

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

33

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, 2013**
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 | 468,650,000 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.
₱3,846,900,916 (209,298,200 @ ₱18.38 per share as of February 28, 2014)

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Company Overview

COL Financial Group, Inc. is the leader in online investing and aims to be the most trusted wealth-building partner of every Filipino by providing them easy access to financial products and services that may help them achieve their financial goals. With over 83,000 customers and ₱49.4 billion pesos in consolidated net customer assets, its market leadership in the Philippine online stock brokerage industry is a testament to the public's confidence in the COL brand. COL's strong commitment is reflected in its ability to provide the marketplace with a level of financial service that is innovative, accessible, and affordable by providing products and services that build genuine wealth over the long-term.

COL does this first and foremost, through its proprietary trading platform. Through www.colfinancial.com, COL Financial has spearheaded the evolution of the Philippine stock market; offering up-to-date comprehensive research and analysis, real-time market information, and superior tools and functionalities. All these services; catering to both novice and sophisticated equity investors alike.

COL Financial is all about creating great value and providing quality and holistic service experience to all its customers. This is made possible through its broad range of investments in technology and human capital. COL is proud to have in its arsenal a team of seasoned and respectable equity analysts, well-trained customer service representatives, efficient backroom support and technology specialists.

Since 2008, COL Financial has ranked as the number one brokerage in the Philippine Stock Exchange (PSE) in terms of the number of transactions executed. Its focus on technology and human capital has yielded exponential growth for a service-oriented company that provides numerous value-added services for both its customers and the general investing public.

COL has been ever vigilant to the needs of the Philippine capital market. Through COL Securities (HK) Limited, its Hong Kong Subsidiary, and the Parent Company's Equity Advisory Group (EAG), a team of seasoned professionals, COL has expanded its services to also cater to the needs of high net worth individuals and institutions.

COL Financial is there to continue being the champion of the Filipino investor, strengthening and expanding its award winning platform, and soaring to new heights as it aims to offer innovative financial products to its valued clients.

Business Model

COL Financial has been deriving a significant proportion of its revenues from its stock brokerage business of both its Philippine and HK operations. These are: (1) commission generated from stock trades, (2) interest income from margin financing, (3) interest income made 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 has been 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, 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 open an account online as well as register to join the COL Seminar Series. The investing public can also access and view educational videos and webinars on stock market investing in the COL YouTube channel and get updated on corporate developments as well as relevant announcements on the COL Facebook page.

To open an account, the customer simply has to complete the account opening forms online at www.colfinancial.com or download the form 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 30 minutes of receipt, approval and validation of the application form and supporting documents. Once the application is processed and approved, whether submitted online or through hard copies, 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 ₱20.00 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, how to trade online as well as briefings on the COL EIP.

Launched in August 2008, the COL Easy Investment Program or COL EIP is an investment program 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. It is now even more convenient and simple with the launch of the EIP Scheduler and Calendar where customers can customize and personalize their investment schedules and purchases for the specific period of their investments.

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. These special briefings and corporate updates are made available online to a wider audience immediately after the events at the COL YouTube channel.

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

| Features | Benefits |
|--|---|
| <p>Market Information</p> <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 ❑ Historical java based stock and index graphs ❑ Dividend and rights calendar | <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. |
| <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 ❑ Bulls Eye (weekly technical analysis) ❑ Technical Guide (small and big cap) | <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> |

| Features | Benefits |
|---|---|
| <ul style="list-style-type: none"> ❑ Technical Spotlight(daily TA analysis) ❑ Research archive | |
| <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 ❑ View and modify orders function ❑ Trading history ❑ Trade portfolio with gain and loss values ❑ Off-hours ordering | <ul style="list-style-type: none"> ❑ Complete order entry functions. ❑ Prompt execution of customer's order. ❑ Immediate updates of the customer's stock and cash position. ❑ 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>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 Go Daddy. | <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 ₱200,000.00, 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 2014 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 filed an application for the registration of the trademark "COL" on August 20, 2007 and "Citiseconline" on 8 February 2013. Both trademarks have been approved by the Intellectual Property Office (IPO) and the duration of each registration is for a period of ten (10) years, or up to August 20, 2017 and February 8, 2023, respectively.

COL believes, however, that its operation is not contingent on the effectivity of its trademark registered with the IPO. The Parent Company further believes it can continue with 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 (BIR), the PSE, the Capital Markets Integrity Corporation (CMIC) 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 2013 and the projected number of employees for 2014 to complement the operational requirements of the Group are broken down as follows:

| | 2014 | 2013 |
|-------------------------------|------|------|
| Executives | 3 | 3 |
| Senior Officers | 6 | 6 |
| Junior Officers | 18 | 16 |
| Professional/Technical/Others | 68 | 62 |
| TOTAL | 95 | 86 |

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. All its web, application, database and communication servers have more than one instance (redundant) to ensure proper failover in case of hardware failures. COL has more than two ISP connections and a fully functional Disaster Recovery Site to enable it to recover from site failures.

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 6 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 also maintains an office at the 5th floor of Ayala Tower One located in Ayala, Makati, to house its data center and rents a storage space in a warehouse in Magalang, Pampanga. These offices and storage space 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 1,485 square meters, COL pays a monthly rental ranging from ₱250.00 to ₱450.00 per square meter for its offices in Pasig City, ₱763.00 per square meter for its Makati office, and ₱60.00 per square meter for its storage space in Pampanga.

