

COVER SHEET

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SEC Registration Number

C O L F I N A N C I A L G R O U P , I N C . A N D S U B S I

D I A R Y

(Company's Full Name)

2 4 0 1 B P h i l i p p I n e S t o c k E x c h a n g e C

e n t r e , E x c h a n g e R o a d , O r t i g a s C e n

t e r , P a s i g C i t y

(Business Address: No. Street City/Town/Province)

Ms. Catherine L. Ong

(Contact Person)

636-5411 local 103

(Company Telephone Number)

1 2 3 1

Month Day
(Calendar Year)

1 7 - A

(Form Type)

Month Day

(Annual Meeting)

Broker

(Secondary License Type, If Applicable)

CFD

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/section

31

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A (AMENDED)
ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended: **DECEMBER 31, 2012**
2. SEC Identification Number: **A199910065**
3. BIR Tax Identification No.: **203-523-208-000**
4. Exact name of issuer as specified in its charter: **COL FINANCIAL GROUP, INC.**
5. Province, Country or other jurisdiction of incorporation or organization:
PASIG CITY, PHILIPPINES
6. Industry Classification Code: (SEC Use Only)
7. Address of principal office Postal Code: **1605**
**2401-B East Tower, Philippine Stock Exchange Centre, Exchange Road,
Ortigas Center, Pasig City**
8. Issuer's telephone number, including area code: (632) **635-5735 to 40**
9. Former name, former address, and former fiscal year, if changed since last report: **Not Applicable**
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding</u>
Common	467,810,000 shares

11. Are any or all of these securities listed on the Philippine Stock Exchange?

Yes [] No []

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and [SRC Rule 17.1](#) thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [] No []

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [] No []

13. Aggregate market value of the voting stock held by non-affiliates.
₱4,058,193,750 (208,112,500 @ ₱19.50 per share as of February 28, 2013)

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Company Overview

COL Financial Group, Inc. (formerly “Citiseconline.com, Inc.”) (the Parent Company, COL Financial or COL) is a Filipino-owned corporation incorporated on August 16, 1999 primarily to engage in the business of broker and/or dealer of securities and to provide stock brokerage services through Internet technology.

COL is the leading online stockbroker in the Philippines today. With over 46,000 customers and almost ₱35.0 billion in customer assets, it has built itself as a formidable institution and a force to reckon with in the stockbrokerage industry.

Since 2008, it has continued to be the Number 1 Broker in the Philippine Stock Exchange (PSE or the Exchange) in terms of the total number of transactions traded in the Exchange with almost 23% market share in 2012, besting over 130 local and foreign brokers.

COL focuses on making its customers the number one priority by delivering a safe, reliable, accessible, understandable and value-driven service for successful investing. COL’s mission is to make successful investors out of every Filipino by providing easy access to financial products and services that suit the different investment profiles and objectives of its customers.

Its proprietary online trading platform, www.colfinancial.com, has set the standards for online stock investing, with a full sweep of features, including up-to-date and comprehensive research and analysis, streaming market information and superior online tools and functionalities catered for both first-time investors and even the more sophisticated active market players. Over the years, it has also launched innovative products and services such as the COL Margin Facility and COL Easy Investment Program (EIP), among others, to further provide online tools and actionable investment programs to maximize their portfolios in the stock market.

COL also formed the Equity Advisory Group (EAG), composed of a team of seasoned investment professionals, to focus on addressing the needs of high net worth individuals and institutions to improve their investment performance in their stock market investments. The EAG was established to address the specific investment objectives and risk profiles of the higher tier of clients of COL. Services being offered under the EAG are advisory services and institutional broking.

COL continues to deliver personalized and prompt customer support as it established a team of Customer Relationship Managers in 2011. The Customer Relationship Managers regularly touch base with its more active customers, promptly addressing account and service concerns.

COL owns 100% of its HK subsidiary, COL Securities (HK) Limited (the HK Subsidiary or COLHK) which was incorporated on June 20, 2001 and commenced its operations on May 29, 2002. The change in name of COLHK from Citiseconline.com Hong Kong Limited to its current name was approved on May 24, 2011 by the Companies Registry of the Securities and Futures Commission. COLHK is a member of the Hong Kong Exchanges (HKEx) and as such is a registered owner of a HKEx Trading Right. . In August 2010, COLHK successfully upgraded and launched its online trading platform, empowering investors to make sound investment decisions and to ensure timely execution of trades in the Hong Kong market.

On July 12, 2006, COL completed its Initial Public Offering of 110,000,000 common shares, increasing its paid-up capital from ₱320.0 million to ₱463.7 million. Today, COL’s market capitalization stands at ₱9.11 billion providing it with the necessary resources to strengthen its

product and service delivery platform, ensuring its competitiveness.

On August 15, 2006, the Board of Directors (BOD) of COL approved the acquisition of the Trading Right of Mark Securities Corporation for an aggregate purchase price of ₱5.0 million. The acquisition is for the purpose of making COL a Trading Participant in the PSE.

On December 13, 2006, the BOD of the PSE approved the application of COL as a Corporate Trading Participant in the PSE through the transfer of the Trading Right registered in the name of Mark Securities Corporation and the designation of Mr. Conrado F. Bate as its Nominee Trading Participant.

On October 20, 2008, COL became a clearing member of the Securities Clearing Corporation of the Philippines (SCCP) and commenced trading directly with the PSE on February 16, 2009.

In December 2012, the PSE recognized COL's efforts as a respected member of the Exchange and awarded it the first Philippine Stock Exchange's Bell Award on Good Governance in 2012. This prestigious award is a testimony that COL has met the highest standards and strict requirements for corporate governance in the PSE.

Over the next few years, COL will continue to strengthen its customer focus and will expand its vision as it becomes a financial services partner for its customers in building genuine wealth, a trusted provider of help and guidance and a stable firm committed to delivering great value to its customers. COL will be developing new products and services to better cater to the customers' individual needs. With its core competence and expertise in equities and financial literacy, coupled with the commitment to create value for its customers in making them successful investors, the growth potential is vast. With its expansive reach and formula for smarter and self-directed investing, COL aims to continue to develop a new breed of investors who will be able to confidently take control of their own investments and achieve their financial goals.

COL is composed of a strong and respectable team of professionals and entrepreneurs with decades of experience and knowledge in the fields of financial services and information technology. Its Chairman, Edward K. Lee, has served as Governor and Head of the computerization committee of the PSE. Its President, Conrado F. Bate, who has over 25 years of experience in fund management and stockbroking, heads its Management Team.

Business Model

The business model of COL has four major revenue streams, primarily derived from the trading-related revenues of both its Philippine and HK operations:

1. Commission generated from trades;
2. Interest income from margin financing;
3. Interest income from short-term placements; and
4. Investments made in financial assets.

With its solid foundation deeply rooted in its core values of passion, integrity, commitment, excellence and teamwork, COL is well-positioned to capitalize both on the anticipated development of the capital markets as well as the vast opportunities of increasing the retail investor base in the Philippines.

Products and Services

Online Investing in the Philippine Stock Market

COL provides an online access to all investors who wish to trade stocks in the Philippine stock market. Through www.colfinancial.com or www.citiseconline.com, customers can get 24x7 access to up-to-date market information, direct order execution, fundamental and technical research and analysis reports, and their account status and portfolio values. The investing public can also register online to join the COL Seminar Series and view educational videos and webinars on stock market investing.

To open an account, the customer simply has to fill up the account opening forms which can be downloaded from COL's website, and send the accomplished forms to COL's office, together with the required documents and deposit for the opening balance. The customer's account will be opened within 24 to 48 hours of receipt, approval and validation of the application form and supporting documents. Once the application is processed and approved, the customer will receive an email with his assigned username and password.

The minimum opening balance of COL is one of the lowest in the industry at ₱5,000. It also charges the lowest allowable commission rate at 0.25% per transaction or a minimum of ₱20.0 per transaction.

Furthermore, COL believes in its advocacy of investor education for both its customers and the investing public. Several seminars scheduled weekly are held at the COL Training Center with topics ranging from the basics of stock market investing to introduction to technical analysis and how to better understand research reports, as well as briefings on the COL EIP.

Launched in August 2008, the COL EIP is an investment program methodology which uses peso cost averaging methodology designed for all types of investors. This program provides the investor the ability to invest a fixed amount at regular intervals over a period of time, thereby minimizing risk. COL EIP also makes investing more convenient and easy as it automatically reminds customers of their investment scheduled dates which can all be done online. To further assist its customers, the COL Research Team has put together a pre-selected list of Premium Growth companies, which makes it even easier for the investor to choose among the stocks that have already been studied and analyzed.

COL also provides regular market briefings supported by research reports on the outlook of the stock market twice a year, as well as special briefings on relevant and timely topics to provide investors timely investment advice and actionable investment strategies on the stock market.

The table below is a comprehensive list of COL's website features and its corresponding benefits to the customers:

Features	Benefits
Market Information <ul style="list-style-type: none">□ Market summary and indices□ Real-time market ticker□ Index intraday and historical charts□ Index composition and contribution□ Top 20 gainers and losers□ Most active stocks by value□ Stock sectors with price, year-to-date and market capitalization data□ News from the PSE	<ul style="list-style-type: none">□ Real-time Market Information Functions enable the users to keep abreast with all the relevant market activities.□ Comprehensive data ensures that all the market information needed by the client are available.

Features	Benefits
<ul style="list-style-type: none"> ❑ Historical java based stock and index graphs ❑ Dividend and rights calendar 	
<p>Stock Information</p> <ul style="list-style-type: none"> ❑ Stock details ❑ Top buyers and sellers ❑ Trade prices ❑ Intraday and historical charts ❑ Company profile (3rd party feed) ❑ Company valuation (3rd party feed) ❑ Financial highlights (3rd party feed) ❑ Dividend history (3rd party feed) ❑ Company news (3rd party feed) ❑ Related research information ❑ Multi-quote display (up to 24 stocks) ❑ Time and sales ❑ Watch list (up to 30 stocks) ❑ Stock list 	<ul style="list-style-type: none"> ❑ Real-time Stock Information Functions enable the users to keep abreast with all the relevant stock activities. ❑ Comprehensive stock data ensures that all the stock information needed by the client are available.
<p>Broker Information</p> <ul style="list-style-type: none"> ❑ Historical broker transactions ❑ Brokers ranking ❑ Brokers List 	<p>Comprehensive broker data ensures that all the broker information needed by the client are available.</p>
<p>Research</p> <ul style="list-style-type: none"> ❑ Morning Notes (daily morning news updates) ❑ Listed companies updates and reports ❑ Company Snapshots ❑ Investment Guide ❑ Economic Indicators ❑ BullsEye (weekly technical analysis) ❑ Technical Guide (small and big cap) ❑ Technical Spotlight(daily TA analysis) ❑ Research archive 	<p>Expert opinions and analysis from COL Financial’s Research Team updated regularly are made available to the clients to help them in their trade decisions.</p>
<p>StreetSmart (other trading-related information)</p> <ul style="list-style-type: none"> ❑ Media center ❑ Message board ❑ Business News 	<p>Provides clients with downloadable instructional materials as well as up-to-date local and international business news.</p>
<p>Trade Functions</p> <ul style="list-style-type: none"> ❑ Order entry with quick entry functions ❑ Order preview and password entry before order is sent to the PSE 	<ul style="list-style-type: none"> ❑ Complete order entry functions. ❑ Prompt execution of customer’s order. ❑ Immediate updates of the customer’s

Features	Benefits
<ul style="list-style-type: none"> ❑ View and modify orders function ❑ Trading history ❑ Trade portfolio with gain and loss values ❑ Off-hours ordering 	<p>stock and cash position.</p> <ul style="list-style-type: none"> ❑ Ability to trace the customer's order history. ❑ Ability to enter orders after trading hours to be sent to the Exchange the next trading day.
<p>Virtual Tycoon (simulation game)</p> <ul style="list-style-type: none"> ❑ User contest creation function ❑ Module for simulated order entry ❑ Results monitoring and publishing ❑ Order Matching Module for simulated orders ❑ Scoring Module for keeping track of progress and determining contest winners 	<p>Simulation game for those who want to learn and trade in the stock market. Has a scoring module to engage teams and individuals to compete without the necessary investment or cash-out.</p>
<p>Security</p> <ul style="list-style-type: none"> ❑ Full proprietary messaging formats and encryption. All databases are secured via firewalls using the latest firewall hardware. ❑ SSL Certificates from VeriSign. 	<p>Best-in-class security and encryption systems with back-up facilities. SSL Certificates guarantee message privacy and message integrity.</p>
<p>COL EIP</p> <ul style="list-style-type: none"> ❑ EIP portfolio ❑ Schedule calendar ❑ Email reminders 	<p>Peso cost- averaging methodology is made easier and convenient with COL EIP:</p> <ul style="list-style-type: none"> ❑ Monitors the customer's EIP positions under a schedule. ❑ Creates an order schedule to automatically track and alert the customer to an intended trade. ❑ Sends email alerts informing the customer 2 days before of a scheduled order.
<p>COL PRO</p> <ul style="list-style-type: none"> ❑ Real-time, customizable, all-in-one trading windows-based application 	<p>The COL Pro allows the premier customers to have a faster access to market information, quicker order entry and full control of their trading screen that will definitely enhance their trading experience and decisions. This feature is offered only to the Private Clients of COL.</p>

The New Trading System of COL Financial

With the ever increasing market in terms of volume and value traded, the more it has become necessary that customers get the relevant data in as short a time as possible. In line with this, COL Financial has completely revamped its trading system from the hardware which now uses the latest in cpu and disk technology to the software which now allows real-time data through html. These upgrades have allowed us to give our clients real-time market and stock data through a browser without the need to download any application. The new site and its functions are compatible with the major mobile devices such as ipad and android tablets and mobile phones.

Product and Service Offerings

COL Financial prides itself in its array of competitive product and service offerings which provide best-in-class benefits to its customers to help them make better and well-informed investment decisions, such as:

- ❑ Investor education seminars through the COL Investor Seminar Series. The COL Investor Seminar Series is composed of progressive training sessions starting from the basics of stock market investing to introduction of fundamental and technical analysis, advanced technical analysis and how to use margin financing.
- ❑ Market updates and information-driven briefings. COL holds twice-a-year Market Outlook briefings, Industry Forums, Company Update Briefings, its Best Buy Briefings, Technical Spotlight Sessions and other relevant and timely events that provide supplemental investment information to all COL customers.
- ❑ Advisory Services through COL's EAG. The EAG, is composed of a team of seasoned investment professionals whose goal is to focus on addressing the needs of high net worth individuals and institutions and to provide personalized investment advice on their stock market investments.
- ❑ Strategy Reports and Industry Reports by the COL Research Team. Aside from its regular daily and weekly reports available online, COL's Research group releases supplemental Strategy Reports and industry-specific reports on a timely and as-needed basis. These reports provide further in-depth analysis into hot topics and key stock issues to its COL customers.
- ❑ More superior and user-friendly online tools and functionalities. COL's Technology Group regularly upgrades and launches tools and platform features to improve one's trading experience by making it faster, more convenient and more user-friendly.
- ❑ Continuous offering of value-added products and services such as Margin Financing. The Margin financing facility allows its customers, with a minimum portfolio of at least ₱200,000, to receive a credit line that they can conveniently use to buy selected marginable stocks. A competitive interest rate is charged on a daily basis for the utilized amount of the credit line. These allow the COL customers to quickly and conveniently take advantage of short-term profit opportunities without having to top-up their cash balance or sell some of their stocks in their portfolio.
- ❑ COL has also setup a Relationship Manager desk that supports customer service needs for high-end customers. They serve as a concierge of action to centralize requests from these customers and issue forth necessary replies at much quicker

reaction times. They may also provide special services like sending selected reports or data to such customers upon request.

- ❑ Innovation of a simple yet effective investment program methodology called the COL EIP. The COL EIP minimizes risks for newcomers to the stock market while offering the benefits of wealth generation through investments in premium growth stocks. It employs the peso cost averaging method, an established wealth building tool employed by many individuals as well as some financial institutions worldwide. The COL EIP offers the investors a list of pre-selected stocks chosen by its seasoned financial analysts. Customers who availed of this program can schedule their investments by setting up a fixed amount to be invested at regular intervals through the COL's online platform.

- ❑ COL ensures that all its customers have access to a Customer Service team through email and phone and through its New Account Officers in COL's Business Center for all its navigational, technical and account queries. All customer service personnel are fully equipped to handle account information and technical assistance as well as the ability to take and course orders to COL's order desk, through recorded phone calls, should the site be inaccessible to the customers.

Competitor Analysis

There are around 10 online stockbrokers in the Philippines, ranging from those that offer just the basic trading platform to a wide range of services. Presented below is the comparison of some of the features of COL against three (3) nearest competitors:

Features	COL	Competitor 1	Competitor 2	Competitor 3
Trade Execution	Yes	Yes	Yes	Yes
Market Information	Yes	Yes	Yes	Yes
Real-Time / Streaming Data	Yes	No	No	Yes
Charting Functions	Yes	Yes	No	No
Daily News	Yes	Yes	Yes	Yes
Research Reports	Yes	Yes	Yes	Yes
Price Alerts	Yes	No	No	Yes
Stock Watch List	Yes	No	No	Yes
Seminars	Yes	Yes	No	Yes
T + 3	Yes	Yes	No	No
Commissions	0.25%	0.25%	0.25%	0.25%

Business Strategy

COL believes that the best long-term growth strategy is one that puts the customers first. It aims to become the financial services partner for its customers in building genuine wealth, by being more than a stockbroker.

For 2013 and beyond, COL will continue to remain customer-focused and continue to focus on what they do best:

1. Making investing more accessible by delivering a safe and reliable online platform to its customers.

2. Making online investing more understandable through its investor education and financial literacy campaigns and delivering timely and relevant market research reports and analysis for successful investing.
3. Creating value to our customers by developing new products and services to better cater to our customers' individual needs.

COL will remain diligent in effectively managing its resources with a strict operating discipline by finding creative ways of enhancing the processes and back-end support and infrastructure. All these initiatives and priorities will allow COL Financial to focus on what matters most and drive shareholder value over the long-term.

Customers

The business of COL is not dependent upon a single customer or a few customers that a loss of anyone of them would have a material adverse effect on COL and its HK Subsidiary taken as a whole. Further, there is no customer that accounts for, or based upon existing transactions will account for twenty per cent (20%) or more of COL's total sales.

Patents, Trademarks, Licenses, Franchises, Concessions or Royalty Agreements

The Parent Company registered the trademark "COL" on August 20, 2007. The duration of the registration is for a period of ten (10) years, or up to August 20, 2017. The application for trademark registration of the mark "Citiseconline" is currently pending with the Intellectual Property Office (IPO).

COL believes that its operations do not depend on the effectivity of its trademark registered with the IPO. The Parent Company further believes that it can continue its operations under any other trademark.

Transactions with and/or Dependence on Related Parties

COL, in the ordinary course of business, executed done-through trading transactions of its customers through Citisecurities, Inc. (CSI), a related party through common stockholders.

COL also provides management, research and marketing services to its HK Subsidiary.

COLHK, on the other hand, also engages the services of Lancashire Management Services Limited (LMS) which is owned by one of its Directors to handle its compliance work, backroom operations and recording of books of accounts.

All other transactions entered into by COL Financial and its HK Subsidiary directly with its directors and with companies associated with its major stockholders and officers are all related to its brokerage business. Trading transactions are executed and priced and settled on arm's length terms as it would deal with unrelated third persons. This policy is to prevent conflicts of interest between COL and its major stockholders, which may result in action taken by COL that does not fully reflect the interests of all its stockholders

In order to minimize any conflict of interest and to ensure the fairness and reasonableness of any future material transaction involving COL and COLHK and companies of the major stockholders or its affiliates, such material transaction shall be subjected to the approval of a majority of its independent members of the Board of Directors or by an independent firm selected by such members.

Government Regulation

The securities industry in the Philippines is highly regulated. Broker/dealers are subject to regulations covering all aspects of the securities business. Additional regulations, changes in rules as promulgated by the SEC, the Monetary Board, the Department of Finance, the Bureau of Internal Revenue, the PSE or changes in the interpretation or enforcement of existing laws and rules, may directly affect the operation and profitability of broker-dealers.

COL does not currently solicit orders from its customers. If COL were to engage in this activity, it would become subject to certain rules and regulations governing such sales practice.

On June 20, 2000, the Electronic Commerce Act took effect. The law aims to facilitate domestic and international dealings, transactions, arrangements, agreements, contracts and exchanges and storage of information through the utilization of electronic, optical and similar medium, mode, instrumentality and technology to recognize the authenticity and reliability of electronic data messages or electronic documents related to such activities and to promote the universal use of electronic transactions in the government and by the general public. It applies to any kind of electronic data message and electronic document used in the context of commercial and non-commercial activities. The law appears, however, to be protective of E-commerce and can only benefit the security of COL's operations.

The SEC and other regulatory agencies have stringent rules with respect to the maintenance of specific levels of Risk-Based Capital Adequacy Ratios (RBCA) by broker/dealers. RBCA is a ratio that compares the broker or dealer's total measured risk to its liquid capital. The broker or dealer must ensure that the RBCA ratio is at least 110% and that its net liquid capital is at least ₱5.0 million and is greater than the total risk capital requirement. Failure to maintain the required RBCA may subject the Parent Company to suspension or revocation of its broker-dealer license by the SEC. In addition, a change in the RBCA rules or the imposition of new rules could limit those operations of COL that require a large use of capital such as its trading activities and could restrict COL's ability to withdraw capital to pay dividends, repay debt or redeem shares of its outstanding stock. A significant operating loss or any unusually large charge against net capital could adversely affect the Parent Company's ability to expand or maintain its present level of operation.

The primary regulators of the securities industry in Hong Kong is the Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA). The SFC monitors and supervises the broker/dealer or intermediary. COL HK being a licensed broker in Hong Kong is governed by these agencies.

The SFC has clearly defined the Financial Resources Rule (FRR) that governs the liquidity requirements of an intermediary. For a securities broker that provides cash-based accounts, the liquidity requirement is the higher of HKD3.0 million or 5% of the total FRR-recognized liabilities.

An intermediary must also comply with the rules and regulations governing the market that it participates in. COLHK is also subject to the rules of HKex in its trading activities and is subject to the rules of the Hong Kong Securities Clearing Corporation (HKSCC) for its settlement operations.

An intermediary must constantly be in compliance with the above mentioned requirements. Failure to do so would mean loss of license or suspension of its trading activities by the SFC and/or by the affected body.

Employees

The actual number of full-time employees of COL and COLHK for 2012 and the projected number of employees for 2013 to complement the operational requirements of the Group are broken down as follows:

	2013	2012
Executives	3	3
Senior Officers	6	6
Junior Officers	16	18
Professional/Technical/Others	74	64
TOTAL	99	91

The employees of both the Parent Company and its HK Subsidiary are not subject to any collective bargaining agreements (CBA).

Risk Factors and Risk Management

Risks Associated with the Stock Brokerage Business

COL expects its online electronic brokerage services to continue to account for substantially all of its revenues in the near and foreseeable future. Like other securities firms, revenues are basically influenced by trading volume and prices. In periods of low volume and transaction revenue, COL's financial performance may be adversely affected because certain expenses remain relatively fixed.

COL believes that the market for its services will eventually lead to a borderless and seamless environment especially in the flow of transactions and capital in various markets. Given that regulatory approval for such services is possible in the near future, especially with the passage of the Electronic Commerce Act (R.A. No. 8792), COL is strategically prepared to allocate resources to develop its infrastructure to meet this need. Additional revenue opportunities will also be pursued such as subscription-based revenues, educational seminars and additional add-on services. There can be no assurance that COL will be able to generate revenue from these potential sources and that such an investment will not have a material adverse effect on COL's business, financial position and operating results.

