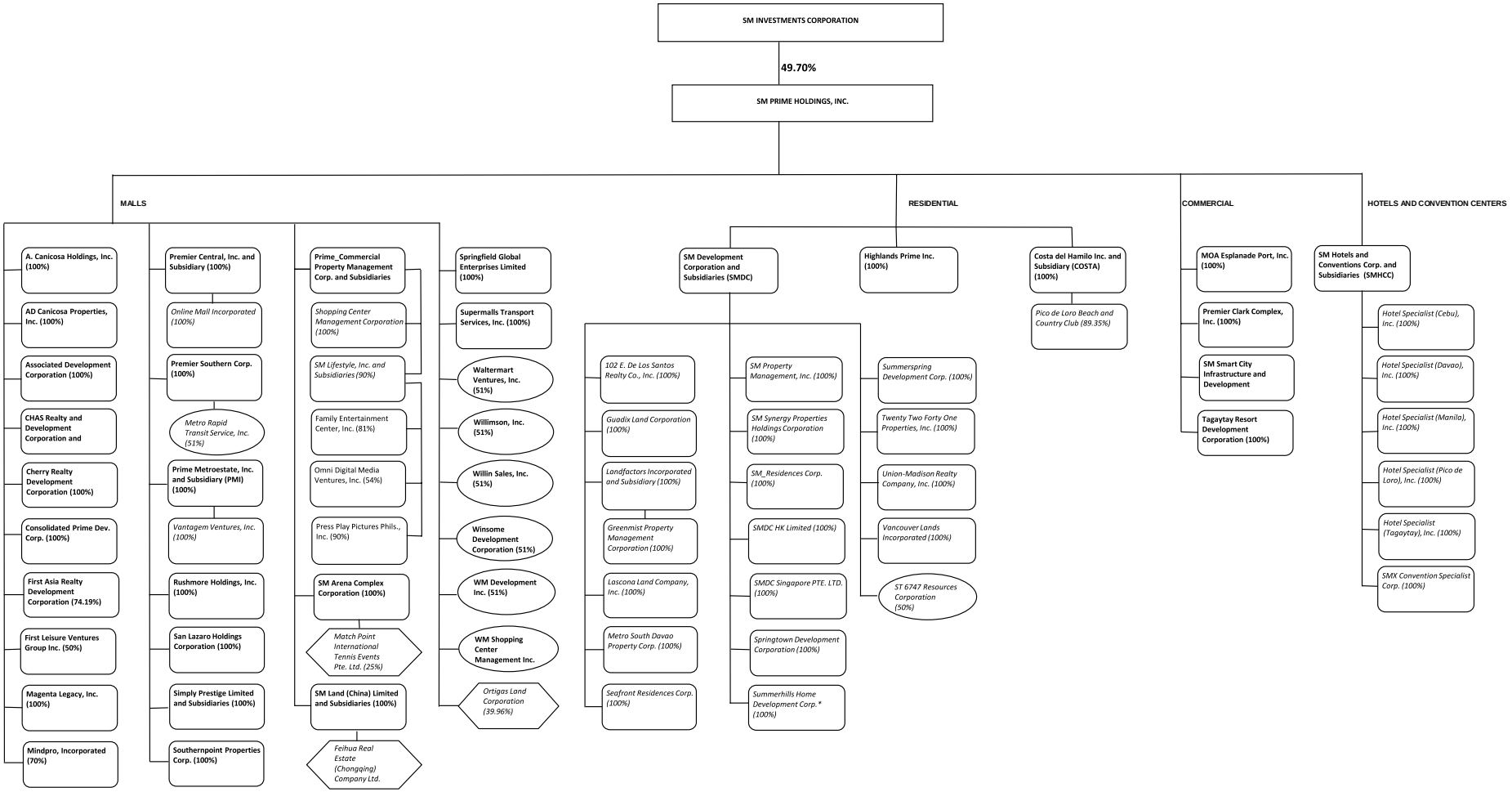
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-078-2020, December 3, 2020, valid until December 2, 2023
PTR No. 8853472, January 3, 2022, Makati City

February 24, 2022

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2021

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP
As of December 31, 2021

Annex I



** Summerhills Home Development Corp. is 79.6% owned by SMDC and 20.4% owned by SMPH*
***Affluent Capital Enterprises Limited and Subsidiaries and Mega Make Enterprises Limited and Subsidiaries are now subsidiaries of SM Land (China) Limited .*

Note: % Refers to Effective Ownership

Annex II

SM Prime Holdings, Inc. and Subsidiaries
Supplementary Schedules Required by Paragraph 7D, Part II
Under Revised SRC Rule 68, Part II, Annex 68-J
December 31, 2021