Risks Associated with an Early and Evolving Market

The market for online electronic brokerage services in the Philippines is at an early stage of development and is evolving. In such new and evolving industries, demand and market acceptance for new products and services are subject to uncertainty.

Although currently, there is less than full awareness and acceptance by the general investing public of the concept of investing in the stock market as well as trading online, COL has embarked on several programs that will promote the usage of technology to take advantage of the investment opportunities of the stock market. These programs revolve mostly on below-the-line activities through educational seminars as well as corporate roadshows in Metro Manila and provincial cities in the country. A basic seminar on the benefits of investing in the stock market and how to trade online successfully will be conducted twice a week at the COL Business Center and will cater to experienced investors as well as those who have minimal-to-no experience in the stock market. Corporate roadshows and presentations on the use of the online trading platform will be done nationwide through co-marketing activities with business groups such as the chambers of commerce, business/civic clubs as well as universities and graduate schools. Furthermore, with the current low penetration rate of investors in the stock market, COL believes that there is a huge potential for investor growth in the Philippine market.

Dependence on Key Personnel

COL's operations largely depend on its ability to retain the services of existing senior officers and to attract qualified senior managers and key personnel in the future. The proponents of COL are professionals from the finance and information technology industries as well as entrepreneurs with decades of experience in the Philippine stock market. The separation from the service of any key personnel could have a material adverse effect on COL's business and financial performance. The fact, however, that certain key officers have an equity stake in COL reduces this risk.

In addition, some technical personnel are covered by employment contracts which allow COL to plan for expected personnel movements. COL also owns the source codes for its operating software, giving it the ability to replace technical personnel at minimal, if at all, disruptions in operations.

Potential Local and Foreign-Based Competition

COL expects to encounter direct and indirect competition from local and foreign firms offering online brokerage services, established Trading Participants, as well as software development companies, banks and other financial institutions which in the future might establish their own online securities system and integrate this with their other product lines.

With its customer-centered business model complemented by its trading infrastructure and business center expansion, COL anticipates that it will be able to compete actively with other participants in the online stock trading market. COL also believes that the cost structure of foreign-based online companies and the relative size of stock market investors in the Philippines presently limit potential foreign competitors from aggressively participating in the local market.

Technology Risks

The on-line stock brokerage services industry and the delivery of financial services are characterized by rapid technological change, varying customer requirements, the introduction of new products and services and emerging new standards. Should new industry standards and practices emerge, COL's technology may become obsolete. COL is well capitalized with over ₱500.0 million in paid-up capital thereby giving it the ability to make its system flexible and adaptable to new technologies and changing customer needs. It also has a strong and excellent team of IT programmers and consultants with years of experience and proficiency in the intricacies of trading-related programs.

Other technological factors include security breaches and delays in the execution of customers' trades caused by any speed degradation or system failure of COL's computer system, or any other system in the trading process, *i.e.*, COL's ISP, PSE's front-end server, and data processing functions done by third parties. COL maintains the necessary level of system security through the installation of appropriate firewalls and application of SSL encryption technology. COL also maintains digital certificates for client authentication. Likewise, the system is designed to be redundant to ensure continuity of operations. The system has two (2) parallel servers concurrently operating at two (2) secured sites that are connected to different ISPs and we are currently looking at adding another Disaster Recovery site to be hosted at a major telecoms facility.

Risk of Power Interruption/ Power Failure

Power interruption and power failure can adversely affect the efficient execution of COL Financial's transactions and operations. Currently, all servers and equipment are connected to their own UPS systems, which provide up to 2 and ½ hours of backup power. This is enough to power the machines until trading has completed and the building generator powered on.

All servers are connected to UPS systems, which in turn are connected to the building generator-enabled outlets. COL Financial has its primary backup facility on the 24th floor of the Tektite building which runs on hot standby allowing for an automatic switchover should there be an inability of the main computer center in Ayala to function.

In the event of a total power failure or other disaster, the backup site is where COL's data center will be recreated, and where all its technical operations will emanate from, for the length of the power failure/disaster.

COL's development strategy includes the deployment of all appropriately configured backup hardware and software in a backup data center. The backup site will be of a 'Hot' nature.

A Hot backup site has a virtual mirror image of COL's current data center, with all systems configured. All trading and customer data are transferred from the main site to the backup facility at the end of each trading day to ensure that in case of complete failure on the primary site, only one day's worth of data at the most will be lost. Any and all changes made to system and application software are also done to the backup site systems.

When the primary site experiences a complete failure, COL Financial enacts its site disaster recovery plan. The technical personnel are instructed to proceed to the backup site and start-up the backup data center. The last saved data will be loaded into the machines and all hardware, communications equipment and communication lines will be tested.

Connectivity to the PSE will be tested together with Internet functionalities. The DNS for the site of COL Financial will be made to point to the assigned public address of the ISP on the backup site.

The technical team will then perform mock trading operations using the newly activated backup center from trading to back office processing and will give the go signal to top Management that the backup data center is already fully operational.

The core of the Customer Assistance Group can now proceed to the backup site to man the allocated lines for customer inquiries. The backup web server will show the new customer assistance numbers on the website which are available on the backup site.

Administrative and Operational Risks

An effective customer service team is necessary to handle client needs and is critical to COL's success. However, COL's customer service capacity may be severely constrained at times. Sub-optimal customer service could damage COL's brand name and affect the quality of service it provides to its customers.

Recognizing the importance of customer service, COL has established a customer service team which went through a rigorous training program to address the technical and website navigation concerns of the customers. The customer service team can be expanded, as the need arises, to meet COL's operational requirements. A Relationship Manager desk was also set up to assist the needs of high-end customers and a team of New Account Officers was formed to respond to navigational, technical and account queries of walk-in customers. COL also has a full complement of support staff from its information technology and research departments trained to serve as additional customer service officers.

Fiduciary Risk

Where there is a relationship of trust and reliance between a broker and a customer, that relationship gives rise to a fiduciary relationship. A fiduciary, like a trustee, is subject to rigorous duties of loyalty and care and must conduct its activities with the utmost good faith and integrity while keeping the customer's best interest in mind. A breach of fiduciary duties to customers could result in a potential financial or reputational loss. In order to manage this risk, especially in the custody and processing of customers' cash and securities, a comprehensive and detailed set of procedures have been established to ensure that obligations to clients are discharged faithfully and in accordance with the governing legal and regulatory requirements.

Credit Risk

Virtually all capital markets and trading transactions are exposed to credit risk. Credit risk is the risk of economic loss from the failure of the obligor to perform the terms and conditions of a contract or agreement. It is inherent to the stock brokerage business as potential losses may arise due to the failure of its customers and counterparties to fulfill their trading obligations on settlement dates or the possibility that the value of collateral held to secure obligations becoming inadequate due to adverse market conditions.

The business model of COL and its HK Subsidiary minimizes its exposure to credit risk since customer accounts are opened on a prepaid basis. Customers' purchase transactions are limited to the available cash balance in their accounts.

To further expand the clientele base of the Parent Company, it formally launched in January 2007 its margin trading facility called COL X2 which is collateralized by securities in the customers' trading accounts. In order to manage the potential credit risk arising from this new product, COL has established policies and procedures in evaluating and approving applications for margin financing as well as the review of credit performance and limits. In addition, a set of criteria have been established to identify securities that are eligible for margin trading. This list of marginable stocks is monitored to ensure that they continue to qualify. Finally, while there are statutory requirements relative to margin limits and cover, COL has put in place a more conservative set of requirements for monitoring the daily activities of its margin accounts.

To complement COL's existing retail business, COL has also established new business lines and partnerships through the PCG which was launched in 2010 to tap institutional clients which account for a significant percentage of total trading volumes in the equity market. Settlement of trades of institutional accounts is on a postpaid basis. The main risk associated with postpaid or traditional brokerage account set up on day-to-day basis is on the non-collection of cash payments for buying transactions and the failure to receive shares for selling transactions. An execution or dealing risk also exists which is specific only to requirements and needs of institutional clients arising from arithmetical, computational and human errors in the order taking, dealing, execution and confirmation process which can result to transaction losses. To address these risks, COL strictly restricts the grant of traditional brokerage service to financial institutions and conducts regular review and establishment of limits versus counterparty credit exposures. Rigid procedures were also established to avoid human-related errors in the dealing and servicing process. Counterparties are also being encouraged to utilize direct market access to minimize execution dealing risk.

Risks of Infringement

COL may receive notices of claims of infringement on the proprietary rights of other groups. These claims may result in litigation against COL. Any such claims, with or without merit, would be time-consuming to defend against, result in costly litigation, divert resources and time and otherwise require COL to enter into some form of royalty and licensing agreement, which may not

be on reasonable terms. The assertion of an infringement or prosecution of such claims can have a material adverse effect on COL's business, financial position and operating results.

COL uses proprietary systems and maintains a policy of purchasing hardware/software only from licensed dealers/manufacturers.

Item 2. Properties

Leased Properties

COL's Corporate and Business Centers, where substantially all of its operations are conducted, are currently located at a leased facility at the 24th floor, East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City. COL is also maintaining an office at the 5th floor of Ayala Tower One located in Ayala, Makati to house its data center. These are maintained in good condition for the benefit of its employees and customers.

The premises are covered by lease arrangements typically for a period of one (1) to three (3) years and expiring at various dates. The lease on the properties is renewable upon mutual agreement of the parties. For the leased premises consisting of approximately 1,438 square meters, COL pays a monthly rental ranging from ₱399.00 to ₱439.00 per square meter for its offices in Pasig City while for its Makati office, monthly rental ranges from ₱700.00 to ₱763.00 per square meter.

Owned Properties

As an Internet trader, COL's other properties consist of computer equipment and related accessories as well as proprietary software developed especially for its online trading operations. COL directly owns a Trading Right in the PSE and is also indirectly the owner of a Trading Right in the Hong Kong Exchanges through COLHK.

Limitations on Properties

Aside from the lease agreements mentioned above, the Group's properties are free from any mortgage, lien, or encumbrance.

Properties to be Acquired

Within the next twelve (12) months, the Parent Company will purchase additional servers and software programs with an estimated cost of around ₱36.0 million which will be sourced from its operations. This capital expenditure is directed to the further expansion of the capacity of its trading platform to continuously provide its local customers the best trading experience possible.

Item 3. Legal Proceedings

COL Financial Group, Inc. vs. Commission of Internal Revenue CTA Case No. 8454; Court of Tax Appeals ("CTA")

This is a Petition for Review filed by COL to preserve its right to claim a tax refund or secure a tax credit certificate for additional income tax paid under protest for the taxable period 2009.

The case stemmed from issuance by the Bureau of Internal Revenue of Revenue Regulations No. 2-2010 and Revenue Memorandum Circular No. 16-2010, effectively amending Section 7 of BIR Revenue Regulations No. 16-2008. Said RR 2-2010 and RMC 16-2010 were made to apply retroactively. To avoid the imposition of penalties, on April 15, 2010, COL was constrained to pay under protest the amount of Eight Million Nine Hundred Sixty Thousand Two Hundred and Forty-

Five Pesos (₱8,960,245.00), representing the additional taxes due should the retroactive effect of said latter issuances be held as valid.

COL, however, maintains its position that RR 2-2010 and RMC 16-2010 should be given prospective effect. The case is still pending at the Court of Tax Appeals.

Aside from the above, COL is not involved in any other legal proceedings material or otherwise, pending or threatened against it, its directors, any nominee for election as director, executive officer, underwriter or control person of COL or in which any of COL's property is the subject.

Item 4. Submission of Matters to a Vote of Security Holders

None

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

Market Information

The common shares of COL Financial were listed at the PSE on July 12, 2006 under the ticker symbol "COL". The total number of outstanding shares of COL as of December 31, 2012 is 467,810,000 with a market capitalization of ₱9.11 billion as of end of 2012, based on the closing price of ₱19.48 per share.

The high and low sales prices of COL shares transacted at the PSE for each quarter within the last two (2) years follow:

	2012		2011	
	High	Low	High	Low
1 st Quarter	23.00	18.80	13.30	12.40
2 nd Quarter	23.90	21.50	14.20	12.50
3 rd Quarter	23.30	19.94	21.50	12.98
4 th Quarter	20.90	17.90	19.98	14.50

The high and low prices of COL at the PSE on April 3, 2013 were ₱20.20 and ₱19.80, respectively.

Holders of Common Equity

As of February 28, 2013, COL has 32 stockholders owning common shares. The Top twenty (20) common stockholders are as follows:

Rank	Name	Citizenship	Total Shares	%
1	PCD NOMINEE CORP. - FILIPINO	FILIPINO	322,308,000	68.7737%
2	Lee, Edward K.	FILIPINO	62,250,000	13.2828%
3	PCD NOMINEE CORP. - NON-FILIPINO	FOREIGN	42,382,600	9.0436%
4	Yu, Alexander C.	FILIPINO	20,000,000	4.2676%
5	Yu, Johnson C.	FILIPINO	7,750,000	1.6537%
6	Ang, Valentina L.	FILIPINO	5,000,000	1.0669%
7	Yuson, Frederick	FILIPINO	4,000,000	0.8535%
8	Kobayashi, Hirotsugu	JAPANESE	1,000,000	0.2134%

Rank	Name	Citizenship	Total Shares	%
9	Lee, Lydia C.	FILIPINO	1,000,000	0.2134%
10	Tan, Jessalynn L.	FILIPINO	1,000,000	0.2134%
11	Vinzon, Regina Cielo M.	FILIPINO	1,000,000	0.2134%
12	Cruz, Leopoldo	FILIPINO	350,000	0.0747%
13	Estacion, Manuel S.	FILIPINO	210,000	0.0448%
14	Lim, Hernan Go.	FILIPINO	100,000	0.0213%
15	Yu, Raymond C.	FILIPINO	100,000	0.0213%
16	Han, Paulwell	BRITISH	100,000	0.0213%
17	Ong, Catherine L.	FILIPINO	50,000	0.0107%
18	Meridian Assurance Corp.	FILIPINO	22,700	0.0048%
19	Yu, Wellington C. or Yu, Victoria	FILIPINO	10,000	0.0021%
20	Filio, Sernando	FILIPINO	5,000	0.0011%
	TOTAL		468,638,300	99.9975%

Dividends

Dividend Policy

The Board of Directors of COL, in its meeting held on April 26, 2007, approved a policy of declaring an annual regular cash dividend of twenty per cent (20%) of its net income. The payment of dividends shall be taken out of the unappropriated retained earnings of the Parent Company.

The table below shows the cash dividends declared from COL's unappropriated retained earnings for the years 2012 and 2011:

2012

Cash Dividend	Ex-date	Record Date	Payment Date
<i>Regular</i>			
₱0.12 per share	April 13, 2012	April 18, 2012	May 14, 2012
<i>Special</i>			
₱0.48 per share	April 13, 2012	April 18, 2012	May 14, 2012

2011

Cash Dividend	Ex-date	Record Date	Payment Date
<i>Regular</i>			
₱0.07 per share	April 11, 2011	April 14, 2011	April 29, 2011
<i>Special</i>			
₱0.33 per share	April 11, 2011	April 14, 2011	April 29, 2011

There are no known restrictions to COL's ability to pay dividends whether current or future.

Recent Sales of Unregistered or Exempt Securities

On July 20, 2006, the SEC approved COL's application for exemption from the registration requirements of the SRC, for the issuance of 18,750,000 common shares of stock of COL under its Stock Option Plan for an exercise price of One Peso (₱1.00) per share to its directors, senior managers and officers and its affiliates, as well as other qualified individuals.

As of December 31, 2007, a total of 46,000,000 stock options were granted which are exercisable one and a half (1 ½) years from the date of listing of COL's shares at the PSE and will terminate ten (10) years from the said date. During the year 2012, a total of 9,260,000 stock option shares have been exercised.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of COL Financial Group, Inc. and its HK Subsidiary collectively referred to as the Group should be read in conjunction with the audited consolidated financial statements filed as part of this report.

Industry and Economic Review

The Philippine market performed strongly during 2012, with the PSEi rising by 33.0%. Average daily value turnover also picked up to ₱7.2 2 billion from ₱5.7 2 billion in 2012, benefiting from the strength of the market and growing interest among foreign investors. During 2012, net foreign buying jumped by 69.5% to ₱97.5 2 billion.

Numerous factors were responsible for the market's strong performance. Domestically, the Philippines benefited from an upgrade in its credit rating by all three major credit ratings agencies namely, Fitch, S&P and Moody's. The Philippines also delivered strong economic growth, with GDP rising by 6.6%, driven by the country's resilient consumer segment and the significant increase in government spending. Interest rates also continued to drop, brought about by ample liquidity and the Bangko Sentral ng Pilipinas' (BSP) move to cut interest rates by four times for a total of 100 basis points.

Factors were also highly favorable outside of the country. Although global economic growth remained weak, liquidity conditions became highly favorable as global central banks further loosened their monetary policy. For example, in the US, the Fed announced its third round of quantitative easing or more commonly known as QE3 last September. The Fed also said it would extend its extremely low rates policy until the unemployment rate improves to 6.5% and as long as inflation stays below 2.5%. Meanwhile, in Europe, the European Central Bank ("ECB") successfully prevented another liquidity crisis from materializing, helping improve investor risk appetite. Due to growing concerns regarding the ability of Italy and Spain to meet their maturing debt obligations, the ECB offered three-year loans at very attractive terms to European banks in late 2011 and early 2012. In September 2012, it also announced that it would buy an unlimited amount of government bonds with maturities of between one to three years. Ample liquidity coupled with improving risk appetite globally also benefited the Philippine market as it resulted to higher foreign fund flow.

While the Philippine market performed strongly in 2012, the same could not be said of the HK market which showed high levels of volatility due to signs that China's economic growth was slowing down. Earlier during the year, the Chinese government said it would shift focus away from exports and capital spending to consumer spending. As a result, China's GDP growth slowed continuously for seven straight quarters, including the first three quarters of 2012.

Although the three major indices in Hong Kong, namely the Hang Seng Index, the Hang Seng China Affiliate Corp. Index and the Hang Seng China Enterprise Index, ended 2012 higher by 22.9%, 23.1% and 15.1% respectively, the Hong Kong market suffered from huge volatility during the year with the said indices reversing almost all their gains at one point during the year. Moreover, average daily turnover in the HK Stock Exchange continued to drop, falling to HK\$53.8 million in 2012 from HK\$69.5 million in 2011.

Business Review

Key Performance Indicators

COL recognizes the importance of its shareholders. Thus, it is committed to maximizing profitability through the efficient use of the Group's capital resources with the ultimate objective of increasing shareholder value. Given this, the Group regularly monitors and reviews effectiveness of its corporate activities and key performance indicators which are considered important in measuring the success of implemented financial and operating strategies and concomitant action plans. Set out below are some of its key performance indicators:

	2012	2011
Number of Customer Accounts	46,511	28,127
Customers' Net Equity (in millions)	₱34,944.4	₱16,960.0
Net Revenues (in millions)	₱339.2	₱401.7
Return on Equity	23.8%	27.7%
Risk Based Capital Adequacy Ratio*	903.0%	1,278.0%
Liquid capital** (in millions)	HKD68.6	HKD75.7

*Parent Company only

**For HK Subsidiary

New accounts opened by the Parent Company for 2012 grew by 18,377, up by 43.7% from the previous year. As a result, total accounts of the Group expanded to 46,511 showing an increase of 65.4% from 2011. COL Financial proceeded to host numerous stock market seminars, participate in marketing events as well as put up advertising campaigns on newsprints to source up a healthy flow of new leads. Leads from such marketing campaigns, referrals and seminars generated a large part of new account openings. Similar to last year, over 90% of new accounts were first time investors, portraying that these sources of new accounts were taken fresh from an expanding market base of investors.

Net revenues in 2012 fell by 15.6% largely due to the weakness of HK operations. The decrease in consolidated revenues coupled with the expected increase in the expenses of the Parent Company consequent to the expansion of its local operations, led to the drop of the Group's **Return on equity (ROE)**, computed as net income divided by average equity, by 3.9 percentage point year-on-year to 23.8%.

Customers' net equity (customers' deposited cash and stocks), more than doubled as at end of the reporting period compared to its level during the same period last year primarily as a result of the Parent Company's tie up with a major foreign bank and a local bank to service the needs of their customers who participated in the SMC Preferred shares offering. This arrangement generated around ₱7.3 billion in new client assets. Another major factor to this remarkable increase is the ₱5.0 billion net inflow of cash and stocks recorded by the Parent Company from its existing and new customers. Meanwhile, because of the improved market conditions in 2012, the Group also saw an increase in the portfolio value of its customers of around ₱5.6 billion.

The Parent Company and the HK Subsidiary maintain stockbroker licenses which subject both to the stringent rules of regulators in the Philippines and Hong Kong. As such, the Parent Company is required to maintain a minimum **Risk based capital adequacy ratio (RBCA)** or the ratio of

total measured risk to liquid capital of 110% while the HK Subsidiary is required to maintain a **Liquid capital** of HKD3.0 million or 5% of its adjusted liabilities, whichever is higher. The RBCA ratio of the Parent Company and the liquid capital of the HK Subsidiary both consistently exceeded the minimum statutory requirement.

Material Changes in the Financial Condition

2012 vs 2011

The Group's financial position remained strong with a very high level of cash and zero debt from external funding sources other than the deposit liabilities owed to its customers.

Consolidated Assets composed mainly of cash and cash equivalents and trade receivables increased by 20.5% to ₱4.2 billion as at end of December 2012 compared to the ₱3.5 billion recorded during the same period last year. Likewise, **Liabilities** comprised mostly of Trade payables was up 33.1% from ₱2.2 billion in 2011 to ₱2.9 billion in 2012. Factors contributing to these upward movements are as follows:

Cash and cash equivalents composed of cash in banks and short-term SDA placements of local funds slightly increased by ₱572.3 million or 28.5% from ₱2.0 billion to ₱2.6 billion attributable primarily to net cash inflows brought in by new accounts. This was partly offset by the ₱114.0 million reduction in the balance of the HK Subsidiary's **Cash in a segregated account** from ₱178.2 million to ₱64.2 million due to withdrawals made by some customers who decided to focus on the Philippine market. Recall that the HK market suffered from high levels of volatility due to concerns that China's economic growth would slow down which made it difficult for the customers to generate profits from trading the HK market. Coupled with the fact that it would take China a long period to rebalance its economy, some of the HK Subsidiary's customers decided to focus on the Philippine market instead.

Trade receivables, on the other hand, composed mainly of Receivable from customers and clearing house posted a net increase of ₱283.6 million or 24.4% to ₱1.4 billion. Receivables from clearing house increased by ₱156.0 million primarily due to the increase in the net selling transactions within the settlement cut-off period posted by the Parent Company. The amount of margin receivables also increased to ₱945.6 million as at end of 2012 against the ₱896.8 million recorded during the same period last year as market conditions improved, prompting seasoned traders to utilize the margin facility to maximize gains from their trading activities. Margin utilization rate in terms of the number of local customers availing of the margin facility increased to 37.3% compared to the 31.4% recorded as at close of 2011. Collectibles from postpaid institutional accounts also increased from ₱7.0 million as at end 2011 to ₱66.9 million as at end 2012 due to the significant increase in the volume of transactions executed by financial institutions.

Deferred tax assets decreased by ₱17.4 million or 23.1% to ₱57.8 million due to the exercise of 9.2 million stock options share during the year which correspondingly reduced the tax benefit that the Parent Company can claim in the future upon exercise of the remaining shares.

Trade payables, consisting of payable to customers, was up 34.0% to ₱2.9 billion as a result of the net funds brought in by the customers of the Parent Company.

Meanwhile, **Other current liabilities** decreased by ₱10.3 million or 13.7 % primarily due to lower management bonus booked in 2012.

2011 vs 2010

Total assets of the Group increased by ₱1,044.4 million or 42.4 % while **total liabilities** increased by ₱868.8 million or 64.5 %, respectively, principally because of the following changes:

Cash and cash equivalents increased by ₱1,392.7 million or 174.9 % as the net result of the following movements in related accounts: (a) **Trade receivables** balance posted a net decrease of ₱260.1 million or 18.3 % as most of the Parent Company's margin customers liquidated their positions towards the end of the third quarter of 2011 as markets weakened . From a balance of ₱1,114.1 million in 2010, receivable from customers went down to ₱965.4 million Another major factor is the decrease in the receivable from clearing house which went down by ₱111.1 million from ₱305.5 million to ₱194.4 million largely due to the collection of the settlement amounts for the net selling transactions of the Parent Company's customers during the last trading days of 2010 which were included in the settlement cut-off; and (b) **Held-to-maturity investments** representing the Parent Company's investment in a 5-year Fixed Rate Treasury Note with a face value of ₱100.0 million was sold on March 14, 2011 at a net gain of ₱4.0 million to fund the working capital requirements of the growing local operations.(c) **Trade payables** representing payable to customers and clearing house posted an increase of ₱861.6 million or 67.7 % coming mostly from the additional deposit of trading funds of the Parent Company's existing and new customers.

Property and equipment - net grew by ₱15.1 million or 56.4 % attributable primarily to the investments made by the Parent Company in new hardware and software requirements for its secondary back-up facility to ensure non-disruption of the services it is providing to its customers. Moreover, the Parent Company leased additional spaces for its Disaster Recovery Site and also to house its Private Clients Group and to expand the Business and Training Centers to better serve its customers. Total capital expenditure for 2011 amounted to ₱26.4 million.

Deferred tax assets decreased by ₱4.6 million due to the exercise of 15,900,000 SOP shares in 2011; thus, reducing the tax benefits it can claim in the future.

Other current liabilities increased by ₱13.1 million or 21.2 % because of the accrual of performance bonuses of the employees of the Parent Company because of its exceptional performance in 2011 and also because of the increase in the amounts of customers' deposits which were received after the cut-off time for the processing of collections and which were credited to the clients' trading accounts on the next business day following the end of the reporting period.

Material Changes in the Results of Operations

2012 vs 2011

The Group's **Consolidated Revenue** was slightly down ₱7.8 million or 1.2% to ₱650.9 million year-on-year. Although locally it managed to book an 8.4% increase in revenues at the back of higher commissions, it is not enough to cover the steep decline in the HK Subsidiary's revenues which only recorded half of the revenues it generated in 2011. **Cost of Services** grew by ₱42.9 million or 29.5% from ₱145.2 million to ₱188.2 million because of the increase in associated direct costs which are mostly variable in nature and are directly proportional to the movement in the trading volume which is the core line of business of the Group. **Operating Expenses** increased by ₱11.9 million or 10.6% from ₱111.7 million to ₱123.6 million. **Provision for income tax**, on the other hand, dropped by ₱33.6 million from ₱66.9 million to ₱33.3 million. As a result of the foregoing movements, **Net Income** went down ₱28.9 million or 8.6% from ₱334.8 million to ₱305.8 million year-on-year.

The mixed performance of the Philippine and HK markets was evident in COL Financial's earnings results in 2012. Commission revenues grew slightly by 4.2% to ₱463.3 million. Although

commission revenues from the Philippines jumped by 24.2% to ₱406.5 million, this was pulled down by the steep decline in the commission revenues from the HK Subsidiary which went down by 51.6% to ₱56.8 million.

Total turnover value in the local market grew by 24.0% year-on-year to ₱152.2 billion, the commission generated, therefrom, now accounts for 87.7% of the total revenues of the Group compared to last year's 73.6%. The growth in the turnover value was driven by the significant increase in the value traded by the customers under the Parent Company's Equity Advisory Group (EAG) having contributed 56.7% or ₱16.8 billion additional trading business. Coming from a low base, EAG's average daily turnover increased by 57.1% from ₱124.9 million to ₱196.2 million outpacing the growth in COL's regular accounts, which increased by 14.0% from ₱367.6 million to ₱419.0 million. As of end of 2012, the share of EAG already comprises 31.5% of the commission revenues of the Parent Company. Daily average turnover combined increased 26.7% to ₱623.8 million this year against ₱492.5 million last year.

The increase in the Parent Company's commissions, however, failed to offset the slump in the HK business. Hong Kong commissions further weakened 50.6% year-on-year from HKD21.1 million in 2011 to HKD10.4 million in 2012 as its turn-over value during the year was slashed by more than half from HKD10.5 billion to HKD5.2 billion. The market environment remained unfavorable as an overheating Hong Kong property market and uncertainty over government policies that were used in an attempt to cool it down dampened investor enthusiasm in the stock market. The particularly weak China stock market muted the gains on the Hang Seng Index which is a general barometer of investor sentiment. As a result, the Hong Kong Exchange reported a drop of 22.0% decline in turnover of the overall market. Average daily turnover was HKD20.9 million versus HKD42.5 million in 2011, ending the year with HKD5.16 billion value turnover versus last year's HKD10.474 billion.

In spite of this downturn, COL remains cautiously optimistic and hopes that the Hong Kong investor sentiment has bottomed and that the Orion technology platform from the Hong Kong Exchange moving forward will reignite the turnover figures by providing an innovative platform that allows for even faster execution and attract even more institutional investors to Hong Kong market.

Another major source of revenues of the Group is the **Interest** income, mostly from margin financing. Interest earned on margin fell 15.5% to ₱123.7 million year-on-year. The interest on the placement of idle funds which more than doubled, however, helped offset the negative impact of lower margin line utilization during the year. Customers utilized less of their margin facility, as the market rose steadily from the October 2011 lows making it difficult to build a substantial position without having to chase prices. As a result, average monthly margin utilization declined from ₱1.1 billion to ₱952.1 million or a decrease of 13.6% year-on-year.

The increase in the Cost of Services was driven primarily by the increase in the amount of **Commissions** paid to the Equity Advisory Group (EAG) handling the high net worth and institutional accounts and the incentives given to the sales team for facilitating the opening of new accounts. Commission and referral fees went up by ₱31.7 million 55.3% to ₱88.9 million in 2012 from ₱57.2 million in 2011. The EAG recorded a total turn-over value of ₱47.9 billion, up 53.9% from ₱31.9 billion, thus, increasing its market share from 25.4% to 31.5%, and consequently, the amount of rebates paid. On the other hand, while the number of new accounts shoot up by 65.5% to 46,444 or an addition of 18,377 customers, the fees given to the sales team only increased by 11.3%. This reduction in effective per capita acquisition cost from ₱343 in 2011 to ₱264 in 2012 is owed to the hiring of new accounts officers handling the processing of account openings of walk-in customers.

Moreover, **Communications** increased by 36.9% to ₱19.5 million this year against last year's ₱14.3 million due to subscription to additional leased lines and increase in bandwidth intended to

complement the requirements of an increasing number of local customers and in preparation for the provision of real-time streaming data. The Parent Company's ISP bandwidth increased from 60mbps as of year-end 2011 to 80mbps as of end of 2012. This capacity building will ensure the delivery of efficient service to the Parent Company's growing clientele. Leased line capacity was also beefed up from 20mbps to 50mbps between the Parent Company's Pasig and Makati offices and the PSE to support the relocation of the main data center to Ayala, Makati and the increased communication requirement between COL and the PSE trading system. This upgrade is also in anticipation of the increased inter-office communication between data centers and office users. COL also invested on the switch over of analog to digital trunk lines and telephone lines to be able to service the expanding customers' user support requirements.

Payroll costs of personnel directly involved in operations likewise increased by 3.4% to ₱57.3 million from ₱55.3 million as more people were added to support the manpower requirements of a growing local operation and as salaries were aligned to market.

Likewise, Operating Expenses increased by 10.6% or ₱11.9 million to ₱123.6 million, still within the planned levels.

Personnel costs of administrative staff and Management bonus combined increased by 11.3% or ₱4.5 million to ₱16.5 million due to the across-the-board salary adjustments made.

Professional fees also posted a 6.7% increase or ₱1.4 million to ₱22.8 million. The Parent Company incurred an additional ₱5.5 million expense due to the engagement of the services of an IT consultant for the web and client side program and systems analysis, design, development and maintenance and a consultant to bump up the services being provided to institutional accounts. This was, however, offset by the reduction in the fees being paid by the HK Subsidiary due to the revision of the terms of the contract with an affiliate for the provision of financial advisory services from a fixed monthly fee to a flexible compensation structure that is based on the trading revenue it generates.

Rentals, likewise, increased by ₱1.6 million or 18.7% to ₱10.0 million due to the expansion of COL's business and training centers in its Pasig offices and the relocation of the main data center in the Makati area to ensure non-disruption of its trading operations.

Advertising and marketing expenses also went up by ₱1.0 million or 27.% to ₱4.8 million attributable to COL rebranding activities during the third quarter of 2012 due to its change in corporate name.

Depreciation expense went up 40.4% or ₱4.1 million to ₱14.3 million as the cost of leasehold improvements and the capital expenditures related to the continuous improvement of COL's IT infrastructures were charged to operations. The Parent Company invested in new top-of-the line servers to further increase the capacity and efficiency of the local trading system to complement its increasing local customer base.

Given the rise in expenses and the subdued growth in revenues, Income before income tax was only ₱339.2 million down by 15.6% year-on-year. However, the exercise of stock options valued at ₱177.7 million in 2012 significantly reduced the Parent Company's income tax provision by around ₱53.3 million, thus providing the cushion needed to end the year with a consolidated net income lower by only 8.6% year-on-year. At the end of 2012, the Parent Company recorded a net income of ₱278.2 million, up 7.2% from ₱259.6 million while the HK Subsidiary booked a net income of ₱27.5 million, down 63.2% from ₱75.2 million.

2011 vs 2010

The Group's **Consolidated Income** jumped from ₱490.2 million in 2010 to ₱658.7 million in 2011 or a growth of ₱168.4 million or 34.4%. **Expenses**, likewise, grew by ₱69.1 million or 36.8% from ₱187.9 million to ₱256.9 million. These movements resulted in a **Net Income** growth of ₱76.9 million or 29.8% from ₱257.9 million to ₱334.8 million year-on-year.

Commissions which account for 68.0% and 76.0% of the consolidated revenues in 2011 and 2010, respectively, was up 19.7% or ₱73.3 million from ₱371.4 million last year to ₱444.7 million this year. This remarkable increase was driven primarily by the surge in trading volumes experienced in the Philippine operations amidst weak financial markets globally. The Philippine average daily turn-over increased significantly by ₱218.9 million from ₱273.6 million to ₱492.5 million which translates to an annual growth in value traded of ₱55.8 billion or 83.5% from ₱66.8 billion in 2010 to ₱122.6 billion in 2011. The Parent Company was successful not only in growing its retail customer base but also in growing the institutional accounts and penetrating the high-net worth individuals category through its Private Clients Group. Total postpaid customers in 2011 totaled 58 accounts versus last year's 27 accounts which contributed 25.0% and 21.0% of the total commissions generated from local operations for 2011 and 2010, respectively.

Hong Kong commissions, on the other hand, fell by 61.3% year-on-year from HK\$34.1 million in 2010 to HK\$21.1 million in 2011. The weak revenues in Hong Kong was brought about by the unfavorable market conditions as investors stayed sidelined and focused on the Chinese government's continuous efforts to cool down the economy. Average daily turn-over fell by 41.0% from HK\$71.3 million in 2010 down to HK\$42.1 million in 2011, ending the current year with HK\$10.5 billion value turnover versus last year's HK\$16.9 billion. It is worth noting, however, that in spite of the steep drop in its commission revenues, Hong Kong operations remained profitable.

Another strong driver in the Group's revenues is the **Interest** income, mostly from margin financing, which reached ₱146.5 million in 2011 compared to the ₱82.8 million it recorded in 2010. This strong performance is a solid proof of the local customers' appreciation of the advantages in using the margin facility in enhancing their trading capabilities. Average monthly margin utilization almost doubled from ₱569.9 million in 2010 to ₱1,105.5 million in 2011.

The increase in Expenses, on the other hand, is primarily driven by the increase in the amount of **Commissions** paid to the Private Clients Group handling the high net worth and institutional accounts and the incentives given to the sales team for facilitating the opening of new accounts. Commissions paid in 2011 amounted to ₱57.2 million versus ₱22.2 million in the previous year.

Meanwhile, **Personnel costs and management bonus** increased by 24.8% or ₱18.9 million due to the hiring of additional manpower to complement the increase in the local operations starting in the second quarter of 2010 and to beef up the Parent Company's sales and customer service team. A performance bonus was also allocated to the officers and employees of the Parent Company to incentivize them for their contribution in reaching the Parent Company's targets for 2011. Although it is still a major expense item, its percentage share to the total expenses (after deducting the provisions for impairment losses) even decreased from 43.3% in 2010 versus the current year's 37.0%.

Stock exchange dues and fees recorded an increase of ₱3.6 million or 59.7% due to the increase in the trading-related fees paid by the Parent Company as a result of the significant increase in its trading volume.

Likewise, **Communication** grew by ₱2.4 million or 20.3% primarily due to the additional subscription costs incurred by the HK Subsidiary for the trading and market data being provided to

its customers thru the Info cast system and due to the Parent Company's upgrade in the bandwidth requirements of its online trading platform.

Following the expansion of the Parent Company's business centers and its Disaster Recovery and training areas, **Rental** expense went up to ₱8.4 million which is higher by ₱3.1 million or 58.0% over last year's expense of ₱5.3 million.

Depreciation also increased by ₱2.0 million or 24.7% as the costs of the leasehold improvements and additional IT equipment and facilities are charged to operations.

Similarly, **Stock option expense** increased by ₱3.7 million or 162.9% due to the acceleration of the booking of the cost of SOP shares exercised during the period.

The increase in **Taxes and licenses** amounting to ₱1.2 million or 63.2% resulted from the payment of bigger local taxes during the year which is based on the Parent Company's previous year's gross revenues.

For the year 2011, no additional **Provision for credit losses** was booked due to the reduction of the amount of receivables that are subject to the mandatory 2% provision.

Other Matters

- a. We are not aware of any known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity. The Group has not defaulted in paying its obligations which arise mostly from withdrawals made by customers. In addition, obligations of the Company are fully funded in compliance with the Securities Regulation Code (SRC) Rule 49.2 while COLHK Subsidiary maintains a fund for the exclusive benefit of its customers in compliance with the regulations of the Securities and Futures Commission of Hong Kong.
- b. We are not aware of any events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.
- c. We are not aware of any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Group with other persons created during the reporting period.
- d. We are not aware of any material commitments for capital expenditures.
- e. We are not aware of any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations of the Group.
- f. We are not aware of any significant elements of income or loss that did not arise from the Group's continuing operations.
- g. We are not aware of any seasonal aspects that had a material effect on the financial condition or results of operations of the Group.

Prospects for the future

Near-Term Prospects: We expect the Philippine market to remain strong in 2013. Drivers include the favorable outlook of the local economy, the continuous drop in domestic interest rates and increasing foreign fund flows, thanks to the improving risk appetite of investors globally.

COL is well positioned to capitalize on the opportunities that will become available as a result of the strength of the Philippine stock market. COL recently concluded its capacity expansion program. COL also continuously expands its products and services to better address the needs of Filipino investors.

Meanwhile, COL's HK operations will most likely remain weak in 2013. Although we have most likely seen the worst in 2012 as far as the Chinese economy and the HK market are concerned, it would be difficult for the Chinese economy to continue growing at a rapid pace (similar to pre-financial crisis levels) given its huge dependence on exports and the prevailing weakness in the global economy. It would also take time for the Chinese government to successfully shift growth away from its traditional growth drivers, which are exports and capital spending, to consumer spending. With the Philippine market expected to do well in 2013, we expect clients to remain focused on the local market.

Medium to Long Term Prospects: The medium to long term outlook of the Philippine market is very attractive. The economy is expected to maintain its above average growth pace, driven by the country's favorable demographics, the resilience of OFW remittances and BPO revenues to external shocks, the expected rebound in investment spending, and the continuous growth in government spending. Interest rates will also most likely remain low, thanks to the structural improvement in government's finances. Finally, the penetration rate of retail investors in the stock market remains very low at less than 1%, implying substantial room for growth. The said factors should bode well for the performance of the Philippine stock market and for COL.

Item 7. Financial Statements

Please refer to the attached Consolidated Audited Financial Statements for the years ended December 31, 2012 and 2011.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

COL has not changed its accountants for the last three (3) years and has not had any disagreements on accounting and financial disclosures with its current accounts for the last three (3) years.

Item 9. Audit and Audit-Related Fees

The following table sets out the aggregate fees billed for each of the last two fiscal years for professional services rendered by SyCip Gorres Velayo & Co.

	Years Ended December 31	
	2012	2011
Audit and Audit-Related Fees in connection with the annual review of the Group's financial statements	₱945,000	₱900,000
Tax Fees	none	none

Appointment of COL's external auditor and its audit fees are upon recommendation of the Audit Committee (AuditCom). All services rendered by SGV have prior approval of the President as recommended by the AuditCom. Actual work by SGV proceeds thereafter. The Audit Committee is chaired by Mr. Manuel S. Estacion with Mr. Raymond C. Yu and Mr. Hernan G. Lim as members.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 10. Directors and Executive Officers of the Issuer

Board of Directors

The Directors of COL as of December 31, 2012 are as follows:

Name	Position
Edward K. Lee	Chairman
Alexander C. Yu	Vice Chairman
Hernan G. Lim	Member
Raymond C. Yu	Member
Conrado F. Bate	Member
Paulwell Hann	Member
Catherine L. Ong	Member
Wellington C. Yu	Member
Kho Boo Boon	Member
Manuel S. Estacion	Member
Joel Litman	Member

Following are descriptions of the business experience of each of the Directors of COL covering the past five years:

Edward K. Lee, 57, Filipino, is concurrently the Chairman of the Board of COL since 1999 and up to the present; Chairman of the Board of CSI since 1986 and Chairman of the Board of COLHK since 2001. He served as Nominee of CSI to Manila Stock Exchange (MSE) and the PSE. In addition, he is the Chairman and Chief Executive Officer of the CWC Group of Companies which includes CWC Development, Inc., Barrington Carpets, Inc., Citimex, Inc. and CWC International, Inc for 31 years now. Mr. Lee previously served as a Governor of the PSE and was the Chairman of the Computerization Committee of the MSE and PSE in 1994. He went on to become a member of the Board of Directors of A. Soriano Corporation (Anscor) serving for two terms. Mr. Lee was also a finalist to the 2007 Entrepreneur of the Year Philippines by Ernst & Young.

Alexander C. Yu, 57, Filipino, is the Vice-Chairman of COL since its incorporation in 1999. He is concurrently the Vice-Chairman and Treasurer of CTS. He is also a Director of COLHK since 2001 and of Winner Industrial Corporation for more than 10 years now. He is the proprietor of Trans-Asia General Merchandise and has also served as a Director of Anscor.

Conrado F. Bate, 50, Filipino, is currently the President and Chief Executive Officer of COL. He has extensive experience in the Philippine stock brokerage and fund management industry. Prior positions that he held include: Vice President of JP Morgan Philippines in 2002; President and CEO of Abacus Securities Corporation from 1995-1997; and Vice President of Fund Management Division of Philamlife Insurance Company from 1990 to 1995. Mr. Bate was a member of the Board of Directors of the PSE (2005-2006) and served as Chairman of its Investor Education Committee and Member of the Legislative Committee. He was an independent director of the ATR Kim Eng Asset Management from 2005 to 2010 and serves in the same capacity for Corston-Smith Asset Management Sdn. Bhd. from February 2009 to present.

Catherine L. Ong, 60, Filipino, is currently the Chief Financial Officer of COL. She has served as Member of the Board of Directors of COL from 1999 to 2005 and was reelected in 2007. She is concurrently a Director of COLHK, the President of CSI and Executive Vice President and Treasurer of the CWC Group of Companies for more than 10 years now. She has extensive

experience in banking, having held various positions in Metropolitan Bank and Trust Company (Metrobank). She was an Assistant Vice President and Area Supervisor of Metrobank and served as a Director of Metrobank's subsidiary, Pan Philippines Life Insurance Corp. (now known as Philippine Axa Life). Ms. Ong graduated from the Philippine Women's University with a Bachelor of Science Degree in Business Administration, Major in Accounting.

Khoo Boo Boon, 54, Malaysian, is a Member of the Board of Directors of COL since March 2001. Mr. Khoo has extensive experience in international trading, advertising, market research and corporate management. He finished his degree in Psychology and Political Science (summa cum laude) as a state scholar at the National University of Malaysia and a Masters Degree in Management from the Asian Institute of Management. He was the General Manager and Treasurer Designate of the Waterfront Group and spearheaded its efforts in two casino-hotel projects in Cebu City. In 1995, Waterfront was listed on the PSE. Mr. Khoo became the Managing Director and Chief Operating Officer of the said company until the Malaysian group's divestment from Waterfront Philippines, Inc. He is currently the President and Chief Executive Officer of GTF Worldwide Philippines, Inc.. He is also a shareholder and sits on the Board of Directors of GEKA Property Holdings Inc., an investment holding company. From August 5, 2002 to February 2007, he serves as the Executive Director and Chief Executive Officer of Legend International Resorts Limited, a gaming and hospitality company.

Manuel S. Estacion, 67, Filipino, has served as a Member of the Board of Directors of COL since his election in March 2001. Mr. Estacion is a Bachelor of Science in Commerce graduate of San Beda College. He is presently engaged by the Hongkong and Shanghai Banking Corporation Limited (HSBC) as the Bank Representative in the remaining labor related cases pending in court. He previously served HSBC in various capacities and was the Vice President Human Resources from 1996 to 1999 after which he acted as a Consultant to HSBC prior to his present engagement. He is the Proprietor of MSE Building Maintenance Services. Mr. Estacion is a Charter Member and a Director of the Rotary Club of Ortigas Center for the Rotary Year 2011-2012.

Wellington C. Yu, 69, Filipino, was elected as Member of the Board of Directors of CitiseOnline in March 2001. Mr. Yu finished his BS Chemical Engineering at De La Salle University in 1965 and his MBA and MS Chemical Engineering from the University of Pittsburgh. From 1973 to 1985 he was the Dean of the College of Business and Economics of De La Salle University and of the Graduate School of Business from 1981 to 1984. He was conferred the title of Dean Emeritus in the College of Business and Economics. He was the Senior Vice President of Tropical Rent-A-Car in Hawaii from 1986 to 1990 and the President of Sunstrips, Inc. of San Jose, California from 1990 to 1997.

Raymond C. Yu, 58, Filipino, became a Member of the Board of Directors of COL in March 2005. He is concurrently a Director of CSI. Mr. Yu is a Bachelor of Science in Commerce graduate of De La Salle University in 1974 and a Certified Public Accountant. He is currently the President of Winner Industrial Corporation and a Director for more than 16 years of the CWC Group of Companies.

Hernan G. Lim, 59, Filipino, was elected as Member of the Board of Directors of COL in March 2005. He is also a Director of CSI. Mr. Lim is currently the President of Hoc Po Feeds Corporation and the Executive Vice President of Philstar Marketing & Development Corporation and HGL Development Corporation. He is also a Director CWC Group of Companies. He holds a degree in Bachelor of Science in Electronic and Communication Engineering at the University of Sto. Tomas. He also took the Basic Management Course at the Asian Institute of Management.

Paulwell Han, 53, Chinese, is a graduate of Business Finance at San Francisco State University, USA. He is currently a Director and General Manager of different corporations located in Hong Kong namely: Dai Heng Pharmaceutical Co., Ltd., Yee Ting Tong Company Limited, Tecworld

Investment Co., Ltd., Silver Jubilee Co., Ltd., Sunning Restaurant and Etta Trading Company Limited.