Schedule A. Financial Assets

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income Received and Accrued
		(In Thousands)	
Financial Assets at Amortized Costs*			
Temporary investments:			
Banco de Oro (BDO)	PHP 16,872,028	PHP 16,872,028	
China Banking Corporation (CHIB)	PHP 2,900,053	2,900,053	
Bank of East Asia Ltd	RMB 211,800	1,699,399	
China Merchants Bank	RMB 200,000	1,604,720	
Industrial and Commercial Bank of China	RMB 150,400	1,206,749	
China Industrial Bank	RMB 18,000	144,425	
Others	PHP 51,297	51,297	
Time deposits on hold:			
Industrial and Commercial Bank of China	RMB 380,000	3,048,968	
BDO	PHP 800,000	800,000	
CHIB	PHP 56,650	56,650	
Cash in escrow:			
CHIB	PHP 330,114	330,114	
BDO	PHP 5,469	5,469	
		PHP 28,719,872	PHP 750,280
Financial assets at fair value through profit or loss			
Derivative assets	PHP 1,797,176	PHP 1,797,176	PHP 0
Financial assets at fair value through other comprehensive income			
BDO Unibank, Inc.	90,024,395 shares	PHP 10,865,944	
Ayala Corporation	7,690,430 shares	6,390,747	
Shang Properties, Inc.	189,550,548 shares	494,727	
SM Investments Corporation	146,104 shares	137,776	
Republic Glass Holdings Corporation	14,230,000 shares	42,690	
Picop Resources, Inc.	40,000,000 shares	8,200	
Philippine Long Distance Telephone Company	253,270 shares	2,533	
Export & Industry Bank	7,829,000 shares	2,036	
Benguet Corporation	266,757 shares	1,425	
Prime Media Holdings, Inc.	500,000 shares	585	
Philippine National Bank	112 shares	2	
Others	852 shares	748	
		PHP 17,947,413	PHP 185,799
		PHP 48,464,461	PHP 936,079

**Excluding cash on hand and in banks*

Schedule B. Amounts Receivable from Directors, Officers, Employees, and Principal Stockholders (Other than Related Parties) – *Not applicable*

Schedule C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial statements

(Amounts in Thousands) **Name and Designation of Debtor**	**Balance at Beginning of Period**	**Additions**	**Amounts Collected**	**Amounts Written Off**	**Current**	**Not Current**	**Balance at End of Period**
SM Land (China) Limited and Subsidiaries	₱7,781,170	₱569,656	(₱534,313)	₱–	₱–	₱7,816,513	₱7,816,513
San Lazaro Holdings Corporation	1,361,750	2,700	(56)	–	–	1,364,394	1,364,394
Costa del Hamilo, Inc.	844,004	9,162	(53,097)	–	–	800,069	800,069
SM Development Corporation and Subsidiaries	652,951	220,219	(204,757)	–	–	668,413	668,413
SM Prime Holdings, Inc.	141,651	5,638,494	(5,370,458)	–	–	409,687	409,687
Mindpro Inc.	326,227	151,200	(1,507)	–	–	475,920	475,920
Highlands Prime, Inc.	-	299,576	(32)	–	–	299,544	299,544
Prime Commercial Property Management Corp.	428,764	2,921	(149,217)	–	–	282,468	282,468
Premier Central, Inc.	630,106	272,129	(767,500)	–	–	134,735	134,735
Associated Development Corporation	54,750	-	-	–	–	54,750	54,750
First Asia Realty Development Corp.	28,781	151,146	(137,236)	–	–	42,691	42,691
Tagaytay Resort and Development Corporation	36,521	85	(3)	–	–	36,603	36,603
Premier Southern Corp.	18,027	112,449	(114,467)	–	–	16,009	16,009
Southernpoint Properties Corp.	6,862	60,007	(56,610)	–	–	10,259	10,259
First Leisure Ventures Group Inc.	6,012	17,216	(14,044)	–	–	9,184	9,184
SM Hotels and Convention Corp	70,595	9,966	(72,728)	–	–	7,833	7,833
Consolidated Prime Dev. Corp.	18,677	71,311	(82,873)	–	–	7,115	7,115
CHAS Realty and Development Corp	2,145	25,237	(20,710)	–	–	6,672	6,672
SM Arena Complex Corporation	49,523	40,892	(86,841)	–	–	3,574	3,574
MOA Esplanade Port Inc	2,126	1,076	(1,562)	–	–	1,640	1,640
Prime Metroestate, Inc.	839	6,322	(6,208)	-	-	953	953
	₱12,461,481	**₱7,661,764**	**(₱7,674,219)**	**₱–**	**₱–**	**₱12,449,026**	**₱12,449,026**

Schedule D. Long-term debt

This schedule has been omitted because the information required to be presented is included in the consolidated financial statements.