Joel Litman

Joel Litman, 42, was elected as Director of COL on August 12, 2011. He is currently the Managing Director of Equity Analysis & Strategy, Inc. headquartered in New York City, and Chairman of the Board of Directors of the EAS Group, which includes the Institute of Strategy & Valuation, EAS Digital, and other private holdings. Previously, he held Director/Manager positions at Credit Suisse First Boston, Deloitte Consulting, and American Express. He is co-author of the book, *DRIVEN: Business Strategy, Human Actions, and the Creation of Wealth* and has published in Harvard Business Review. Professor Litman teaches and is on faculty at multiple business schools for strategy and valuation courses and has lectured at Harvard Business School and other top universities. He is also Chairman of the Foundation for Socioeconomic Advancement focused on philanthropic efforts in underdeveloped communities. He is a Certified Public Accountant in the United States, a member of the Global CFA Institute, received his B.S. Accountancy at DePaul University and his MBA/MM from the Kellogg Graduate School of Management at Northwestern University.

Messrs. Khoo and Estacion are the Independent Directors of COL.

Management Team

The members of the management team, aside from those above mentioned are as follows:

Caesar A. Guerzon

SVP, Corporate Secretary and Head of Legal Department and Human Resource and Administration Department

Caesar A. Guerzon, 62, Filipino, is concurrently a Director of COLHK and the Corporate Secretary of Citisecurities, Inc. and the CWC Group of Companies. He was elected as Director of COL from March 31, 2011 to August 12, 2011. Presently, he serves as the Chairman of the Board of Rural Bank of Sta. Maria, Ilocos Sur, Inc., a member of the Board of Trustees of COG - Makati, Inc. and Secretary to the Sangguniang Barangay of Bel-Air, Makati City. He served as a board member of listed companies Omico Mining Corporation and Vulcan Mining Corporation and as a member of the Governance Committee of the PSE and the Legislative Committee of the Philippine Association of Securities Brokers & Dealers, Inc. Atty. Guerzon is a Certified Securities Representative and a member of the Integrated Bar of the Philippines.

Juan G. Barredo

Vice President for Sales and Sales Support Services

Juan “Juanis” G. Barredo, 45, Filipino, manages the day-to-day operations of COL's Business Center, its Sales division as well as its Customer Service division. He also spearheads the COL Investor Seminar Series, the flagship investor education program of the Company, geared to empower COL customers and the investing public to build their knowledge base through a series of progressive stock market training sessions so that they can confidently invest in the Philippine Stock Market. He has addressed an audience of over 30,000 people in the last five years nationwide with topics ranging from the basics of stock market investing to introductory and advanced technical analysis seminars. Mr. Barredo holds a Bachelor of Arts degree in Philosophy from De La Salle University in 1990 and is a Certified Securities Representative.

Nikos J. Bautista

Vice President and Chief Technology Officer

Nikos J. Bautista, 43, Filipino, is the Chief Technology Officer of COL. He is also a consultant and a committee member for the New Trading System Project of the PSE which was launched successfully mid 2010 and for various projects of the PDEX. He was with the I.T. Department of the PSE as manager, in charge of all the I.T.-related activities of the Exchange from 1993-1997. In 1997, he joined Computershare, an Australian-based software development company specializing in trading systems wherein he took charge of all technical aspects of the business. In 2000, he put up a software development company, FINATECHS, INC., where he served as its President and Chief Executive Officer until 2003. Mr. Bautista is a graduate of De La Salle University with a Bachelor of Computer Science Degree and Masteral Courses in Computer Science.

Lorena E. Velarde

Vice President and Financial Controller

Lorena E. Velarde, 42, Filipino, was appointed as Financial Controller of COL in 2010 after having served as the Company's Head of Accounting from 2001 to 2009. She is concurrently the Compliance Officer of Citisecurities, Inc. She was previously the Accounting Department Head of Citisecurities, Inc. and Citisec Asset Management, Inc., the fund manager for Citisec Growth and Income Fund, Inc. Before that, she was a Senior Associate in-charge at SyCip Gorres Velayo & Co. which provided her extensive training in tax, accounting and financial reporting. Ms. Velarde graduated from the University of Santo Tomas with a Bachelor of Science Degree in Commerce Major in Accounting in 1991 and became a Certified Public Accountant on the same year.

April Lynn C. Lee-Tan

Vice President and Head of Research Department

April Lynn C. Lee-Tan, 36, Filipino, heads the Research Team of COL from 2003 to present. She joined CSI's Research group in 1996. Ms. Tan holds a Bachelor of Science Degree in Management Engineering from the Ateneo de Manila University. She is a Certified Securities Representative and is a Chartered Financial Analyst (CFA). She earned the right to use the CFA designation in 2000. She is currently the President of the CFA Society of the Philippines and Chair of its Investment Research Challenge committee.

Melissa O. Ng

Assistant Vice President and Head of Operations Department

Melissa O. Ng, 40, Chinese, graduated with a degree of Bachelor of Science Degree in Applied Economics and a Bachelor of Science Degree in Business Management from De La Salle University. She earned her MBA (Silver Medalist) from De La Salle University in 2000. She has been with COL since 2007 and has previous banking experience from Security Bank and Union Bank of the Philippines.

Term of Office

Pursuant to the By-Laws of COL, the directors are elected at each annual stockholders' meeting by stockholders entitled to vote. Each director holds office until the next annual election and his successor is duly elected, unless he resigns, dies or is removed prior to such election.

Resignation/Retirement of Directors and Executive Officers as of December 31, 2012

None

Significant Employees

No single person is expected to make a significant contribution to the business since COL considers the collective efforts of all its employees as instrumental to its overall success.

Family Relationships

With the exception of Mr. Alexander C. Yu and Mr. Raymond C. Yu and Mr. Edward K. Lee and Ms. Catherine L. Ong, who are siblings, there are no other family relationships either by consanguinity or affinity up to the fourth (4th) civil degree among its Directors and Executive Officers.

Involvement in Certain Legal Proceedings

The Directors of COL are not and have not been involved in any legal proceedings during the last five years up to the date of filing of this report. Neither are they aware of any legal proceedings pending or threatened against them personally, or any fact which is likely to give rise to any legal proceedings which may materially affect their personal capacity as Directors of COL.

Item 11. Executive Compensation

Standard Arrangements

Directors

Each director is entitled to a per diem of Five Thousand Pesos (₱5,000.00) per meeting. There are no other arrangements for compensation either by way of payments for committee participation or special assignments.

Executives and Senior Officers

SUMMARY COMPENSATION TABLE						
Annual Compensation						
(in ₱ Million)	Annual Salary 2013 (est)	Annual Salary 2012	Annual Salary 2011	Annual Salary 2010	Bonuses 2010 - 2012	Other Annual Compensation 2010 - 2012
a) Chief Executive Officer and the Four Most Compensated Executives: Conrado F. Bate President & CEO Catherine L. Ong SVP/Treasurer/Chief Finance Officer Caesar A. Guerzon SVP/Corp. Sec/Head of Legal and HRAD Juan Jaime G. Barredo VP/Head of Sales and Sales Support Services						

SUMMARY COMPENSATION TABLE						
Annual Compensation						
(in ₱ Million)	Annual Salary 2013 (est)	Annual Salary 2012	Annual Salary 2011	Annual Salary 2010	Bonuses 2010 - 2012	Other Annual Compensation 2010 - 2012
April Lynn Lee-Tan VP/Head of Research						
All above-named Executives and Officers as a Group	₱14.3	₱14.3	₱11.5	₱10.8	₱61.9	-nil-
b) All other Executives and Officers as a Group named	₱4.5	₱4.5	₱3.3	₱5.1	₱17.3	-nil-

Other Arrangements

Stock Option Plan

COL has an existing SOP which was granted in two tranches in favor of its Directors, senior managers and officers and its affiliates as well as other qualified individuals. The number of SOP Shares granted to each qualified individual was based on factors such as rank, past performance, years of service, potential for future development and contribution to the establishment and success and development of COL.

The first grant consisting of Twenty Seven Million Two Hundred Fifty Thousand (27,250,000) Common Shares was made on July 12, 2000 while the second grant consisting of Eighteen Million Seven Hundred Fifty Thousand (18,750,000) Common Shares was made on July 3, 2006.

As of December 31, 2012, a total of Forty Six Million (46,000,000) Common Shares were granted to qualified individuals. The Directors and officers of COL who have been granted SOP shares are as follows:

Name	No. of shares	Date of Grant	Exercise Price	Market Price at Date of Grant
Conrado F. Bate		July 12, 2000 and July 3, 2006	₱1.00	N/A
Edwin A. Mendiola		July 12, 2000	₱1.00	N/A
Catherine L. Ong		July 12, 2000	₱1.00	N/A
Caesar A. Guerzon		July 12, 2000	₱1.00	N/A
Wellington C. Yu		July 12, 2000	₱1.00	N/A
Hirotsugu Kobayashi		July 12, 2000	₱1.00	N/A
Khoo Boo Boon		July 12, 2000	₱1.00	N/A
Manuel S. Estacion		July 12, 2000	₱1.00	N/A
Juan G. Barredo		July 12, 2000	₱1.00	N/A
Nikos J. Bautista		July 12, 2000	₱1.00	N/A
Lorena E. Velarde		July 12, 2000	₱1.00	N/A
April Lynn C. Lee-Tan		July 12, 2000	₱1.00	N/A
<i>All above-named directors and officers as a group</i>	41,700,000			

The subscription price for each SOP Share in respect of which an option is exercisable shall be at

the par value of One Peso (₱1.00).

Under the terms of the SOP, the exercise of an option under the SOP shall be subject to the following:

1. An Option may be exercised at anytime during the option period, in whole or in part, by a participant giving notice in writing to COL in, or substantially in, the form as provided, subject in each case by such modification as the Committee may from time to time determine. Such notice must be accompanied by a remittance for the aggregate subscription cost in respect of the SOP Shares for which that Option is exercised and any other documentation the Committee may require. An Option shall be deemed to be exercisable upon receipt by COL of the said notice, duly completed, and the Aggregate Subscription Cost.
2. In the event of an Option being exercised in part only, the balance of the Option not thereby exercised shall continue to be exercisable in accordance with the SOP until such time as it shall lapse in accordance with the SOP.
3. An Option shall, to the extent unexercised, immediately lapse without any claim against COL:
 - a. Upon the participant ceasing to be an employee of COL or a qualified individual for any reason whatsoever; or
 - b. Upon the bankruptcy of the participant or the happening of any other event which results in the participant being deprived of the legal or beneficial ownership of such Option; or
 - c. In the event of any misconduct on the part of the participant as determined by the Committee in its discretion.

For the entire year of 2012, 9,260,000 SOP shares were exercised by the above Directors and officers of COL.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

There are no special employment contracts between COL and the executive officers named in the preceding paragraphs. Likewise, there are no compensatory plans or arrangements with respect to a named executive officer.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners of more than 5% of COL's voting securities as of **December 31, 2012** are as follows:

Title of Class	Name, Address of Record Owner and Relationship with the Issuer	Name of Beneficial Owners and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent (%)
Common	PCD Nominee Corp. – Filipino G/F Makati Stock Exchange Building 6767 Ayala Avenue, Makati City	Citisecurities, Inc. (CTS)	Filipino	98,585,700	21.07%
		COL Financial Group, Inc. (COL)	Filipino	86,341,700	18.46%

Title of Class	Name, Address of Record Owner and Relationship with the Issuer	Name of Beneficial Owners and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent (%)
Common	Edward K. Lee 186 N. Averilla St., San Juan, Metro Manila <i>Stockholder</i>	Edward K. Lee	Filipino	91,054,100	19.46%
Common	Alexander C. Yu 211 Ortega St., San Juan, Metro Manila <i>Stockholder</i>	Alexander C. Yu	Filipino	64,811,800	13.85%
Common	Paulwell Han 9E G/F Broom Road, Happy Valley, Hong Kong <i>Stockholder</i>	Paulwell Han	Chinese	27,635,300	5.91%

**No other single individual has reached more than 5% - 10% of the total outstanding shares of COL.*

Security Ownership of Management as of December 31, 2012

Title of Class	Name of Owner	Position	Citizenship	Total No. of Shares	Percent (%)
Common	Edward K. Lee	Chairman	Filipino	91,054,100	19.46%
Common	Alexander C. Yu	Vice-Chairman	Filipino	64,811,800	13.85%
Common	Conrado F. Bate	President	Filipino	17,498,600	3.74%
Common	Hernan G. Lim	Director	Filipino	18,388,600	3.93%
Common	Raymond C. Yu	Director	Filipino	18,063,000	3.86%
Common	Wellington C. Yu	Director	Filipino	470,000	0.10%
Common	Paulwell Han	Director	Chinese	27,635,300	5.91%
Common	Joel Litman	Director	American	34,000	0.01%
Common	Manuel S. Estacion	Independent Director	Filipino	292,400	0.06%
Common	Khoo Boo Boon	Independent Director	Malaysian	491,000	0.10%
Common	Catherine L. Ong	Director/SVP/Chief Financial Officer	Filipino	9,265,000	1.98%
Common	Caesar A. Guerzon	SVP/Corporate Secretary/Head of Legal & HRAD	Filipino	3,551,000	0.76%
Common	Juan Jaime G. Barredo	VP/Head of Sales and Sales Support Services	Filipino	2,314,900	0.49%
Common	Nikos J. Bautista	VP/Chief Technology Officer	Filipino	660,200	0.14%
Common	Lorena E. Velarde	VP/Financial Controller	Filipino	464,500	0.10%
Common	April Lynn L. Tan	VP/Head of Research	Filipino	2,010,000	0.43%
Common	Melissa O. Ng	AVP/Head of Operations	Chinese	238,500	0.05%
Common	Key Officers and Directors (as a group)			257,242,900	54.99%

As of December 31, 2012, the Company's public float is 45.01%.

Item 13. Certain Relationships and Related Transactions

Transactions between related parties are based on terms similar to those offered to nonrelated parties. The transactions are done in the normal conduct of operations and are recorded in the same manner as transactions that are entered into with other parties.

PART IV – CORPORATE GOVERNANCE

Item 14. Corporate Governance

- a. Compliance with COL's Corporate Governance Manual is being monitored regularly by the Compliance Officer. Orientation and workshop meetings are held to operationalize the Manual. As a guide, COL uses the Corporate Governance Scorecard for Publicly listed Companies as its evaluation system to measure level of compliance with its Manual.
- b. A continuing and on-going review and evaluation of COL's key result areas and key performance indicators of all its departments are being closely monitored to ensure that measures are being undertaken to fully comply with the leading practices on good governance it adopted.
- c. There are no deviations from COL's Manual on Corporate Governance that it is aware of.
- d. COL continues to review and evaluate its policies and measures being undertaken to continue to adhere to the principles and practices of good corporate governance.

PART V - EXHIBITS AND SCHEDULES

Item 15. Exhibits and Reports on SEC Form 17-C

Exhibits

Please refer to the attached Index to Consolidated Financial Statements and Supplementary Schedules on page 39.

Reports on SEC Form 17-C

Items reported under SEC Form 17-C filed during the last six month period covered by this report are as follows:

	Items Reported	Date filed	Announcement Date	Circular No.
1)	Changes in shareholdings of directors	07/02/12	07/02/12	5016-2012
2)	Changes in shareholdings of director/officer	07/05/12	07/05/12	5129-2012
3)	Changes in shareholdings of officer	07/17/12	07/17/12	5405-2012
4)	Changes in shareholdings of director/officers	07/23/12	07/23/12	5497-2012
5)	Changes in shareholdings of director/officer	07/27/12	07/27/12	5610-2012
6)	Change in shareholdings of director/officer	08/02/12	08/02/12	5748-2012
7)	Changes in shareholdings of director/officer	08/09/12	08/09/12	5900-2012
8)	Changes in shareholdings of officer	08/15/12	08/15/12	6124-2012
9)	Board approval of Operations and Financial Report for quarter ended June 30, 2012	08/17/12	08/22/12	6214-2012
10)	Press Release: "COL Posts Record 1H Numbers"	08/17/12	08/22/12	6215-2012
11)	Change in shareholdings of director	08/23/12	08/23/12	6273-2012
12)	Changes in shareholdings of director	08/30/12	08/30/12	6370-2012
13)	Changes in shareholdings of director/officer	09/05/12	09/05/12	6479-2012
14)	Change in shareholdings of director	09/11/12	09/11/12	6596-2012
15)	Change in shareholdings of director	09/27/12	09/27/12	6940-2012
16)	Report on compliance with SEC Memorandum re: guidelines for the assessment of the performance of Audit Committees	10/05/12	10/05/12	7226-2012
17)	Change in shareholdings of officer	10/09/12	10/09/12	7356-2012
18)	Change in shareholdings of director	10/15/12	10/15/12	7482-2012
19)	Changes in shareholdings of director/officer	10/19/12	10/19/12	7610-2012
20)	Change in shareholdings of director	10/25/12	10/25/12	7764-2012
21)	Change in shareholdings of director	11/05/12	11/05/12	7944-2012

	Items Reported	Date filed	Announcement Date	Circular No.
22)	Changes in shareholdings of directors/officers	11/09/12	11/09/12	8085-2012
23)	Changes in shareholdings of directors & officers	11/15/12	11/16/12	8288-2012
24)	Board approval of Operations and Financial Report for quarter ended September 30, 2012	11/16/12	11/19/12	8320-2012
25)	Press Release: "COL's Philippine Operations Post Record 9-Month Results"	11/16/12	11/19/12	8321-2012
26)	Changes in shareholdings of directors/officer	11/28/12	11/28/12	8601-2012
27)	Update on report on compliance with SEC Memorandum re: guidelines for the assessment of the performance of Audit Committees	12/03/12	12/04/12	8706-2012
28)	Change in shareholdings of director	12/04/12	12/04/12	8724-2012
29)	Changes in shareholdings of directors	12/10/12	12/10/12	8902-2012
30)	Changes in shareholdings of director/officer	12/20/12	12/20/12	9214-2012

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Pasig on April 11, 2013.

COL FINANCIAL GROUP, INC.


Issuer

By:


Conrado F. Bate
President and Chief Executive Officer


Catherine L. Ong
SVP, Treasurer/Chief Financial Officer

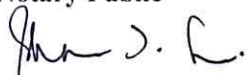

Caesar A. Guerzon
SVP, Corporate Secretary


Lorena E. Velarde
VP and Financial Controller

SUBSCRIBED AND SWORN to before me this 11th day of April 2013 affiants exhibiting to me their Passports/Driver's License, as follows:

NAMES	PASSPORT NO./DRIVER'S LICENSE	DATE OF ISSUE	PLACE OF ISSUE
Conrado F. Bate	EB1473902	Nov. 30, 2010	Manila
Catherine L. Ong	EA0001667	Oct. 13, 2009	Manila
Caesar A. Guerzon	EB2801974	June 27, 2011	Manila
Lorena E. Velarde	D16-97-165067	July 5, 2011	Quezon City

Notary Public


ATTY. SHARON T. LIM
Notary Public for the Cities of Pasig, Taguig, &
San Juan and Municipality of Pateros
Until 12-31-13/Appt. No. 24 (2012-2013)
2401B East Tower, Phil. Stock Exchange Centre,
Exchange Rd., Ortigas Center Pasig City 1605
Roll No. 53601/IBP No. 923658/1-10-13/RSM
PTR No. 8473808/1-17-13/Pasig
MCLE Compliance No. IV-0010699/12-20-12/Pasig

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Page No. 92
Book No. I
Series of 2013

COL FINANCIAL GROUP, INC.
SEC FORM 17-A

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES**

FINANCIAL STATEMENTS	Remarks/Attachments
Statement of Management's Responsibility for Financial Statements	✓
Report of Independent Auditors	✓
Consolidated Statements of Financial Position as of December 31, 2012 and 2011	✓
Consolidated Statements of Income for the Years Ended December 31, 2012, 2011 and 2010	
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2011 and 2010	✓
Consolidated Statements of Changes in Equity for the Years Ended December 31, 2012, 2011 and 2010	✓
Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010	✓
Notes to Consolidated Financial Statements	✓
SUPPLEMENTARY SCHEDULES	
Report of Independent Auditors on Supplementary Schedules	✓
Schedule I. Retained Earnings Available for Dividend Declaration Pursuant to SEC Memorandum Circular No. 11	✓
Schedule II. Schedule of Effective Standards and Interpretations under the PFRS Pursuant to SRC Rule 68, as Amended	✓
Schedule III. Supplementary Schedules under Annex 68-E Pursuant to SRC Rule 68, as Amended	✓
Schedule IV. A Map Showing the Relationship Between and Among the Company and its Ultimate Parent Company, Middle Parent, Subsidiaries or Co-Subsidiaries, and Associates Pursuant to SRC Rule 68, as Amended	✓
Schedule V. Schedule Showing Financial Soundness Indicators Pursuant to SRC Rule 68, as Amended	✓

COVER SHEET

A 1 9 9 9 1 0 0 6 5

SEC Registration Number

C O L F I N A N C I A L G R O U P , I N C . (F o r m e r
l y C i t i s e c O n l i n e . c o m , I n c .) A N D S
U B S I D I A R Y

(Company's Full Name)

U n i t 2 4 0 1 - B E a s t T o w e r , P S E C e n t r
e , E x c h a n g e R o a d , O r t i g a s C e n t e r ,
P a s i g C i t y

(Business Address: No. Street City/Town/Province)

Mr. Conrado F. Bate

(Contact Person)

(02) 636-5411

(Company Telephone Number)

1 2

Month Day
(Fiscal Year)

3 1

A A C F S

(Form Type)

Month Day
(Annual Meeting)

Broker

(Secondary License Type, If Applicable)

CFD

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total Amount of Borrowings

31

Total No. of Stockholders

Not Applicable

Domestic

Not Applicable

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of COL Financial Group, Inc. (formerly Citiseconline.com, Inc.) and Subsidiary (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, including the additional components attached therein, in accordance with accounting principles generally accepted in the Philippines. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

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



Edward K. Lee
Chairman of the Board



Conrado F. Bate
President and Chief Executive Officer



Catherine L. Ong
Senior Vice President and Chief Financial Officer

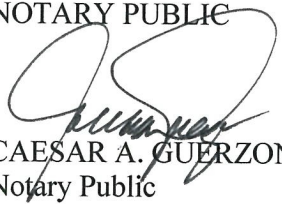
Signed this 6th day of March 2013.

*Statement of Management's Responsibility
for Financial Statements*

SUBSCRIBED AND SWORN to before me this 6th day of March 2013, at Manila, affiants exhibited to me their respective Passports, as follows:

<u>Name</u>	<u>Passport No.</u>	<u>Date/Place Issued</u>
Edward K. Lee	PP # EB2183456	April 11, 2011/Manila
Conrado F. Bate	PP # EB1473902	Nov. 30, 2010/Manila
Catherine L. Ong	PP # EA0001667	Oct. 13, 2009/Manila

NOTARY PUBLIC



CAESAR A. GUERZON
Notary Public
Until December 31, 2013
PTR No. 1403636
Issued on January 3, 2013
At Manila
Roll of Atty. No. 27749
IBP No. 869283

Doc. No. : 118
Page No. : 25
Book No. : XXV
Series of 2013



SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines
Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
COL Financial Group, Inc.
Unit 2401-B East Tower, PSE Centre
Exchange Road, Ortigas Center, Pasig City

We have audited the accompanying consolidated financial statements of COL Financial Group, Inc. (formerly CitisecOnline.com, Inc.) and Subsidiary, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, 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, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the Philippines as described in Note 2 to the consolidated financial statements, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of COL Financial Group, Inc. and Subsidiary as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with accounting principles generally accepted in the Philippines as described in Note 2 to the consolidated financial statements.

SYCIP GORRES VELAYO & CO.


Eleanore A. Layug

Partner

CPA Certificate No. 0100794

SEC Accreditation No. 1250-A (Group A),

August 9, 2012, valid until August 8, 2015

Tax Identification No. 163-069-453

BIR Accreditation No. 08-001998-97-2012,

January 11, 2012, valid until January 10, 2015

PTR No. 3669689, January 2, 2013, Makati City

March 6, 2013



COL FINANCIAL GROUP, INC. AND SUBSIDIARY
(Formerly CitisecOnline.com, Inc. and Subsidiary)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31					
	2012			2011		
	Money Balance	Security Valuation		Money Balance	Security Valuation	
	Long	Short		Long	Short	
ASSETS						
Current Assets						
Cash and cash equivalents (Note 4)	₱2,583,051,902			₱2,010,759,498		
Cash in a segregated account (Note 5)	64,200,375			178,180,571		
Financial assets at fair value through profit or loss (FVPL; Note 6)	2,729,120	₱2,729,120		1,313,282	₱1,313,282	
Trade receivables (Note 7)	1,444,285,187	13,485,028,553		1,160,690,295	4,359,793,839	
Other receivables (Note 7)	5,038,652			8,130,814		
Prepayments	2,411,331			2,206,021		
Total Current Assets	4,101,716,567			3,361,280,481		
Noncurrent Assets						
Property and equipment (Note 9)	38,397,201			41,731,847		
Intangibles (Note 10)	21,952,936			23,027,647		
Deferred income tax assets - net (Note 18)	57,792,124			75,178,490		
Other noncurrent assets (Note 11)	9,158,278			8,626,513		
Total Noncurrent Assets	127,300,539			148,564,497		
TOTAL ASSETS	₱4,229,017,106			₱3,509,844,978		
Securities in box, in Philippine Depository and Trust Corporation and Hong Kong Securities Clearing Company, Limited			₱33,182,350,977			₱15,793,197,812

(Forward)



	December 31					
	2012			2011		
	Money Balance	Security Valuation		Money Balance	Security Valuation	
	Long	Short		Long	Short	
LIABILITIES AND EQUITY						
Current Liabilities						
Trade payables (Note 12)	₱2,859,856,119	₱19,694,593,304		₱2,133,524,943		₱11,432,090,691
Other current liabilities (Note 13)	64,867,074			75,193,971		
Income tax payable	11,658,004			-		
Total Current Liabilities	2,936,381,197			2,208,718,914		
Noncurrent Liability						
Retirement obligation (Note 17)	10,676,598			6,152,980		
Total Liabilities	2,947,057,795			2,214,871,894		
Equity (Notes 14 and 17)						
Capital stock	467,810,000			458,550,000		
Capital in excess of par value	47,499,024			44,899,024		
Cost of share-based payment	33,263,658			63,541,685		
Accumulated translation adjustment	(46,245,403)			(26,007,546)		
Retained earnings:						
Appropriated	75,458,201			45,004,197		
Unappropriated	704,173,831			708,985,724		
Total Equity	1,281,959,311			1,294,973,084		
TOTAL LIABILITIES AND EQUITY	₱4,229,017,106	₱33,182,350,977	₱33,182,350,977	₱3,509,844,978	₱15,793,197,812	₱15,793,197,812

See accompanying Notes to Consolidated Financial Statements.



COL FINANCIAL GROUP, INC. AND SUBSIDIARY
(Formerly CitisecOnline.com, Inc. and Subsidiary)

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2012	2011	2010
REVENUES			
Commissions (Note 19)	₱463,303,501	₱444,675,036	₱371,348,657
Others:			
Interest income (Note 15)	184,089,165	187,261,774	105,980,093
Gain on financial assets at FVPL - net (Note 6)	1,766,368	16,027,838	7,717,255
Foreign exchange gains - net	-	109,526	765,431
Others (Notes 6, 7, and 8)	1,733,913	10,582,399	4,413,181
	650,892,947	658,656,573	490,224,617
COST OF SERVICES			
Commission expense (Note 19)	88,863,586	57,202,457	22,152,678
Personnel costs - operations (Note 16)	57,256,553	55,347,373	45,283,387
Stock exchange dues and fees	10,875,141	9,576,859	5,998,073
Central depository fees	5,613,808	4,043,001	2,141,568
Research	3,918,188	2,851,166	796,554
Others:			
Communications	19,526,785	14,256,059	11,050,181
Others (Note 9)	2,098,615	1,972,874	994,717
	188,152,676	145,249,789	88,417,158
GROSS PROFIT	462,740,271	513,406,784	401,807,459
OPERATING EXPENSES			
Administrative expenses:			
Personnel costs (Note 16)	31,137,342	24,340,576	22,826,347
Professional fees (Note 19)	22,758,613	21,325,506	20,211,730
Management bonus	13,021,051	15,335,034	8,018,720
Rentals (Note 20)	10,024,186	8,447,671	5,347,721
Advertising and marketing	4,846,634	3,811,116	3,423,586
Taxes and licenses	3,910,937	3,003,449	1,840,027
Power, light and water	3,746,936	2,845,011	2,486,321
Security and messengerial services	2,465,215	1,836,737	1,457,227
Insurance and bonds	2,198,516	1,740,489	838,187
Office supplies	2,039,090	1,577,809	1,609,568
Bank charges	1,757,155	971,057	402,999
Condominium dues	1,755,246	1,548,890	921,958
Stock option expense (Notes 17 and 19)	1,742,000	5,980,000	2,275,000
Trainings, seminars and meetings	1,717,408	1,132,792	756,780
Representation and entertainment	1,306,496	1,563,858	504,431
Repairs and maintenance	883,137	859,177	528,281
Membership fees and dues	878,018	602,913	543,211
Transportation and travel	710,934	1,399,065	848,154
Directors' fees	690,000	775,000	605,000
Communications	658,124	544,890	1,297,798
Others	971,488	1,343,133	1,385,677
	109,218,526	100,984,173	78,128,723
Depreciation and amortization (Note 9)	14,259,874	10,159,215	8,147,917
Interest expense	-	426,667	1,284,722
Provision for credit losses (Note 7)	-	120,995	11,907,240
Miscellaneous expense	82,781	-	-
	123,561,181	111,691,050	99,468,602
INCOME BEFORE INCOME TAX	339,179,090	401,715,734	302,338,857
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 18)			
Current	37,260,181	67,025,552	45,921,682
Deferred	(3,953,202)	(108,694)	(1,469,384)
	33,306,979	66,916,858	44,452,298
NET INCOME	₱305,872,111	₱334,798,876	₱257,886,559

See accompanying Notes to Consolidated Financial Statements.



COL FINANCIAL GROUP, INC. AND SUBSIDIARY
(Formerly CitisecOnline.com, Inc. and Subsidiary)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2012	2011	2010
NET INCOME	₱305,872,111	₱334,798,876	₱257,886,559
OTHER COMPREHENSIVE INCOME (LOSS)			
Translation adjustments - net of tax effect of (₱8,673,367) in 2012, ₱371,200 in 2011, and (₱7,292,313) in 2010	(20,237,857)	866,134	(17,015,398)
TOTAL COMPREHENSIVE INCOME	₱285,634,254	₱335,665,010	₱240,871,161
Earnings Per Share (Note 25)			
Basic	₱0.66	₱0.75	₱0.59
Diluted	₱0.64	₱0.71	₱0.55

See accompanying Notes to Consolidated Financial Statements.



COL FINANCIAL GROUP, INC. AND SUBSIDIARY
(Formerly CitisecOnline.com, Inc. and Subsidiary)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 and 2010

	Capital Stock	Capital In Excess of Par Value	Cost of Share-Based Payment	Accumulated Translation Adjustment	Retained Earnings		Total
					Appropriated	Unappropriated	
Balances at January 1, 2010	₱433,000,000	₱34,759,024	₱64,822,146	(₱9,858,282)	₱13,733,597	₱412,190,889	₱948,647,374
Issuance of shares upon exercise of stock options (Note 17)	9,650,000	780,000	–	–	–	–	10,430,000
Cost of share-based payment	–	–	6,251,422	–	–	–	6,251,422
Declaration of cash dividend (Note 14)	–	–	–	–	–	(86,960,000)	(86,960,000)
Net income	–	–	–	–	–	257,886,559	257,886,559
Other comprehensive loss	–	–	–	(17,015,398)	–	–	(17,015,398)
Total comprehensive income (loss)	–	–	–	(17,015,398)	–	257,886,559	240,871,161
Appropriation of retained earnings	–	–	–	–	13,147,733	(13,147,733)	–
Balances at December 31, 2010	442,650,000	35,539,024	71,073,568	(26,873,680)	26,881,330	569,969,715	1,119,239,957
Issuance of shares upon exercise of stock options (Note 17)	15,900,000	9,360,000	–	–	–	–	25,260,000
Cost of share-based payment (Note 17)	–	–	(7,531,883)	–	–	–	(7,531,883)
Declaration of cash dividend (Note 14)	–	–	–	–	–	(177,660,000)	(177,660,000)
Net income	–	–	–	–	–	334,798,876	334,798,876
Other comprehensive income	–	–	–	866,134	–	–	866,134
Total comprehensive income	–	–	–	866,134	–	334,798,876	335,665,010
Appropriation of retained earnings (Note 14)	–	–	–	–	18,122,867	(18,122,867)	–
Balances at December 31, 2011	458,550,000	44,899,024	63,541,685	(26,007,546)	45,004,197	708,985,724	1,294,973,084
Issuance of shares upon exercise of stock options (Note 17)	9,260,000	2,600,000	–	–	–	–	11,860,000
Cost of share-based payment (Note 17)	–	–	(30,278,027)	–	–	–	(30,278,027)
Declaration of cash dividend (Note 14)	–	–	–	–	–	(280,230,000)	(280,230,000)
Net income	–	–	–	–	–	305,872,111	305,872,111
Other comprehensive loss	–	–	–	(20,237,857)	–	–	(20,237,857)
Total comprehensive income (loss)	–	–	–	(20,237,857)	–	305,872,111	285,634,254
Appropriation of retained earnings (Note 14)	–	–	–	–	30,454,004	(30,454,004)	–
Balances at December 31, 2012	₱467,810,000	₱47,499,024	₱33,263,658	(₱46,245,403)	₱75,458,201	₱704,173,831	₱1,281,959,311

See accompanying Notes to Consolidated Financial Statements.



COL FINANCIAL GROUP, INC. AND SUBSIDIARY
(Formerly Citiseconline.com, Inc. and Subsidiary)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱339,179,090	₱401,715,734	₱302,338,857
Adjustments for:			
Interest income (Note 15)	(184,089,165)	(187,261,774)	(105,980,093)
Depreciation and amortization (Note 9)	16,358,489	12,132,089	9,142,634
Retirement expense (Note 17)	4,523,618	3,018,156	2,336,561
Unrealized loss (gain) on financial assets at FVPL	(276,187)	161,642	520,316
Stock option expense (Note 17)	1,742,000	5,980,000	2,275,000
Dividend income (Note 6)	(28,589)	(27,362)	(378)
Gain on disposal of property and equipment (Note 9)	(4,448)	-	-
Gain on disposal of HTM investment (Note 8)	-	(3,974,316)	-
Interest expense	-	426,667	1,284,722
Operating income before working capital changes	177,404,808	232,170,836	211,917,619
Decrease (increase) in:			
Cash in a segregated account	113,980,196	(34,425,259)	152,021,398
Financial assets at FVPL	(1,139,651)	(695,124)	1,085,099
Trade receivables	(323,016,374)	263,163,770	(1,053,522,736)
Other receivables	38,974	1,963,720	4,789,501
Prepayments	(263,209)	(765,969)	1,053,875
Other noncurrent assets	(7,432,688)	(4,224,566)	(10,459,814)
Increase (decrease) in:			
Trade payables	737,020,298	861,278,015	444,451,175
Other current liabilities	(8,805,020)	11,709,168	33,915,004
Net cash generated from (used in) operations	687,787,334	1,330,174,591	(214,748,879)
Interest received	183,930,182	187,702,374	107,229,245
Income taxes paid	(15,293,190)	(76,674,630)	(54,143,965)
Dividends received	28,589	27,362	378
Interest paid	-	(426,667)	(1,284,722)
Net cash flows from (used in) operating activities	856,452,915	1,440,803,030	(162,947,943)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment (Note 9)	(13,446,556)	(27,212,887)	(8,063,004)
Proceeds from disposal of property and equipment (Note 9)	256,045	-	-
Proceeds from sale of HTM investment	-	106,474,792	-
Contribution to retirement fund (Note 17)	-	-	(5,188,281)
Net cash flows from (used in) investing activities	(13,190,511)	79,261,905	(13,251,285)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends declared and paid (Note 14)	(280,230,000)	(177,660,000)	(86,960,000)
Issuance of additional shares (Notes 14 and 17)	9,260,000	15,900,000	9,650,000
Payment of loan	-	(80,000,000)	(100,000,000)
Proceeds from availment of loan	-	80,000,000	100,000,000
Net cash flows used in financing activities	(270,970,000)	(161,760,000)	(77,310,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	572,292,404	1,358,304,935	(253,509,228)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,010,759,498	652,454,563	905,963,791
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱2,583,051,902	₱2,010,759,498	₱652,454,563

See accompanying Notes to Consolidated Financial Statements.



COL FINANCIAL GROUP, INC. AND SUBSIDIARY
(Formerly Citiseconline.com, Inc. and Subsidiary)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

COL Financial Group, Inc. (formerly Citiseconline.com, Inc.; Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) on August 16, 1999, primarily to engage in the business of broker of securities and to provide stockbrokerage services through innovative internet technology. COL Securities (HK) Limited (formerly Citiseconline.com Hong Kong Limited; COLHK; Subsidiary), a wholly-owned foreign subsidiary, is domiciled and incorporated in Hong Kong, primarily to act as stockbroker and to invest in securities. In the normal course of business, the Parent Company and COLHK (the Group) are also engaged in providing financial advice, in the gathering and distribution of financial and investment information and statistics and in acting as financial, commercial or business representative. The registered address of the Parent Company is Unit 2401-B East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City, Philippines. The registered address of COLHK is Room 803, Luk Yu Building, 24-26 Stanley Street, Central, Hong Kong.

The Parent Company is a public company listed in the Philippine Stock Exchange (PSE).

On August 15, 2006, the Board of Directors (BOD) of the Parent Company approved the acquisition of the Trading Right of Mark Securities Corporation for the purpose of making the Parent Company a PSE Trading Participant. On December 13, 2006, the BOD of PSE approved the application of the Parent Company as a Corporate Trading Participant in PSE through the transfer of the Trading Right registered in the name of Mark Securities Corporation and the designation of Mr. Conrado F. Bate as its Nominee Trading Participant.

On October 20, 2008, the Parent Company made an initial contribution to the Clearing and Trade Guaranty Fund (CTGF) of the Securities Clearing Corporation of the Philippines (SCCP) as a prerequisite to its accreditation as a clearing member of SCCP. On August 20, 2009, the Parent Company made a top-up contribution six (6) months after it started operating its own seat in the PSE on February 16, 2009.

Pursuant to a special resolution passed at an extraordinary general meeting of the Subsidiary held on May 19, 2011 and approved by the Companies Registry of the Securities and Futures Commission, the name of the Subsidiary was changed from Citiseconline.com Hong Kong Limited to COL Securities (HK) Limited.

On February 21, 2012, SEC approved the Parent Company's application for the change in company name from Citiseconline.com, Inc. to COL Financial Group, Inc.

The accompanying consolidated financial statements of the Group as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 were authorized for issue by the BOD on March 6, 2013.



2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at FVPL, which have been measured at fair value. The Group's consolidated financial statements are presented in Philippine peso, which is the presentation currency under Philippine Financial Reporting Standards (PFRS). Based on the economic substance of the underlying circumstances relevant to the Group, the functional currencies of the Parent Company and COLHK have been determined to be Philippine peso and Hong Kong (HK) dollar, respectively. All values are rounded to the nearest peso, except as otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with accounting principles generally accepted in the Philippines. The Group prepared its consolidated financial statements in accordance with PFRS, except for the use of closing prices for the valuation of equity securities as required by the Securities Regulation Code (SRC). PFRS requires the use of current bid prices for valuation of equity securities held.

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and COLHK, a 100% owned and controlled foreign subsidiary, after eliminating significant intercompany balances and transactions.

The Subsidiary is consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continues to be consolidated until the date that such control ceases. The financial statements of the Subsidiary are prepared for the same reporting year as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended PFRS and Philippine Accounting Standards (PAS) which were adopted as at January 1, 2012.

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendments)
The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendment)
The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model



whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The adoption of the amendments did not have any impact on the Group's financial position or performance.

Standards Issued But Not Yet Effective

The Group will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have a significant impact on its consolidated financial statements.

Effective in 2013:

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)

The amendments are effective for annual periods beginning on or after July 1, 2012. The amendments to PAS 1 change the grouping of items presented in OCI. Items that would be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendments do not change the nature of the items that are currently recognized in OCI, nor do they impact the determination of whether items of OCI are classified through profit or loss in the future periods. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

- PAS 19, *Employee Benefits* (Revised)

The revised standard is effective for annual periods beginning on or after January 1, 2013. The revised standard includes a number of amendments that range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

The Group reviewed its existing employee benefits and determined that the amended standard has an impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the Group's financial statements upon adoption of the standard.



The effects of the revisions to the consolidated statement of financial position are presented below:

	As at 31 December 2012	As at 1 January 2012	As at 1 January 2011
Increase (decrease) in:			
Retirement obligation	₱12,437,336	₱7,369,246	₱4,694,990
Deferred tax asset	(186,714)	(56,052)	(36,435)
Other comprehensive income	(13,059,718)	(7,556,086)	(4,816,441)
Retained earnings	435,668	130,788	85,016

The effects of the revisions to the consolidated statements of income are presented below:

	2012	2011
Increase (decrease) in:		
Retirement costs	(₱435,542)	(₱65,389)
Net income	435,542	65,389

- PAS 27, *Separate Financial Statements* (as revised in 2011)
The amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
The amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.
- PFRS 7, *Financial Instruments: Disclosures - Offsetting of Financial Assets and Financial Liabilities* (Amendments)
The amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
 - a) The gross amounts of those recognized financial assets and recognized financial liabilities;
 - b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
 - c) The net amounts presented in the statement of financial position;
 - d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:



- i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- **PFRS 10, *Consolidated Financial Statements***
This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, which addresses the accounting for consolidated financial statements. It also addresses the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*, resulting to SIC being withdrawn. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The new standard will be applied retrospectively. The new standard has no impact to the Group since the Parent Company's subsidiary is wholly owned.
- **PFRS 11, *Joint Arrangements***
This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method.
- **PFRS 12, *Disclosure of Interests in Other Entities***
This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.
- **PFRS 13, *Fair Value Measurement***
This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13.

The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.



- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation becomes effective for annual periods beginning on or after January 1, 2013 and applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”). The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Group.

Annual Improvements to PFRSs (2009-2011 cycles)

These amendments to the standards are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.
- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group’s financial position or performance.
- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group’s financial position or performance.
- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.



- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*

The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

Effective in 2014:

- PAS 32, *Financial Instruments: Presentation - Offsetting of Financial Assets and Financial Liabilities*

This standard is effective for annual periods beginning on or after January 1, 2014.

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be applied retrospectively.

Effective in 2015:

- PFRS 9, *Financial Instruments*

This standard is effective for annual periods beginning on or after January 1, 2015.

PFRS 9, as issued, reflects the first phase on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement* and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at FVPL. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at FVPL. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.



To be Determined

- *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the Group's financial statements.

The revised, amended and additional disclosure or accounting changes provided by the standards and interpretations will be included in the consolidated financial statements in the year of adoption, if applicable.

Summary of Significant Accounting Policies

Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the prevailing functional currency exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the closing functional currency rate of exchange at the end of the reporting period. All differences are taken to the consolidated statement of income.

The financial statements of the foreign consolidated subsidiary are translated at closing exchange rates with respect to the consolidated statement of financial position, and at the average exchange rates for the year with respect to the consolidated statement of income. Resulting translation differences are included in equity (under accumulated translation adjustment). Upon disposal of the foreign subsidiary, accumulated exchange differences are recognized in the consolidated statement of income as a component of the gain or loss on disposal.

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 (3) months or less from dates of acquisition and that are subject to insignificant risk of changes in value.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of Recognition

Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial Recognition and Classification of Financial Instruments

All financial assets, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for securities valued at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the



following categories: financial assets at FVPL, held to maturity (HTM) investments, available-for-sale (AFS) financial assets, and loans and receivables. The classification depends on the purpose for which the financial instruments were acquired and whether they are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at each end of the reporting period. The Group's financial assets are of the nature of financial assets at FVPL, and loans and receivables. As at December 31, 2012 and 2011, the Group has no HTM investments and AFS financial assets.

Also under PAS 39, all financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. Financial liabilities are classified as at FVPL or other financial liabilities. The Group's financial liabilities as at December 31, 2012 and 2011 are of the nature of other financial liabilities.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

Financial Assets and Financial Liabilities at FVPL

Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading purposes, financial assets and financial liabilities designated upon by management at initial recognition as at FVPL, and derivative instruments (including bifurcated embedded derivatives). Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term.

Financial assets or financial liabilities are designated as at FVPL on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in 'Gain on financial assets at FVPL - net' in the consolidated statement of income. Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded in other revenues according to the terms of the contract, or when the right of the payment has been established.



As at December 31, 2012 and 2011, the Group has no financial assets and financial liabilities that have been designated as at FVPL.

Embedded Derivatives

An embedded derivative is separated from the host contract and accounted for as derivative if all of the following conditions are met:

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

Separated embedded derivatives are classified as financial assets or financial liabilities at FVPL unless they are designated as effective hedging instruments. Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

As at December 31, 2012 and 2011, the Group has no bifurcated embedded derivatives.

HTM Investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, during either the current financial year or the two (2) preceding financial years, the entire category would be tainted and reclassified as AFS financial assets and will be re-measured to fair value. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR.

The amortization is included in 'Interest income' in the consolidated statement of income. Gains and losses are recognized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the consolidated statement of income.

Loans and Receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables.



This accounting policy mainly relates to the consolidated statement of financial position captions 'Cash and cash equivalents' and 'Trade and other receivables', which arise primarily from service revenues and other types of receivables.

Receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the consolidated statement of income. The losses arising from impairment are recognized in 'Provision for credit losses' in the consolidated statement of income.

Other Financial Liabilities

Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to 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. 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. After initial measurement, other financial liabilities are measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Any effects of restatement of foreign currency-denominated liabilities are recognized in 'Foreign exchange gains - net' account in the consolidated statement of income.

This accounting policy applies primarily to the consolidated statement of financial position captions 'Trade payables' and 'Other current liabilities' and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Fair Value

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market close prices at the close of business on the reporting period.

For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include comparison to similar investments for which market observable prices exist and discounted cash flow analysis or other valuation models.

Day 1 Difference

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



Trade Receivables and Payables

Trade receivables from customers, which include margin accounts and payable to clearing house and other brokers arise from securities purchased (in a regular way transaction) that have been contracted for but not yet delivered at the end of the reporting period. Payable to customers and receivable from clearing house and other brokers arise from securities sold (in a regular way transaction) that have been contracted for but not yet delivered at the end of the reporting period. Refer to the accounting policy for 'Loans and Receivables' and 'Other Financial Liabilities' for recognition and measurement.

Derecognition of Financial Instruments

Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When the Group continues to recognize an asset to the extent of its continuing involvement, the entity also recognizes an associated liability. Despite the other measurement requirements in PFRS, the transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the entity has retained. The associated liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is:

- a. the amortized cost of the rights and obligations retained by the entity, if the transferred asset is measured at amortized cost; or
- b. equal to the fair value of the rights and obligations retained by the entity when measured on a stand-alone basis, if the transferred asset is measured at fair value.

The Group shall continue to recognize any income arising on the transferred asset to the extent of its continuing involvement and shall recognize any expense incurred on the associated liability.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.