Schedule E. Indebtedness to Related Parties

Not applicable

Schedule F. Guarantees of Securities of Other Issuers

Not applicable

Schedule G. Capital Stock
(Shares In thousands)

Title of Issue	Number of Shares Authorized	Number of Shares Issued as Shown Under Related Balance Sheet Caption	Number of Shares Outstanding as Shown Under Related Balance Sheet Caption	Number of Shares Held by Related Parties	Directors, Officers and Employees	Others
Common	40,000,000	33,166,300	28,856,411	15,885,902	3,107,884	9,862,625

Annex III

SM Prime Holdings, Inc.
Reconciliation of Retained Earnings Available for Dividend Declaration
December 31, 2021

Unappropriated retained earnings as at January 1, 2021		₱183,040,510,109
Adjustments for:		
Non-actual/unrealized income, net of applicable tax:		
Equity in net earnings of subsidiaries, associates and joint ventures	(104,694,701,158)	
Deferred tax assets	(2,191,680,863)	
Treasury stock	(2,613,650,429)	(109,500,032,450)
Unappropriated retained earnings as at January 1, 2021, available for dividend declaration		73,540,477,659
Net income closed to retained earnings in 2021	22,451,291,099	
Adjustments for:		
Non-actual/unrealized income, net of applicable tax:		
Equity in net earnings of subsidiaries, associates and joint ventures	(14,821,791,337)	
Movement of deferred tax assets	(689,637,709)	
Net income actually earned in 2021		6,939,862,053
Less: Cash dividends in 2021		(2,368,096,994)
Retained earnings as at December 31, 2021 available for dividend declaration		**₱78,112,242,718**

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
FINANCIAL RATIOS - KEY PERFORMANCE INDICATORS
AS OF DECEMBER 31, 2021 and 2020

Ratio	Formula		December 31, 2021	December 31, 2020
		(In Thousands)		
Current Ratio	**Total Current Assets divided by Total Current Liabilities**		**1.39**	1.16
	Total current assets	₱195,664,769		
	Divide by: Total current liabilities	141,025,499		
	Current Ratio	1.39		
Acid Test Ratio	**Quick assets (Total Current Assets less Inventories and Prepaid expenses) divided by Total Current Liabilities**		**0.81**	0.66
	Total current assets	₱195,664,769		
	Less: Real estate inventories	(56,575,047)		
	Prepaid expenses	(24,993,357)		
	Quick assets	114,096,365		
	Divide by: Total current liabilities	141,025,499		
	Acid test ratio	0.81		
Solvency Ratio	**Total Assets divided by Total Liabilities**		**1.71**	1.75
	Total assets	₱804,403,280		
	Divide by: Total Liabilities	470,042,507		
	Asset to liabilities ratio	1.71		
Debt-to-Equity Ratio	**Total Interest-Bearing debt divided by Total Equity**		**49:51**	47:53
	Total interest-bearing debt	₱313,718,244		
	To: Total equity attributable to equity holders of the parent	332,919,204		
	Debt to equity ratio	49:51		
Asset to equity ratio	**Total assets divided by Total Equity**		**2.42**	2.34
	Total assets	₱804,403,280		
	Divide by: Total equity attributable to equity holders of the parent	332,919,204		
	Asset to equity ratio	2.42		
Interest Rate Coverage Ratio	**Earnings Before Interest, Taxes and Depreciation and Amortization (EBITDA) divided by Total Interest Expense**		**4.61**	4.57
	Income from operations	₱32,414,551		
	Less: Non-controlling interests income	(124,887)		
	Add: Depreciation and amortization	10,816,869		
	EBITDA	43,106,533		
	Divide by: Interest expense	9,357,616		
	Interest rate coverage ratio	4.61		

Ratio	Formula		December 31, 2021	December 31, 2020
		(In Thousands)		
Return on Equity	**Net Income divided by Average Total Equity**		**7%**	6%
	Net income attributable to equity holders of the parent	₱21,786,516		
	Divide by: Average total equity attributable to equity holders of the parent	321,101,636		
	Return on Equity	7%		
Debt to EBITDA	**Total interest-bearing liabilities divided by EBITDA**		**7.28**	6.94
	Total interest-bearing liabilities	₱313,718,244		
	Divide by: EBITDA	43,106,533		
	Debt to EBITDA	7.28		
Net debt-to-equity ratio	**Total Interest-Bearing debt less cash and cash equivalents and investment securities divided by Total Equity**		**45:55**	44:56
	Total interest-bearing debt	₱313,718,244		
	Cash and cash equivalents	(39,775,852)		
	Total interest-bearing liabilities less cash and cash equivalents and investment securities	273,942,391		
	Total equity attributable to equity holders of the parent	332,919,204		
	Net debt-to-equity ratio	45:55		
Return on Investment Properties	**Net Income divided by Average Investment Properties**		**6%**	5%
	Net income attributable to equity holders of the parent	₱21,786,516		
	Divide by: Total average investment properties (excluding construction in progress)	379,377,755		
	Return on Investment Properties	6%		