Where 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 exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets

The Group assesses at each end of the reporting period whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to receivables, a provision for credit losses is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Offsetting

Financial assets and liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and the liability simultaneously.

Input Value-added Taxes (VAT)

Input VAT represents VAT imposed on the Parent Company by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations.

Input VAT is stated at its estimated net realizable values.



Prepayments and Other Noncurrent Assets

The Group's prepayments are composed of prepaid insurance, prepaid taxes, prepaid subscriptions and other prepayments. Other noncurrent assets are composed of deposit to CTGF, refundable deposits and other deposits. These assets are classified as current when it is probable to be realized within one (1) year from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

Property and Equipment

Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of such property and equipment, if the recognition criteria are met.

The initial cost of property and equipment comprises its purchase price, including import duties, non-refundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged against income in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation and amortization is computed on the straight-line basis over the following estimated useful lives of the assets:

<u>Category</u>	<u>Number of Years</u>
Furniture, fixtures and equipment	3-10
Leasehold improvements	5 or term of lease, whichever is shorter

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.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized. The asset's residual values, if any, useful lives and methods are reviewed and adjusted if appropriate, at each end of the reporting period.

Intangibles

Intangibles are composed of exchange trading rights, which are carried at cost less any allowance for impairment losses. Exchange trading rights are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying values may be impaired. The exchange trading rights are deemed to have indefinite useful lives as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. The Parent Company does not intend to sell its exchange trading right in the near future. COLHK's exchange trading right is a nontransferable right.



Impairment of Non-financial Assets

The Group assesses at each end of the reporting period whether there is an indication that its property and equipment, intangibles and other noncurrent assets may be impaired. If any such indication exists or when the annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's value-in-use (VIU) or its fair value less costs to sell. The fair value less costs to sell is the amount obtainable from the sale of an asset at an arm's-length transaction, while VIU is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An impairment loss is recognized by a charge against current operations for the excess of the carrying amount of an asset over its recoverable amount in the year in which it arises.

A previously recognized impairment loss is reversed by a credit to current operations to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

Leases

Determination of Whether an Arrangement Contains a Lease

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. A reassessment is made after inception of the lease only if one of the following applies:

- (a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- (c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
- (d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Group as a Lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of



the obligation. If the effect of the time value of money is material, provisions are made 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 an interest expense.

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Capital Stock and Capital in Excess of Par Value

The Parent Company has issued capital stock that is classified as equity. Incremental costs directly attributable to the issue of new capital stock are shown in equity as a deduction, net of any related tax benefit, from the proceeds.

Where the Group purchases the Parent Company's capital stock (treasury shares), the consideration paid, including any directly attributable incremental costs (net of applicable taxes) is deducted from equity attributable to the Parent Company's stockholders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity.

Amount of contribution in excess of par value is accounted for as a capital in excess of par value. Capital in excess of par value also arises from additional capital contribution from the stockholders.

Retained Earnings

Retained earnings are accumulated profits realized out of normal and continuous operations of the business after deducting therefrom distributions to stockholders and transfers to capital or other accounts. Cash and stock dividends are recognized as a liability and a deduction from equity when they are approved by the Group's BOD and stockholders, respectively. Dividends for the year that are approved after the reporting period are dealt with as an event after the end of the reporting period. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group is acting as principal in all arrangements except for its brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized:

Commissions

Commissions are recognized as income upon confirmation of trade deals. These are computed based on a flat rate for every trade transaction.

Interest

Interest income is recognized as it accrues taking into account the effective yield of the asset.

Dividend

Dividend income is recognized when the right to receive payment is established, which is the date of declaration.



Cost and Expenses

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses are recognized when the related revenue is earned or when the service is incurred. The majority of cost and expenses incurred by the Group such as commissions, personnel costs, professional fees, and computer services, are overhead in nature and are recognized with regularity as the Group continues its operations.

Share-Based Payment Transactions

Certain employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, vesting conditions, including performance conditions, other than market conditions (conditions linked to share prices), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account in estimating the number of equity instruments that will vest. The fair value is determined using an appropriate pricing model, further details of which are given in Note 17 to the notes to consolidated financial statements.

The cost of equity-settled transactions is recognized in the consolidated statement of income, together with a corresponding increase in equity, over the period in which service conditions are fulfilled, ending on the date on which relevant employees become fully entitled to the award (vesting date). The cumulative expense recognized for equity-settled transactions at each end of the reporting period until the vesting date reflects the extent to which the vesting period has expired and the number of awards, based on the best available estimate of number of equity instruments in the opinion of the management of the Group, will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. Where the terms of an equity-settled award are modified, as a minimum, expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The Group has applied PFRS 2, only to equity-settled awards granted after November 7, 2002 that had not vested on or before January 1, 2005.

Prior to January 1, 2005, the Group did not recognize any expense for share options granted but disclosed required information for such options (see Note 17). The Group recognizes capital stock upon the exercise of the stock options.

Retirement Costs

The Parent Company has a noncontributory defined benefit retirement plan.



The retirement costs of the Parent Company is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period.

The liability recognized in the consolidated statement of financial position in respect of the defined benefit retirement plan is the present value of the defined benefit retirement obligation at the end of the reporting period less the fair value of any plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit retirement obligation is calculated annually, as necessary, by an independent actuary using the projected unit credit method. The present value of the defined benefit retirement obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded ten percent (10%) of the higher of the defined benefit retirement obligation and the fair value of plan assets, if any, at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service costs, if any, are recognized immediately in the consolidated statement of income, unless the changes to the retirement plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

The defined benefit asset or liability comprises the present value of the defined benefit retirement obligation less past service costs not yet recognized and less the fair value of any plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The retirement plan of COLHK is a defined contribution retirement plan. Under a defined contribution retirement plan, the entity's legal and constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity to a post-employment benefit plan, together with investment returns arising from the contributions. Consequently, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be sufficient to meet expected benefits) fall on the employee.

The standard requires an entity to recognize short-term employee benefits when an employee has rendered service in exchange of those benefits.

Earnings Per Share (EPS)

Basic EPS is computed by dividing earnings applicable to common stock by the weighted average number of common shares outstanding, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year.

Diluted EPS is computed by dividing net income by the weighted average number of common shares outstanding during the year, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year, and adjusted for the effect of dilutive options. Outstanding stock options will have a dilutive effect under the treasury stock method only when



the average market price of the underlying common share during the period exceeds the exercise price of the option. Where the effect of the exercise of all outstanding options has anti-dilutive effect, basic and diluted EPS are stated at the same amount.

Income Taxes

Current Income Tax

Current income 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 at the end of the reporting period.

Deferred Income Tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise 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 income nor the taxable income or loss.

With respect to investments in foreign subsidiaries, deferred income tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Current income tax and deferred income tax relating to items recognized directly in equity is also recognized in equity and not in the consolidated statement of income.

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

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed 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 when an inflow of economic benefits is probable.



Segment Reporting

The Group's operating businesses are organized and managed separately according to the geographical location of its operations, with each segment representing a unit that offers stockbrokerage services and serves different markets. Financial information on geographical segments is presented in Note 26. The Group operates in one business segment, being stockbrokerage services; therefore, business segment information is no longer presented.

Events After the Reporting Period

Post-year-end events that provide additional information about the Group's 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 when material.

3. Summary of Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments and estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcome can differ from these estimates.

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:

Determining Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currencies of the Parent Company and COLHK have been determined to be Philippine peso and HK dollar, respectively. The Philippine peso and the HK dollar are the currencies of the primary economic environments in which the Parent Company and COLHK, respectively, operate. They are the currencies that mainly influence the revenue and expenses of the Parent Company and COLHK.

Assessment on Whether an Agreement is a Finance or Operating Lease

Management assesses at the inception of the lease whether an arrangement is a finance or operating lease based on who bears substantially all risk and benefits incidental to the ownership of the leased item. Based on management's assessment, the risk and rewards of owning the items leased by the Group are retained by the lessor and therefore accounts for as operating lease.

Operating Lease Commitments - Group as Lessee

The Group has entered into commercial property leases on its facility and administrative office locations. The Group has determined that these are operating leases since they do not retain all the significant risks and rewards of ownership of these properties.



Classifying Financial Assets at FVPL

The Group classifies financial assets that are held for trading as financial assets at FVPL. These financial assets are held for the purpose of selling in the short term. As at December 31, 2012 and 2011, the Group has financial assets at FVPL amounting to ₱2,729,120 and ₱1,313,282, respectively (see Note 6).

Deferred Income Tax Assets

The Group reviews the carrying amounts of deferred income tax assets at each end of the reporting period and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax assets to be utilized. The Group has net deferred income tax assets amounting to ₱57,792,124 and ₱75,178,490 as at December 31, 2012 and 2011, respectively (see Note 18).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimating Impairment of Trade and Other Receivables

The Group reviews its receivables at each end of the reporting period to assess whether provision for impairment losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. The Group individually assesses receivables when the value of the collateral falls below the management-set level. When no payment is received within a specified timeframe, the outstanding balance is deemed impaired. Collective assessment is based on the age of the financial assets and historical expected losses adjusted for current conditions.

As at December 31, 2012 and 2011, the allowance for credit losses on trade and other receivables amounted to ₱12,465,143 and ₱12,830,410, respectively (Note 7).

The carrying value of trade and other receivables as at December 31, 2012 and 2011 amounted to ₱1,449,323,839 and ₱1,168,821,109, respectively (see Note 7).

Estimating Useful Lives of Property and Equipment

The Group estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in the Group's estimates brought about by changes in the factors mentioned. Depreciation and amortization amounted to ₱16,358,489, ₱12,132,089 and ₱9,142,634 in 2012, 2011 and 2010, respectively. As at December 31, 2012 and 2011, the net book values of property and equipment amounted to ₱38,397,201 and ₱41,731,847, respectively (see Note 9).

Assessing Impairment of Property and Equipment and Other Noncurrent Assets

The Group assesses impairment on property and equipment and other noncurrent assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:



- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and VIU. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less the costs of disposal while VIU is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

Based on management's assessment, there are no indications of impairment on the Group's property and equipment as at December 31, 2012 and 2011.

No impairment loss was recognized in 2012, 2011 and 2010 for property and equipment and other noncurrent assets.

As at December 31, 2012 and 2011, the Group has no allowance for impairment losses on property and equipment. The net book values of property and equipment amounted to ₱38,397,201 and ₱41,731,847 as at December 31, 2012 and 2011, respectively (see Note 9).

As at December 31, 2012 and 2011, allowance for impairment losses on other noncurrent assets amounted to ₱13,724,200. The net book values of other noncurrent assets amounted to ₱9,158,278 and ₱8,626,513, respectively (see Note 11).

Determining Useful Lives and Impairment of the Intangibles

Intangibles include exchange trading rights, which are carried at cost less any allowance for impairment loss. Exchange trading rights are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying values may be impaired. The exchange trading rights are deemed to have indefinite useful lives as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

The management's impairment test for the Parent Company's exchange trading right is based on the available market value while COLHK's exchange trading right is based on VIU calculation that uses a discounted cash flow model. The cash flows are derived from the budget for the next five (5) years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used.



The key assumptions used to determine the recoverable amount of the Group's exchange trading rights are further explained in Note 10. The Parent Company does not intend to sell its exchange trading right in the near future. COLHK's right is nontransferable with an indefinite useful life. As at December 31, 2012 and 2011, the carrying values of intangibles amounted to ₱21,952,936 and ₱23,027,647, respectively (see Note 10).

Determining Fair Values of Financial Instruments

PFRS requires that certain financial assets and liabilities be carried at fair value, which requires the use of accounting judgment and estimates. While significant components of fair value measurement are determined using verifiable objective evidence (e.g., foreign exchange rates, interest rates and volatility rates), the timing and amount of changes in fair value would differ with the valuation methodology used. Any change in the fair value of these financial assets and liabilities would directly affect the statement of income and the statement of changes in equity.

The fair values of the Group's financial assets as at December 31, 2012 and 2011 amounted to ₱4,103,869,695 and ₱3,363,987,195, respectively, while the fair values of financial liabilities as at December 31, 2012 and 2011 amounted to ₱2,902,850,793 and ₱2,189,442,416, respectively (see Note 23).

Estimating Contingencies

The Group evaluates legal and administrative proceedings to which it is involved based on analysis of potential results. Management and its legal counsels do not believe that any current proceedings will have material adverse effects on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings (see Note 24).

Share-Based Payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payments are disclosed in Note 17. As at December 31, 2012 and 2011, cost of share-based payment in equity amounted to ₱33,263,658 and ₱63,541,685, respectively (see Note 17).

Retirement Obligation

The cost of defined benefit retirement plans is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields on Philippine Government bonds with terms consistent with the expected employee benefit payout at the end of the reporting period. As at December 31, 2012 and 2011, the retirement obligation of the Parent Company amounted to ₱10,676,598 and ₱6,152,980, respectively (see Note 17).



4. Cash and Cash Equivalents

	2012	2011
Cash on hand and in banks	₱327,438,524	₱408,345,847
Short-term cash investments	2,255,613,378	1,602,413,651
	₱2,583,051,902	₱2,010,759,498

Cash in banks earn interest at the respective bank deposit rates. Short-term cash investments are made for varying periods of up to three (3) months depending on the Group's immediate cash requirements, and earn interest at 1.30% to 4.56% per annum in 2012, 1.60% to 4.56% per annum in 2011 and 1.50% to 4.25% per annum in 2010. Interest income of the Group from cash in banks amounted to ₱60,342,514, ₱39,522,787 and ₱17,318,452 in 2012, 2011, and 2010, respectively (see Note 15). The Parent Company has United States (US) dollar-denominated cash in banks as at December 31, 2012 and 2011 (see Note 22).

In compliance with SRC Rule 49.2 covering customer protection and custody of securities, the Parent Company maintains special reserve bank accounts for its customers amounting to ₱2,306,326,701 and ₱1,663,501,898 as at December 31, 2012 and 2011, respectively. The Parent Company's reserve requirement is determined based on the SEC's prescribed computations. As at December 31, 2012 and 2011, the Parent Company's reserve accounts are adequate to cover its reserve requirements.

5. Cash in a Segregated Account

COLHK receives and holds money deposited by clients in the course of the conduct of the regulated activities of its ordinary business. These clients' monies are maintained with a licensed bank. The Group has classified the clients' monies under current assets in the consolidated statement of financial position and recognized a corresponding payable to customers on grounds that it is liable for any loss or misappropriation of clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

As at December 31, 2012 and 2011, cash in a segregated account for COLHK amounted to ₱64,200,375 and ₱178,180,571, respectively.

6. Financial Assets at FVPL

Financial assets at FVPL pertain to investments in shares of stock of companies listed in the PSE and major US Stock Exchanges. Net gains recognized from fair value changes of these financial instruments amounted to ₱1,766,368, ₱16,027,838 and ₱7,717,255 in 2012, 2011 and 2010, respectively. Dividend income included under other revenues amounted to ₱28,589, ₱27,362 and ₱378 in 2012, 2011 and 2010, respectively.

Financial assets at FVPL as at December 31, 2012 and 2011 amounted to ₱2,729,120 and ₱1,313,282, respectively.



7. Trade and Other Receivables

	2012	2011
Trade receivables:		
Customers	₱1,094,997,584	₱965,366,128
Clearing house	350,413,704	194,394,567
Other brokers	2,378,797	4,799,765
	1,447,790,085	1,164,560,460
Less allowance for credit losses on receivable from customers	3,504,898	3,870,165
	₱1,444,285,187	₱1,160,690,295
Other receivables:		
Accrued interest	₱1,398,818	₱1,239,835
Others	12,600,079	15,851,224
	13,998,897	17,091,059
Less allowance for credit losses on other receivables	8,960,245	8,960,245
	₱5,038,652	₱8,130,814

The Parent Company has a credit line facility (involving margin accounts) for qualified customers with the outstanding balance subject to an interest rate ranging from 1.00% to 1.50% per month. Total credit line offered by the Parent Company amounted to ₱4,386,835,000 and ₱4,011,540,000 as at December 31, 2012 and 2011, respectively. Interest income from customers amounted to ₱123,746,651, ₱146,475,134 and ₱82,774,097 in 2012, 2011 and 2010, respectively (see Note 15). Other receivables as at December 31, 2012 and 2011 include the amount of ₱8,960,245 representing additional corporate income tax paid under protest by the Parent Company for the taxable year 2009. For the first, second and third quarters of the taxable year 2009, the Parent Company used the itemized method of deduction in determining its income tax payable for the same period.

In its final adjusted income tax return, it opted to use the forty percent (40%) optional standard deduction (OSD) to determine the final income tax payable for 2009, pursuant to Republic Act (RA) No. 9504 effective July 7, 2008, as implemented by Revenue Regulations (RR) No. 16-08 dated November 26, 2008 (see Note 18). However on March 14, 2010, RR No. 2-2010 became effective and amended Section 7 of RR No. 16-08, which required taxpayers to signify the election to claim either the OSD or itemized deduction during the filing of the first quarter income tax return which must be consistently applied for all succeeding quarterly returns and in the final income tax returns for the taxable year. Likewise, Revenue Memorandum Circular (RMC) No. 16-2010 was issued on February 26, 2010 giving retroactive application to RR No. 2-2010.

The additional income tax paid under protest is for the sole purpose of avoiding any interest or penalty which may be subsequently imposed in erroneously applying RR No. 2-2010 and RMC No. 16-2010 retroactively in violation of Section 246 of the 1997 Tax Code, as amended. Payment of the additional income tax does not constitute an admission of any deficiency tax liability for the taxable year 2009 nor shall the same be construed as a waiver of the right to apply for and secure a refund of the tax erroneously paid for the period. Hence, on April 3, 2012, the Parent Company filed with the Court of Tax Appeals (CTA) a Petition for Review asking the CTA to require the Bureau of Internal Revenue (BIR) to refund or issue a tax credit certificate for the aforementioned amount representing excess income tax paid for taxable year 2009. Pending the outcome of the Petition for Review, a 100% allowance for impairment loss was set up.



Other receivables as at December 31, 2012 and 2011 also include overpayment of corporate income tax made by the Parent Company amounting to nil and ₱3,576,644, respectively, and by COLHK amounting to ₱2,233,503 and ₱2,298,151, respectively, for the taxable year 2012 and 2011, respectively. During the year, the Parent Company utilized overpayment of corporate income tax amounting to ₱3,576,644 in 2011 against its income tax payable for taxable year 2012.

The Group's trade receivables from customers, arising from the credit line facility and its security valuation follows:

	2012		2011	
	Money Balance	Security Valuation-Long	Money Balance	Security Valuation-Long
Cash and fully secured accounts:				
More than 250%	₱416,677,391	₱12,154,244,549	₱547,166,376	₱3,548,258,577
Between 200% and 250%	550,899,128	1,216,482,633	259,656,597	561,782,521
Between 150% and 200%	22,867,006	43,418,110	127,339,875	240,891,741
Between 100% to 150%	14,381,037	15,312,365	2,958,701	4,011,000
Less than 100%	55,847,282	55,570,896	4,904,963	4,850,000
Unsecured accounts	34,325,740	–	23,339,616	–
	1,094,997,584	13,485,028,553	965,366,128	4,359,793,839
Less allowance for credit losses on trade receivables from customers	3,504,898	–	3,870,165	–
	₱1,091,492,686	₱13,485,028,553	₱961,495,963	₱4,359,793,839

Trade receivables from customers have no specific credit terms but customers are required to maintain the value of their collateral within a specific level. Once the value of the collateral falls down this level, customers may either deposit additional collateral or sell stock to cover their account balance. The receivable balances become demandable upon failure of the customer to duly comply with these requirements. As at December 31, 2012 and 2011, ₱1,004,824,562 and ₱937,121,549, respectively, of the total trade receivables from customers are fully covered by collateral.

Trade receivables from clearing house as at December 31, 2012 and 2011 were fully collected subsequently in January 2013 and 2012, respectively.

Movements in the allowance for credit losses follow:

	2012			2011		
	Customers	Others	Total	Customers	Others	Total
Balances at beginning of year	₱3,870,165	₱8,960,245	₱12,830,410	₱3,749,170	₱8,960,245	₱12,709,415
Provisions	–	–	–	120,995	–	120,995
Recovery	(365,267)	–	(365,267)	–	–	–
Balances at end of year	₱3,504,898	₱8,960,245	₱12,465,143	₱3,870,165	₱8,960,245	₱12,830,410

Recovery of allowance for credit losses is included under other revenues.



8. Held-to-Maturity Investment

On March 14, 2011, the Parent Company sold its HTM investment which consists of investment in a 5-year Fixed Rate Treasury Note, with a face value of ₱100,000,000, purchased on October 3, 2008 at a premium of ₱5,006,606 and with coupon rate of 8.75% per annum. This was supposed to mature on March 3, 2013. Gain on sale of HTM investment included under other revenues amounted to ₱3,974,316 in 2011.

Interest income earned from this investment amounted to nil, ₱1,249,961 and ₱5,866,429 in 2012, 2011 and 2010, respectively (see Note 15).

As at December 31, 2012 and 2011, the Group has no HTM investment.

9. Property and Equipment

2012

	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost:			
At beginning of year	₱78,889,357	₱25,820,694	₱104,710,051
Additions	13,218,599	227,957	13,446,556
Disposals	(1,148,106)	-	(1,148,106)
Translation adjustments	(875,696)	(48,219)	(923,915)
At end of year	90,084,154	26,000,432	116,084,586
Accumulated depreciation and amortization:			
At beginning of year	48,863,269	14,114,935	62,978,204
Depreciation and amortization	12,244,873	4,113,616	16,358,489
Disposals	(896,509)	-	(896,509)
Translation adjustments	(704,580)	(48,219)	(752,799)
At end of year	59,507,053	18,180,332	77,687,385
Net book values	₱30,577,101	₱7,820,100	₱38,397,201

2011

	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost:			
At beginning of year	₱61,139,670	₱16,326,279	₱77,465,949
Additions	17,720,175	9,492,712	27,212,887
Translation adjustments	29,512	1,703	31,215
At end of year	78,889,357	25,820,694	104,710,051
Accumulated depreciation and amortization:			
At beginning of year	40,004,677	10,786,762	50,791,439
Depreciation and amortization	8,805,619	3,326,470	12,132,089
Translation adjustments	52,973	1,703	54,676
At end of year	48,863,269	14,114,935	62,978,204
Net book values	₱30,026,088	₱11,705,759	₱41,731,847



The above depreciation and amortization were distributed as follows:

	2012	2011	2010
Cost of services	₱2,098,615	₱1,972,874	₱994,717
Operating expenses	14,259,874	10,159,215	8,147,917
	₱16,358,489	₱12,132,089	₱9,142,634

10. Intangibles

Philippine Operations

On August 15, 2006, the Parent Company purchased the Trading Right of Mark Securities Corporation amounting to ₱5,000,000. As discussed in Note 1, on December 13, 2006, the BOD of the PSE, in its regular meeting, approved the application of the Parent Company as a PSE Corporate Trading Participant. As at December 31, 2012 and 2011, the market value of the said exchange trading right amounted to ₱8,500,000.

Hong Kong Operations

COLHK's exchange trading right is carried at its cost of HK\$3,190,000. The carrying value of the exchange trading right is reviewed annually to ensure that this does not exceed the recoverable amount, whether or not an indicator of impairment is present. The said exchange trading right is nontransferable and cannot be sold to any third party independent of the total assets and liabilities of COLHK. As at December 31, 2012 and 2011, the carrying value of COLHK exchange trading right in Philippine peso amounted to ₱16,952,936 and ₱18,027,647, respectively.

The recoverable amount of exchange trading rights of COLHK has been determined based on a VIU calculation. That calculation uses cash from projections based on a financial budget approved by management covering a five-year period, and a discount rate ranging from 8.38% to 11.50%. Management believes that any reasonably possible change in the key assumptions on which the exchange trading rights' recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

Movements in exchange trading rights follow:

	2012	2011
At beginning of year	₱23,027,647	₱22,989,686
Translation adjustment	(1,074,711)	37,961
At end of year	₱21,952,936	₱23,027,647



11. Other Noncurrent Assets

	2012	2011
Deposit to CTGF	₱13,724,200	₱13,724,200
Refundable deposits:		
Rental deposits	2,366,241	2,378,081
Other refundable deposits	2,377,896	2,939,697
	4,744,137	5,317,778
Input VAT	4,414,141	3,308,735
	22,882,478	22,350,713
Less allowance for impairment losses on other noncurrent assets	13,724,200	13,724,200
	₱9,158,278	₱8,626,513

As mentioned in Note 1, as a prerequisite to its accreditation as a clearing member of SCCP, the Parent Company made an initial contribution of ₱8,200,000 on October 20, 2008 to the CTGF of the SCCP. The CTGF is a risk management tool of SCCP, whose primary purpose is to protect the settlement system from any default by a clearing member. The amount of contribution was computed based on the previous six (6) months trading data and a calculation for the ideal fund level using the Value-at-Risk Model. The said amount was recalculated after six (6) months based on the effective rate of eleven percent (11%) applied to the actual netted trade value of the clearing member. On August 20, 2009, the Parent Company made an additional contribution amounting to ₱5,524,200 to top-up the deficiency in the initial contribution.

In addition to the collection of the initial contribution and as part of the build-up plan for the CTGF, SCCP collects a monthly contribution at the rate of 1/500 of 1.00% of the clearing member's gross trade value less block sales and cross transactions of the same flag. Under SCCP Rule 5.2, the cash contributions made by the clearing members to the CTGF are nonrefundable. However, in consideration of the 100% increase in the CTGF contributions which took effect on August 1, 2007, the BOD of SCCP has approved the full refund of contributions to the CTGF upon cessation of the business of the clearing member and upon termination of its membership with SCCP. Such amendment has been submitted for the further approval of the SEC. Pending the approval of the SEC, the rule on nonrefundability still applies. In view of this, the Parent Company provided an allowance for impairment losses on other noncurrent assets amounting to ₱13,724,200 as at December 31, 2012 and 2011.

12. Trade Payables

	2012		2011	
	Money Balance	Security Valuation-Long	Money Balance	Security Valuation-Long
Payable to customers:				
With money balances	₱2,859,797,815	₱17,641,638,873	₱2,133,442,971	₱11,062,358,289
No money balances	-	2,052,954,431	-	369,732,402
	2,859,797,815	19,694,593,304	2,133,442,971	11,432,090,691
Dividends payable - customer	58,304	-	81,972	-
	₱2,859,856,119	₱19,694,593,304	₱2,133,524,943	₱11,432,090,691



Payable to customers with money balances amounting to ₱58,836,378 and ₱179,221,794 as at December 31, 2012 and 2011, respectively, were payable to COLHK's clients in respect of the trust and segregated bank balances received and held for clients in the course of the conduct of regulated activities. These balances are payable on demand (see Note 5).

13. Other Current Liabilities

	2012	2011
Accrued expenses	₱28,241,059	₱27,156,742
Due to BIR	21,872,400	19,276,498
Accrued management bonus	12,713,436	26,575,192
Trading fees	1,830,582	1,974,777
Others	209,597	210,762
	₱64,867,074	₱75,193,971

Accrued expenses and accrued management bonus mainly include accruals for the officers and employees' performance bonus and other operating expenses and deposits of clients which were received after the cut-off time for the processing of collections and which were credited to the clients' trading accounts on the next business day following the end of the reporting period.

Due to BIR comprise of withholding, percentage and output taxes payable to the Philippine Government.

Trading fees pertain to SCCP and PSE fees and HK Exchanges and clearing fees on the purchase and sale of stocks.

Other current liabilities are noninterest-bearing and are generally settled on fifteen (15) to sixty (60) day's term.

14. Equity

Capital Stock

The details and movements of the Parent Company's capital stock (number of shares and amounts in thousands) follow:

	2012		2011		2010	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock - ₱1 per share						
Authorized	1,000,000	₱1,000,000	1,000,000	₱1,000,000	1,000,000	₱1,000,000
Issued and Outstanding						
Balances at beginning of year	458,550	458,550	442,650	442,650	433,000	433,000
Issuance of common shares upon exercise of stock options (see Note 17)	9,260	9,260	15,900	15,900	9,650	9,650
Balances at end of year	467,810	₱467,810	458,550	₱458,550	442,650	₱442,650

As at December 31, 2012 and 2011, the Parent Company has 31 and 38 stockholders, respectively.



Retained Earnings

In compliance with SRC Rule 49.1 B Reserve Fund, the Parent Company is required to annually appropriate ten percent (10%) of its audited net income and transfer the same to appropriated retained earnings account. On December 11, 2006, the BOD approved the annual appropriation commencing on the year 2006. In 2011, an appropriation of ₱18,122,867 was made based on the 2010 audited net income of the Parent Company of ₱181,228,667. In 2012, an appropriation of ₱30,454,004 was made based on the 2011 audited net income of the Parent Company of ₱304,540,045. Total unappropriated retained earnings amounted to ₱704,173,831 and ₱708,985,724 as at December 31, 2012 and 2011, respectively (see Note 21).

On March 30, 2010, the BOD declared a regular and a special dividend amounting to ₱0.05 per share held or ₱21,740,000 (434,800,000 shares multiplied by ₱0.05 cash dividend per share) and ₱0.15 per share held or ₱65,220,000 (434,800,000 shares multiplied by ₱0.15 cash dividend per share), respectively, to stockholders as of record date of April 16, 2010. These dividends were paid on May 12, 2010.

On February 3, 2011, COLHK's BOD declared a scrip dividend of HK\$13,000,000 (65,000,000 shares multiplied by HK\$0.20 scrip dividend per share) to stockholders as of record date of February 3, 2011.

On March 31, 2011, the BOD declared a regular and a special dividend amounting to ₱0.07 per share held or ₱31,090,500 (444,150,000 shares multiplied by ₱0.07 cash dividend per share) and ₱0.33 per share held or ₱146,569,500 (444,150,000 shares multiplied by ₱0.33 cash dividend per share), respectively, to stockholders as of record date of April 14, 2011. These dividends were paid on April 29, 2011.

On February 7, 2012, COLHK's BOD declared a scrip dividend of HK\$5,000,000 (78,000,000 shares multiplied by HK\$0.064 scrip dividend per share) to stockholders as of record date of February 7, 2012.

On March 30, 2012, the BOD declared a regular and a special dividend amounting to ₱0.12 per share held or ₱56,046,000 (467,050,000 shares multiplied by ₱0.12 cash dividend per share) and ₱0.48 per share held or ₱224,184,000 (467,050,000 shares multiplied by ₱0.48 cash dividend per share), respectively, to stockholders as of record date of April 18, 2012. These dividends were paid on May 14, 2012.

15. Interest Income

	2012	2011	2010
Customers (see Note 7)	₱123,746,651	₱146,475,134	₱82,774,097
Banks - net of final tax (see Note 4)	60,342,514	39,522,787	17,318,452
HTM investment - net of final tax (see Note 8)	–	1,249,961	5,866,429
Others	–	13,892	21,115
	₱184,089,165	₱187,261,774	₱105,980,093



16. Personnel Costs

	2012	2011	2010
Salaries and wages	₱78,387,838	₱71,112,084	₱60,976,698
Retirement costs (see Note 17)	4,785,406	3,265,441	2,591,691
Other benefits	5,220,651	5,310,424	4,541,345
	₱88,393,895	₱79,687,949	₱68,109,734

The above accounts were distributed as follow:

	2012	2011	2010
Cost of services	₱57,256,553	₱55,347,373	₱45,283,387
Operating expenses	31,137,342	24,340,576	22,826,347
	₱88,393,895	₱79,687,949	₱68,109,734

17. Employee Benefits

Stock Options

On July 12, 2000 and July 3, 2006, the Group granted stock options (SOP) shares equal to 27,250,000 and 18,750,000, respectively, in favor of directors, senior managers and officers of the Group as well as other qualified individuals determined by a committee constituted by the BOD to administer the SOP. As at December 31, 2006, a total of 46,000,000 stock options were granted. The agreement provides for an exercise price of ₱1.00 per share. These options will be settled in equity once exercised. All options are exercisable one and a half (1½) years from July 12, 2006, the effective date of listing of the Parent Company's shares at the PSE, and will terminate ten (10) years from the said date. There was no new SOP granted in 2012, 2011 and 2010.

There have been no cancellations or modifications to the plan in 2012, 2011 or 2010.

The following tables illustrate the number of and movements in stock options:

1st Tranche

	2012	2011	2010
Outstanding at beginning of year	9,450,000	16,350,000	25,250,000
Exercised during the year (see Note 14)	(6,760,000)	(6,900,000)	(8,900,000)
Outstanding at end of year	2,690,000	9,450,000	16,350,000

These stock options have not been recognized in accordance with PFRS 2, Share-Based Payment, as these options were granted on or before November 7, 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with PFRS 2.

2nd Tranche

	2012	2011	2010
Outstanding at beginning of year	8,000,000	17,000,000	17,750,000
Exercised during the year (see Note 14)	(2,500,000)	(9,000,000)	(750,000)
Outstanding at end of year	5,500,000	8,000,000	17,000,000

These stock options are recognized in accordance with PFRS 2, Share-Based Payment.

All options have a contractual term of ten (10) years. The weighted average remaining contractual life of options outstanding is 4.5 years, 5.5 years, and 6.5 years as at December 31, 2012, 2011 and 2010, respectively.



The fair value of each option is estimated on the date of grant using the Black-Scholes Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The fair value of options granted on July 12, 2000 and July 3, 2006 amounted to ₱0.89 per share and ₱1.04 per share, respectively.

The assumptions used to determine the fair value of the 27,250,000 stock options granted on July 12, 2000 were (1) share price of ₱1.07 obtained through the use of the Discounted Cash Flow model since the stock was not quoted at the time; (2) exercise price of ₱1.00; (3) expected volatility of 44.00%; (4) option life of ten (10) years; and (5) risk-free interest rate of 15.61%.

The assumptions used to determine the fair value of the 18,750,000 stock options granted on July 3, 2006 were (1) share price of ₱1.36 as the latest valuation of stock price at the time of the IPO; (2) exercise price of ₱1.00; (3) expected volatility of 24.00%; (4) option life of ten (10) years; and (5) risk-free interest rate of 11.04%.

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. Since the stock is not quoted at the time of grant date, the Group used the historical volatility of the nearest market comparable available. Risk-free interest rate is the equivalent 10-year zero coupon rate at the time of grant date.

Movements in the cost of share-based payment included in equity are as follows:

	2012	2011	2010
Balances at beginning of year	₱63,541,685	₱71,073,568	₱64,822,146
Movement on deferred income tax asset on intrinsic value of outstanding options	(29,420,027)	(4,151,883)	4,756,422
Cost of share-based payment recognized as capital in excess of par value	(2,600,000)	(9,360,000)	(780,000)
Stock option expense	1,742,000	5,980,000	2,275,000
Movements during the year	(30,278,027)	(7,531,883)	6,251,422
Balances at end of year	₱33,263,658	₱63,541,685	₱71,073,568

Retirement Benefits

The Parent Company has a funded, non-contributory defined benefit retirement plan covering substantially all of its regular employees. The benefits are based on a certain percentage of the final monthly basic salary for every year of credited service of employees. The defined retirement benefit obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement for the years ended December 31, 2012, 2011 and 2010. The following tables summarize the components of the Parent Company's net retirement costs recognized in the consolidated statements of income and the amounts recognized in the consolidated statements of financial position:

Retirement costs:

	2012	2011	2010
Current service cost	₱3,168,564	₱2,326,382	₱1,630,445
Expected return on plan assets	(402,866)	(457,726)	(425,078)
Interest cost on benefit obligation	1,376,093	1,149,500	1,131,194
Net actuarial loss recognized	381,827	-	-
	₱4,523,618	₱3,018,156	₱2,336,561



Movements in the retirement obligation recognized in the consolidated statements of financial position:

	2012	2011
Retirement obligation at beginning of year	₱6,152,980	₱3,134,824
Retirement costs	4,523,618	3,018,156
Retirement obligation at end of year	₱10,676,598	₱6,152,980

Retirement obligation:

	2012	2011
Present value (PV) of defined benefit obligation	₱29,526,269	₱20,236,661
Fair value of plan assets	(6,412,335)	(6,714,435)
Unrecognized actuarial loss	(12,437,336)	(7,369,246)
	₱10,676,598	₱6,152,980

Changes in the PV of defined retirement benefit obligation are as follows:

	2012	2011
Opening PV of defined retirement benefit obligation	₱20,236,661	₱14,368,751
Current service cost	3,168,564	2,326,382
Interest cost	1,376,093	1,149,500
Actuarial loss on obligation	5,379,451	2,707,028
Benefits paid	(634,500)	(315,000)
Closing PV of defined retirement benefit obligation	₱29,526,269	₱20,236,661

Changes in the fair value of plan assets follow:

	2012	2011
Balances at beginning of year	₱6,714,435	₱6,538,937
Expected return on plan assets	402,866	457,726
Benefits paid	(634,500)	(315,000)
Actuarial gain (loss) on plan assets	(70,466)	32,772
Balances at end of year	₱6,412,335	₱6,714,435

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2012	2011
Short-term cash investments	99.96%	99.96%
Cash in bank	0.04%	0.04%
	100.00%	100.00%



The principal assumptions used in determining retirement obligation for the Parent Company's plan is shown below:

	2012	2011	2010
Discount rate	6.20%	6.80%	8.00%
Expected rate of return on plan assets	5.00%	6.00%	7.00%
Future salary increases	7.00%	7.00%	7.00%

The overall expected rate of return on plan assets is determined based on the market prices prevailing on the date, applicable to the period over which the obligation is to be settled.

Amounts for the current and previous four (4) years are as follows:

	2012	2011	2010	2009	2008
PV of defined benefit obligation	₱29,526,269	₱20,236,661	₱14,368,751	₱12,568,812	₱8,658,762
Fair value of plan assets	(6,412,335)	(6,714,435)	(6,538,937)	(6,072,538)	(4,283,447)
Unfunded status	₱23,113,934	₱13,522,226	₱7,829,814	₱6,496,274	₱4,375,315
Experience adjustments on plan liabilities	₱3,361,009	₱170,425	₱2,501,782	(₱465,365)	(₱897,195)
Change in assumptions on plan liabilities	2,018,442	2,536,603	1,611,469	1,895,246	(2,672,350)
Actual return on plan assets	332,400	490,498	353,068	261,386	73,202

As at March 6, 2013, the Parent Company has not yet reasonably determined the amount of the 2013 contributions to the retirement plan.

COLHK makes monthly contribution to a fund under the mandatory provident fund schemes ordinance enacted by the HK Government. The plan is a defined contribution retirement plan. Under the plan, COLHK should contribute five percent (5%) of the monthly relevant income of all its qualified employees. The contribution recognized as expense amounted to ₱261,788, ₱247,285 and ₱255,130 in 2012, 2011 and 2010, respectively.

18. Income Taxes

The Group's current provision for income tax represents the regular corporate income tax in 2012, 2011 and 2010.

The components of the Group's net deferred income tax assets follow:

	2012	2011
Cost of share-based payment	₱29,545,658	₱58,965,685
Accumulated translation adjustment	19,819,459	11,146,092
Accrued retirement costs	3,722,919	2,450,637
Stock option expense	1,115,400	1,372,800
Allowance for credit and impairment losses	1,051,469	1,161,049
Unrealized foreign exchange gains	(51)	(629)
Unrealized loss in the valuation of FVPL	-	82,856
Others	2,537,270	-
	₱57,792,124	₱75,178,490



Realization of the future tax benefits related to the net deferred income tax assets is dependent on many factors, including the Group's ability to generate taxable income, within the carryover period.

The Parent Company has temporary difference arising from allowance for impairment on deposit to CTGF amounting to ₱13,724,200 as at December 31, 2012 and 2011, for which no deferred income tax asset was recognized since management believes that it is probable that these temporary difference will not be realized in the future.

A reconciliation of provision for income tax computed at the statutory income tax rates to net provision for income tax shown in the consolidated statements of comprehensive income follows:

	2012	2011	2010
Income tax at statutory income tax rates	₱101,753,727	₱120,514,721	₱90,701,657
Additions to (reductions in) income tax resulting from:			
Exercise of stock option	(53,310,000)	(23,143,800)	(30,626,700)
Interest income subjected to final tax	(18,102,754)	(12,231,824)	(6,955,464)
Income tax expense of COLHK	3,195,537	6,049,460	16,075,675
Income of COLHK subject to income tax	(1,830,527)	(10,892,488)	(27,820,070)
Non-taxable income	(2,029)		
40% OSD	-	(40,508,282)	-
Nondeductible expenses	-	28,329,550	3,077,313
Others	1,603,025	(1,200,479)	(113)
Provision for income tax	₱33,306,979	₱66,916,858	₱44,452,298

In 2011, the Parent Company availed of the OSD method in claiming its deductions. In 2012 and 2010, the Parent Company availed of the itemized deductions method in claiming its deductions.

19. Related Party Disclosures

- a. The summary of significant transactions and account balances with related parties are as follows:



Category	Commission income	Interest income	Commission and referral expense	Professional fees	Trade payables	Trade receivables	Terms	Conditions
Key management personnel								
2012	₱3,733,575	₱1,033,467	₱-	₱-	₱56,709,837	₱15,284,711	3-day; non-interest bearing/ Collectible or payable on demand; interest bearing	Secured; no impairment; no guarantee
2011	₱3,689,717	₱1,262,386	₱-	₱-	₱18,233,314	₱41,426,781		
2010	₱2,381,478	₱516,106	₱-	₱-	₱32,955,202	₱12,777,881		
Other related parties:								
Affiliates with common officers, directors and stockholders								
2012	42,923,001	1,879,203	16,585	7,686,867	29,368,151	9,149,278	3-day; non-interest bearing/ Collectible or payable on demand; interest bearing/ Payable upon billing; non-interest bearing	Secured; no impairment; no guarantee
2011	70,129,621	10,491,521	111,087	11,190,567	59,661,524	78,695,482		
2010	102,167,572	7,242,750	20,300	10,691,408	37,402,554	79,043,069		
Directors								
2012	22,487,994	528,747	-	-	23,310,923	34,325,740	3-day; non-interest bearing/ Collectible or payable on demand; interest bearing	Secured; no impairment; no guarantee
2011	51,179,621	2,574,980	-	-	7,334,016	28,714,284		
2010	92,560,793	2,618,008	-	-	28,233,380	164,577,469		
Total	₱69,144,570	₱3,441,417	₱16,585	₱7,686,867	₱109,388,911	₱58,759,729		
Total	₱124,998,959	₱14,328,887	₱111,087	₱11,190,567	₱85,228,854	₱148,836,547		
Total	₱197,109,843	₱10,376,864	₱20,300	₱10,691,408	₱98,591,136	₱256,398,419		



- b. Compensation of key management personnel of the Group follows:

	2012	2011	2010
Short-term employee benefits	₱50,528,506	₱17,597,285	₱41,919,082
Retirement costs	2,420,795	100,149	1,429,925
Cost of share-based payment	1,742,000	5,980,000	2,275,000
	₱54,691,301	₱23,677,434	₱45,624,007

- c. The Parent Company's retirement fund is being held in trust by a trustee bank.

As at December 31, 2012, the carrying amount and the fair value of the retirement fund amounted to ₱6,489,846 and ₱6,412,335, respectively. The retirement fund consists of cash and short-term cash investments which accounted 0.04% and 99.96%, respectively (see Note 17).

In 2012, there were no transactions between the retirement fund and the Parent Company.

20. Leases

The Group leases its office premises under separate operating lease agreements expiring on various dates and whose lease terms are negotiated every 1-3 years. Rental costs charged to operations amounted to ₱10,024,186, ₱8,447,671 and ₱5,347,721 in 2012, 2011 and 2010, respectively.

The future minimum lease payments are as follows:

	2012	2011
Within one (1) year	₱7,327,525	₱12,271,336
After one (1) year but not more than five (5) years	2,404,002	5,668,997
	₱9,731,527	₱17,940,333

21. Capital Management

The primary objective of the Group's capital management is to ensure that the Group maintains healthy capital ratios in order to support its business, pay existing obligations and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2012, 2011 and 2010.

The Amended Implementing Rules and Regulations of the SRC effective March 6, 2004 include, among others, revisions in the terms and conditions for registration and subsequent renewal of license applicable to both exchange trading participants and non-exchange broker dealers as follows: (a) to allow a net capital of ₱2.5 million or 2.50% of aggregate indebtedness, whichever is higher, for broker dealers dealing only in proprietary shares and not holding securities, (b) to allow the SEC to set a different net capital requirement for those authorized to use the Risk-Based Capital Adequacy (RBCA) model, and (c) to require unimpaired paid-up capital of ₱100.0 million for broker dealers, which are either first time registrants or those acquiring existing broker dealer firms and will participate in a registered clearing agency; ₱10.0 million plus a surety bond for



existing broker dealers not engaged in market making transactions; and ₱2.5 million for broker dealers dealing only in proprietary shares and not holding securities.

The SEC approved Memorandum Circular No. 16 dated November 11, 2004 which provides the guidelines on the adoption in the Philippines of the RBCA Framework for all registered brokers dealers in accordance with SRC. These guidelines cover the following risks: (a) position or market risk, (b) credit risks such as counterparty, settlement, large exposure, and margin financing risks, and (c) operational risk.

The Parent Company being a registered broker in securities is subject to the stringent rules of the SEC and other regulatory agencies with respect to the maintenance of specific levels of RBCA ratios. RBCA is a ratio that compares the broker or dealer's total measured risk to its liquid capital. As a rule, the Parent Company must maintain an RBCA ratio of at least 110% and a net liquid capital (NLC) of at least ₱5.0 million or five percent (5%) of its aggregate indebtedness, whichever is higher. Also, the Aggregated Indebtedness (AI) of every stockbroker should not exceed two thousand percent (2,000%) of its NLC. In the event that the minimum RBCA ratio of 110% or the minimum NLC is breached, the Parent Company shall immediately cease doing business as a broker and shall notify the PSE and SEC. As at December 31, 2012 and 2011, the Parent Company is compliant with the foregoing requirements.

The Parent Company's capital pertains to equity per books adjusted for deferred income tax assets and assets not readily convertible into cash.

The RBCA ratio of the Parent Company as at December 31, 2012 and 2011 are as follows:

	2012	2011
Equity eligible for NLC	₱923,551,435	₱872,980,645
Less ineligible assets	190,163,399	192,910,902
NLC	₱733,388,036	₱680,069,743
Position risk	₱40,367	₱480,243
Operational risk	81,214,878	52,746,292
Total Risk Capital Requirement	₱81,255,245	₱53,226,535
AI	₱2,870,517,855	₱2,030,945,889
5% of AI	₱143,525,893	₱101,547,294
Required NLC	143,525,893	101,547,294
Net Risk-Based Capital Excess	₱589,862,144	₱578,522,449
Ratio of AI to NLC	391%	299%
RBCA ratio	903%	1,278%

The following are the definition of terms used in the above computation:

1. Ineligible assets
These pertain to fixed assets and assets which cannot be readily converted into cash.
2. Operational risk requirement
The amount required to cover a level of operational risk which is the exposure associated with commencing and remaining in business arising separately from exposures covered by other



risk requirements. It is the risk of loss resulting from inadequate or failed internal processes, people and systems which include, among others, risks of fraud, operational or settlement failure and shortage of liquid resources, or from external events.

3. Position risk requirement

The amount necessary to accommodate a given level of position risk which is the risk a broker dealer is exposed to and arising from securities held by it as a principal or in its proprietary or dealer account.

4. AI

Total money liabilities of a broker dealer arising in connection with any transaction whatsoever, and includes, among other things, money borrowed, money payable against securities loaned and securities failed to receive, the market value of securities borrowed to the extent to which no equivalent value is paid or credited (other than the market value of margin securities borrowed from customers and margin securities borrowed from non-customers), customers' and non-customers' free credit balances, and credit balances in customers' and non-customers' account having short positions in securities subject to the exclusions provided in the said SEC Memorandum.

On May 28, 2009, the SEC approved the PSE's Rules Governing Trading Rights and Trading Participants, which supersede the Membership Rules of the PSE. Section 8(c) of Article III of the said rules requires trading participants to have a minimum unimpaired paid-up capital, as defined by the SEC, of ₱20 million effective December 31, 2009, and ₱30 million effective December 31, 2011 and onwards. In 2012 and, 2011, the Parent Company is compliant with the new capital requirement.

In addition, SRC Rule 49.1 (B), Reserve Fund of such circular, requires that every broker dealer shall annually appropriate a certain minimum percentage of its audited profit after tax and transfer the same to Appropriated Retained Earnings. Minimum appropriation shall be 30%, 20% and 10% of profit after tax for brokers/dealers with unimpaired paid up capital of ₱10 million to ₱30 million, between ₱30 million to ₱50 million and more than ₱50 million, respectively (see Note 14).

The Parent Company's regulated operations have complied with all externally-imposed capital requirements as at December 31, 2012 and 2011.

COLHK monitors capital using liquid capital as provided for under Hong Kong's Securities and Futures Ordinance (Cap. 571) and Securities and Futures (Financial Resources) Rules (Cap. 571N). COLHK's policy is to keep liquid capital at the higher of the floor requirement of HK\$3,000,000 and computed variable required capital. As at December 31, 2012 and 2011, COLHK is compliant with the said requirement.

22. Financial Risk Management Objectives and Policies

The main purpose of the Group's financial instruments is to fund its operations. The Group's principal financial instruments consist of cash and cash equivalents, cash in a segregated account, financial assets at FVPL, trade receivables, other receivables, trade payables and other current liabilities, which arise from operations.



The main risks arising from the Group's financial instruments are credit risk, liquidity risk, foreign currency risk and equity price risk. The BOD reviews and agrees on the policies for managing each of these risks and they are summarized below:

Credit risk

Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligations, as and when they fall due. It is inherent to the stock brokerage business as potential losses may arise due to the failure of its customers and counterparties to fulfill their trading obligations on settlement dates or the possibility that the value of collateral held to secure obligations becoming inadequate due to adverse market conditions.

The business model of the Group minimizes its exposure to credit risk. The Group's customers, except those granted by a credit line facility by the Parent Company, are required to deposit funds to their accounts and their purchases are limited to their cash deposit. In order to manage the potential credit risk associated with the Parent Company's margin lending activities, the Group has established policies and procedures in evaluating and approving applications for margin financing as well as the review of credit performance and limits. In addition, the Parent Company requires its margin customers a Two Peso (₱2) security cover for every One Peso (₱1) exposure. The security cover can either be in cash or a combination of cash and marginable stock identified by the Parent Company using a set of criteria.

Cash and cash equivalents are deposited to reputable banks duly approved by the BOD and have low probability of insolvency.

As at December 31, 2012 and 2011, ₱1,060,671,844 and ₱942,026,512 of total receivables from customers is secured by collateral comprising of cash and equity securities of listed companies with total market value of ₱13,485,028,553 and ₱4,359,793,839, respectively (see Note 7). Transactions through the stock exchange are covered by the guarantee fund contributed by member brokers and maintained by the clearing house. There are no past due accounts as at December 31, 2012 and 2011.

The Group's loans and receivables, which are neither past due nor impaired, are classified as high grade, due to its high probability of collection (i.e. the counterparty has the evident ability to satisfy its obligation and the security on the receivables are readily enforceable).

As at December 31, 2012 and 2011, the Group's financial assets at FVPL are classified as high grade since these are with listed companies of good reputation.

Refundable deposits under other noncurrent assets is classified as high grade since the amount shall be kept intact by (1) the lessor throughout the term of the contract and shall be returned after the term; and (2) the government institutions as a requirement to conduct stock brokerage business and shall be returned after the Group ceases to operate its business.

The Group's exposure to credit risk arising from default of the counterparty has a maximum exposure equal to the carrying amount of the particular instrument plus any irrevocable loan commitment or credit facility (see Note 7).



The table below shows the maximum exposure to credit risk for the component of the consolidated statement of financial position:

	2012	2011
Cash and cash equivalents (see Note 4)	₱2,583,015,959	₱2,010,736,330
Cash in a segregated account (see Note 5)	64,200,375	178,180,571
Financial assets at FVPL (see Note 6)	2,729,120	1,313,282
Trade receivables (see Note 7)	1,444,285,187	1,160,690,295
Other receivables (see Note 7)	5,038,652	8,130,814
Refundable deposits (see Note 11)	4,744,137	5,317,778
	4,104,013,430	3,364,369,070
Unutilized margin trading facility	3,441,237,792	3,114,681,139
	₱7,545,251,222	₱6,479,050,209

There are no significant concentrations of credit risk within the Group.

Liquidity Risk

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

The Group manages its liquidity profile to meet the following objectives: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; and c) to be able to access funding when needed at the least possible cost.

As at December 31, 2012 and 2011, all of the Group's financial liabilities, which consist of trade payables and other current liabilities, are contractually payable on demand.

Correspondingly, the financial assets that can be used by the Group to manage its liquidity risk as at December 31, 2012 and 2011 consist of cash and cash equivalents, cash in a segregated account, financial assets at FVPL and trade receivables.

Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchanges rates, commodity prices, equity prices and other market changes. The Group's market risk originates from its holdings of equity instruments and foreign currency-denominated financial instruments.

Equity Price Risk

Equity price risk is the risk to earnings or capital arising from changes in stock exchange indices relating to its quoted equity securities. The Group's exposure to equity price risk relates primarily to its financial assets at FVPL which pertain to investments in shares of stock of companies listed in the PSE and major US Stock Exchanges.

The Group's policy is to maintain the risk to an acceptable level. Movement in share price is monitored regularly to determine the impact on its financial position.



Since the carrying amount of financial assets subject to equity price risk is immaterial relative to the consolidated financial statements, management believes that disclosure of equity price risk sensitivity analysis for 2012 and 2011 is not significant.

Foreign Currency Risk

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the Group is engaged.

The Group's exposure to foreign currency exchange risk arises from its US dollar-denominated cash amounting to US\$12,249 and US\$5,869 as at December 31, 2012 and 2011, respectively.

Since the amount of US\$-denominated cash in bank subject to foreign currency risk is immaterial relative to the consolidated financial statements, management believes that disclosure of foreign currency risk analysis for 2012 and 2011 is not significant.

23. Fair Value of Financial Instruments

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

Financial Instruments Whose Carrying Amount Approximate Fair Value

The carrying amounts of cash and cash equivalents, cash in a segregated account, trade receivables, other receivables, trade payables and other current liabilities, which are all subject to normal trade credit terms and are short-term in nature, approximate their fair values.

Financial Assets at FVPL

The Group's financial assets at FVPL are carried at their fair values as at December 31, 2012 and 2011. Fair value of financial assets at FVPL is based on quoted prices of stock investments published by the PSE and major US Stock Exchanges.

Refundable Deposits

The fair value of the refundable deposits is based on the present value of the future cash flows discounted using credit adjusted risk-free rates for a similar type of instrument using 1.30% and 2.63% as at December 31, 2012 and 2011, respectively.

Categories of Financial Instruments

The carrying values and fair values of the Group's financial assets and liabilities per category are as follows:

	Carrying Values		Fair Values	
	2012	2011	2012	2011
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	₱2,583,051,902	₱2,010,759,498	₱2,583,051,902	₱2,010,759,498
Cash in a segregated account	64,200,375	178,180,571	64,200,375	178,180,571
Trade receivables	1,444,285,187	1,160,690,295	1,444,285,187	1,160,690,295
Other receivables	5,038,652	8,130,814	5,038,652	8,130,814
Refundable deposits	4,744,137	5,317,778	4,564,459	4,912,735
	4,101,320,253	3,363,078,956	4,101,140,575	3,362,673,913

(Forward)



	Carrying Values		Fair Values	
	2012	2011	2012	2011
Financial assets at FVPL	₱2,729,120	₱1,313,282	₱2,729,120	₱1,313,282
	₱4,104,049,373	₱3,364,392,238	₱4,103,869,695	₱3,363,987,195
Financial Liabilities				
Other financial liabilities:				
Trade payables	₱2,859,856,119	₱2,133,524,943	₱2,859,856,119	₱2,133,524,943
Other current liabilities	42,994,674	55,917,473	42,994,674	55,917,473
	₱2,902,850,793	₱2,189,442,416	₱2,902,850,793	₱2,189,442,416

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: techniques which involve inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: techniques which use inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at December 31, 2012 and 2011, the fair value of the financial assets at FVPL is the quoted market price at the close of the business (Level 1).

During the years ended December 31, 2012 and 2011, there were no transfers among levels 1, 2 and 3 of fair value measurements.

24. Contingency

As at December 31, 2010, there is a pending case filed against the Parent Company and CSI (the 'Respondents') for trademark infringement by Citigroup, Inc. and Citibank N.A. (the 'Plaintiffs'), who have asked the court for an amount of ₱8,000,000 for actual damages, ₱5,000,000 for exemplary damages and ₱3,975,000 for attorney's fees. The Parent Company holds the position that the parties are engaged in different lines of business, i.e. Citigroup is in the banking and credit card business while the defendants are stockbrokers.

Subsequently, the parties involved entered into a Compromise Agreement wherein the Plaintiffs acknowledged the terms which the Respondents may use in Hong Kong Special Administrative Regions. The Compromise Agreement was thereafter submitted to the court for approval. On November 11, 2011, the Parent Company received a copy of the Judgment, based on the Compromise Agreement, dated October 7, 2011 issued by Branch 149 of the Regional Trial Court of Makati City. Said Judgment quoted on the limits of the use of "CITI" by the Group in its business.

On February 6, 2012, the court issued an Amended Judgment, inserting in said Judgment the Whereas clauses of the Compromise Agreement. On March 8, 2012, the Amended Judgment became final and executory.



25. EPS Computation

	2012	2011	2010
Net income	₱305,872,111	₱334,798,876	₱257,886,559
Weighted average number of shares for basic earnings per share	465,205,000	447,225,000	435,587,500
Dilutive shares arising from stock options	10,282,806	27,404,762	37,291,844
Adjusted weighted average number of shares of common shares for diluted earnings per share	475,487,806	474,629,762	472,879,344
Basic EPS	₱0.66	₱0.75	₱0.59
Diluted EPS	₱0.64	₱0.71	₱0.55

26. Segment Information

For management purposes, the Group is organized into business units based on its geographical location and has two (2) reportable segments as follows:

- Philippine segment, which pertains to the Group's Philippine operations.
- Hong Kong segment, which pertains to the Group's HK operations.

The following tables present certain information regarding the Group's geographical segments:

2012

	Philippines	Hong Kong	Elimination	Total
Revenue from external customers:				
Commissions	₱406,497,833	₱56,805,668	₱-	₱463,303,501
Interest	184,089,165	-	-	184,089,165
Others	2,464,445	1,035,836	-	3,500,281
Inter-segment revenue	42,441,634	-	(42,441,634)	-
Segment revenue	635,493,077	57,841,504	(42,441,634)	650,892,947
Cost of services	(169,284,763)	(18,867,913)	-	(188,152,676)
Operating expenses	(95,053,938)	(56,731,293)	42,483,924	(109,301,307)
Depreciation and amortization	(14,030,045)	(229,829)	-	(14,259,874)
Income before income tax	357,124,331	(17,987,531)	42,290	339,179,090
Benefit from (provision for) income tax	(36,502,516)	3,195,537	-	(33,306,979)
Net income (loss)	₱320,621,815	₱(14,791,994)	₱42,290	₱305,872,111
Segment assets	₱3,845,864,442	₱521,394,354	(₱138,241,690)	₱4,229,017,106
Segment liabilities	2,886,877,610	63,634,563	(3,454,378)	2,947,057,795
Capital expenditures:				
Tangible fixed assets	12,887,696	558,860	-	13,446,556
Cash flows arising from:				
Operating activities	931,127,533	(74,674,618)	-	856,452,915
Investing activities	(12,631,651)	(558,860)	-	(13,190,511)
Financing activities	(270,970,000)	-	-	(270,970,000)



2011

	Philippines	Hong Kong	Elimination	Total
Revenue from external customers:				
Commissions	₱327,237,064	₱117,437,972	₱-	₱444,675,036
Interest	187,247,882	13,892	-	187,261,774
Others	26,820,348	(100,585)	-	26,719,763
Inter-segment revenue	44,912,177	-	(44,912,177)	-
Segment revenue	586,217,471	117,351,279	(44,912,177)	658,656,573
Cost of services	(126,901,718)	(18,348,071)	-	(145,249,789)
Operating expenses	(83,991,556)	(62,423,967)	44,883,688	(101,531,835)
Depreciation and amortization	(9,916,754)	(242,461)	-	(10,159,215)
Income before income tax	365,407,443	36,336,780	(28,489)	401,715,734
Provision for income tax	(60,867,398)	(6,049,460)	-	(66,916,858)
Net income	₱304,540,045	₱30,287,320	(₱28,489)	₱334,798,876
Segment assets	₱2,970,734,596	₱677,592,269	(₱138,481,887)	₱3,509,844,978
Segment liabilities	2,033,721,552	184,823,683	(3,673,341)	2,214,871,894
Capital expenditures:				
Tangible fixed assets	26,538,726	674,161	-	27,212,887
Cash flows arising from:				
Operating activities	1,420,727,251	20,075,779	-	1,440,803,030
Investing activities	79,936,066	(674,161)	-	79,261,905
Financing activities	(161,760,000)	-	-	(161,760,000)

2010

	Philippines	Hong Kong	Elimination	Total
Revenue from external customers:				
Commissions	₱173,510,163	₱197,838,494	₱-	₱371,348,657
Interest	105,958,978	21,115	-	105,980,093
Gain on financial assets at FVPL	7,055,241	662,014	-	7,717,255
Others	5,118,367	60,245	-	5,178,612
Inter-segment revenue	73,675,902	-	(73,675,902)	-
Segment revenue	365,318,651	198,581,868	(73,675,902)	490,224,617
Cost of services	(73,496,589)	(14,920,569)	-	(88,417,158)
Operating expenses	(74,333,546)	(91,029,059)	74,041,920	(91,320,685)
Depreciation and amortization	(7,883,225)	(264,692)	-	(8,147,917)
Income before income tax	209,605,291	92,367,548	366,018	302,338,857
Provision for income tax	(28,376,624)	(16,075,674)	-	(44,452,298)
Net income	₱181,228,667	₱76,291,874	₱366,018	₱257,886,559
Segment assets	₱1,975,650,015	₱641,657,368	(₱151,815,823)	₱2,465,491,560
Segment liabilities	1,183,245,133	180,132,099	(17,125,629)	1,346,251,603
Capital expenditures:				
Tangible fixed assets	7,823,241	239,763	-	8,063,004
Cash flows arising from:				
Operating activities	(147,531,343)	(15,416,600)	-	(162,947,943)
Investing activities	(13,011,522)	(239,763)	-	(13,251,285)
Financing activities	(77,310,000)	-	-	(77,310,000)

27. Reclassification

Certain accounts in 2010 consolidated financial statements were reclassified to conform with the 2011 presentation in accordance with SEC Memorandum Circular No. 1, series of 2010, *Adoption of the Broker-Dealer Chart of Accounts* as approved by SEC effective as at January 1, 2011.





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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
COL Financial Group, Inc.
Unit 2401-B East Tower, PSE Centre
Exchange Road, Ortigas Center, Pasig City

We have audited in accordance with Philippines Standards on Auditing, the consolidated financial statements of COL Financial Group, Inc. (formerly CitisecOnline.com, Inc.) and Subsidiary (the Group) as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, included in this Form 17-A, and have issued our report thereon dated March 6, 2013. 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 Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) 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 information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.


Eleanore A. Layug

Partner

CPA Certificate No. 0100794

SEC Accreditation No. 1250-A (Group A),

August 9, 2012, valid until August 8, 2015

Tax Identification No. 163-069-453

BIR Accreditation No. 08-001998-97-2012,

January 11, 2012, valid until January 10, 2015

PTR No. 3669689, January 2, 2013, Makati City

March 6, 2013



SCHEDULE I
COL FINANCIAL GROUP, INC. AND SUBSIDIARY
RECONCILIATION OF RETAINED EARNINGS AVAILABLE
FOR DIVIDEND DECLARATION
PURSUANT TO SRC RULE 68, AS AMENDED AND
SEC MEMORANDUM CIRCULAR NO.11
DECEMBER 31, 2012

<u>Unappropriated Retained Earnings, beginning</u>	₱290,806,636
Adjustments	—
<u>Unappropriated Retained Earnings, as adjusted, beginning</u>	290,806,636
<u>Net income during the period closed to retained earnings (Parent)</u>	320,621,815*
Less: Non-actual/unrealized income net of tax	
Equity in net income of associate/joint venture	—
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	—
Unrealized actuarial gain	—
Fair value adjustment (FVPL)	—
Fair value adjustment of investment property resulting to gain	—
Adjustment due to deviation from PFRS/GAAP - gain	—
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	—
Benefit from income tax - deferred recognized directly to statement of income	(823,025)
Subtotal	(823,025)
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	—
Adjustment due to deviation from PFRS/GAAP - loss	—
Loss on fair value adjustment of investment property (after tax)	—
Stock option expense for the period	—
Accretion of retirement obligation for the period	—
Unrealized actuarial loss	—
Subtotal	—
<u>Net Income Actual/Realized</u>	319,798,790
Add (Less):	
Dividend declarations during the period	(280,230,000)
Appropriations of retained earnings based on 10% of December 31, 2012 audited net income**	(32,062,181)
Reversals of appropriations	—
Effects of prior period adjustments	—
Treasury shares	—
Subtotal	(312,292,181)
<u>Unappropriated Retained Earnings, as adjusted, ending</u>	₱298,313,245

* Consolidated net income of ₱305,872,111 net of ₱14,791,994 COLHK net loss and ₱42,290 eliminated net income of Parent Company against cumulative translation adjustment

** Appropriation of retained earnings is in compliance with SRC Rule 49.1 B Reserve Fund requiring the Parent Company to annually appropriate ten percent (10.00%) of its audited net income (see Note 14 of the audited consolidated financial statements)



SCHEDULE II
COL FINANCIAL GROUP, INC. AND SUBSIDIARY
SCHEDULE OF EFFECTIVE STANDARDS AND
INTERPRETATIONS UNDER THE PFRS
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2012

List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as at December 31, 2012:

PFRS		Adopted	Not adopted	Not applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓



PFRS		Adopted	Not adopted	Not applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments			✓
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	Not early adopted		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Not early adopted		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	Not early adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Not early adopted		
PFRS 10	Consolidated Financial Statements	Not early adopted		
PFRS 11	Joint Arrangements	Not early adopted		
PFRS 12	Disclosure of Interests in Other Entities	Not early adopted		
PFRS 13	Fair Value Measurement	Not early adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation	Not early adopted		



PFRS		Adopted	Not adopted	Not applicable
	of Items of Other Comprehensive Income			
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
PAS 19 (Amended)	Employee Benefits	Not early adopted		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements	✓		
PAS 27 (Amended)	Separate Financial Statements	Not early adopted		



PFRS		Adopted	Not adopted	Not applicable
PAS 28	Investments in Associates			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	Not early adopted		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	Not early adopted		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			✓
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition			✓



PFRS		Adopted	Not adopted	Not applicable
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
PAS 40	Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	<i>Scope of PFRS 2</i>			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine			✓



PFRS		Adopted	Not adopted	Not applicable
	Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Not early adopted		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs	✓		

The Group has not early adopted any PFRSs, PAS and Philippine Interpretations effective January 1, 2013 onwards.



SCHEDULE III
COL FINANCIAL GROUP, INC. AND SUBSIDIARY
SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2012

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 statement of financial position	Income received and accrued
Financial Assets at FVPL:			
Turquoise Hillres Ltd	7,000	₱2,208,165	₱-
Marathon Pete Corp.	120	313,380	-
Aetna Inc. New	100	191,966	-
Ethan Allen Interiors	150	159,861	-
Options	(90)	(144,252)	-
	<u>7,280</u>	<u>₱2,729,120</u>	<u>₱-</u>

Financial Assets at FVPL

Financial assets at FVPL are carried at their fair values. Fair value of financial assets at FVPL is based on quoted prices of stock investments published by major US Stock Exchanges.

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
None	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
COLHK	₱3,673,341	₱42,441,634	₱42,660,597	₱-	₱-	₱-	₱3,454,378



Schedule D. Intangible Assets - Other Assets

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other charges additions (deductions)	Ending balance
Parent Company						
Stock Exchange Trading Right	₱5,000,000	₱-	₱-	₱-	₱-	₱5,000,000
COLHK Exchange Trading Right	18,027,647	-	-	1,074,711	-	16,952,936
	₱23,027,647	₱-	₱-	₱1,074,711	₱-	₱21,952,936

Charged to other accounts of COLHK exchange trading right pertains to translation adjustment.

Schedule E. Long Term Debt

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current position of long term debt" in related statement of financial position	Amount shown under caption "Long-Term Debt" in related statement of financial position
None	N/A	N/A	N/A

Schedule F. Indebtedness to Related Parties (Long-Term Loans from Related Companies)

Name of related party	Balance at beginning of period	Balance at end of period
None	N/A	N/A

Schedule G. Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the Group for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by a person for which statement is filed	Nature of guarantee
None	N/A	N/A	N/A	N/A

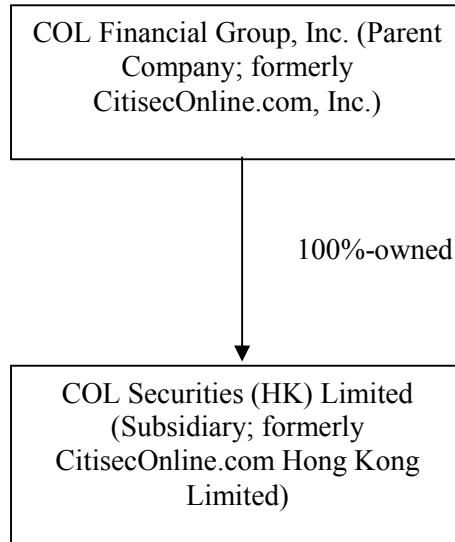


Schedule H. Capital Stock (Figures in Thousands)

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related financial condition caption	Number of shares reserved for options, warrants, conversion and other rights	No of shares held by		
				Affiliates	Directors and Officers	Others
Common shares	1,000,000	467,810	8,190	–	257,243	210,567



**SCHEDULE IV
COL FINANCIAL GROUP, INC. AND SUBSIDIARY
MAP OF THE RELATIONSHIPS OF THE COMPANIES
WITHIN THE GROUP
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2012**



SCHEDULE V
COL FINANCIAL GROUP, INC. AND SUBSIDIARY
SCHEDULE SHOWING FINANCIAL SOUNDNESS INDICATORS
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2012

	2012	2011
Profitability ratios:		
Return on assets	7%	10%
Return on equity	24%	28%
Net profit margin	47%	51%
Solvency and liquidity ratios:		
Current ratio	1.40:1	1.52:1
Debt to equity ratio	2.29:1	1.83:1
Quick ratio	1.40:1	1.52:1
Asset to equity ratio	3.28:1	2.91:1
Other relevant ratios:		
RBCA ratio	903%	1,278%
Ratio of AI to NLC	391%	299%