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 ₱10.0 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 has been submitted for decision with 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, 2013 is 468,650,000 with a market capitalization of ₱7.87 billion as of end of 2013, based on the closing price of ₱16.80 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:

| | 2013 | | 2012 | |
|-------------------------|-------|-------|-------|-------|
| | High | Low | High | Low |
| 1 st Quarter | 20.50 | 18.50 | 23.00 | 18.80 |
| 2 nd Quarter | 21.00 | 19.00 | 23.90 | 21.50 |
| 3 rd Quarter | 19.00 | 17.00 | 23.30 | 19.94 |
| 4 th Quarter | 18.00 | 16.00 | 20.90 | 17.90 |

The high and low prices of COL at the PSE on April 3, 2014 were ₱18.70 and ₱15.88, respectively.

Holders of Common Equity

As of February 28, 2014, COL has 33 stockholders owning common shares. The Top twenty (20) common stockholders are as follows:

| Rank | Name | Citizenship | Total Shares | % |
|------|-----------------------------------|-------------|--------------------|----------------|
| 1 | PCD NOMINEE CORP. - FILIPINO | FILIPINO | 318,361,900 | 67.9317 |
| 2 | Lee, Edward K. | FILIPINO | 62,250,000 | 13.2828 |
| 3 | PCD NOMINEE CORP. - NON-FILIPINO | FOREIGN | 46,539,300 | 9.9305 |
| 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 |
| 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 | Lim, Hernan Go. | FILIPINO | 100,000 | 0.0213 |
| 14 | Yu, Raymond C. | FILIPINO | 100,000 | 0.0213 |
| 15 | Han, Paulwell | BRITISH | 100,000 | 0.0213 |
| 16 | Ong, Catherine L. | FILIPINO | 50,000 | 0.0107 |
| 17 | Barreto, Serafin Jr. P. | FILIPINO | 12,000 | 0.0026 |
| 18 | Estacion, Manuel S. | FILIPINO | 10,000 | 0.0021 |
| 19 | Yu, Wellington C. or Yu, Victoria | FILIPINO | 10,000 | 0.0021 |
| 20 | Filio, Sernando | FILIPINO | 5,000 | 0.0011 |
| | TOTAL | | 468,638,200 | 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 2013 and 2012:

2013

| Cash Dividend | Ex-date | Record Date | Payment Date |
|-----------------|---------------|---------------|----------------|
| <i>Regular</i> | | | |
| ₱0.12 per share | April 1, 2013 | April 4, 2013 | April 17, 2013 |
| <i>Special</i> | | | |
| ₱0.51 per share | April 1, 2013 | April 4, 2013 | April 17, 2013 |

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 |

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. A total of 840,000 shares have been exercised in 2013.

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 performance of the Philippine stock market was highly volatile in 2013. After hitting a high of 7,392.2 in May, the PSE Composite Index (PSEi) suffered from a steep correction, ending the year at only 5,889.83, hardly changed compared to its end 2012 level of 5,812.73.

The market's volatility was the result of the shift in foreign fund flows. Due to ample global liquidity and the stronger long term economic growth outlook of emerging market Asia (including the Philippines), the PSEi enjoyed strong foreign fund flows during the first four and a half months of the year, with net foreign buying doubling to around ₱67.6 billion. However, prospects of reduced liquidity as a result of indications that the US Fed may start tapering the pace of its bond purchases later during the year triggered a global market sell-off in mid-May. Emerging market Asia also became out of favor as several countries such as Indonesia and Thailand reported deteriorating current account positions and worse than expected economic growth numbers. As a result, foreign investors turned into net sellers in the PSE, liquidating ₱46.9 billion worth of stocks from June to December.

Notwithstanding the high level of volatility in the stock market, average daily value turnover still increased to ₱10.5 billion in 2013 from ₱7.2 billion in 2012. The share of foreign investors to total value turnover also grew, increasing to 52.1% in 2013 from 45.5% in 2012.

Similar to the Philippine stock market, the HK stock market was highly volatile in 2013. China's economic growth continued to slow down in response to the government's goal of achieving long term sustainable growth which necessitated the implementation of reforms geared towards deleveraging and the discouragement of investments in the industrial sector. After falling to 7.8% in 2012 from 9.3% in 2011, GDP growth slowed further to 7.7% in 2013. Sentiment for HK stocks was also hurt by concerns of a credit bubble in China fueled by the shadow banking system. Total loans in China jumped from US\$9 trillion to US\$23 trillion in five years while the ratio of loans to GDP soared to 200% according to estimates.

Due to the said factors, the three major indices in the HK stock market were barely changed during the year. The Hang Seng Index (HSI) was up by only 2.9%, the Hang Seng China Affiliate Corp. Index (HSCCI) was flat, while the Hang Seng China Enterprise Index (HSCEI) was lower by 5.4% on a year-on-year basis.

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:

| | 2013 | 2012 |
|---------------------------------------|-------------|-------------|
| Number of Customer Accounts | 82,929 | 46,511 |
| Customers' Net Equity (in millions) | ₱49,376.7 | ₱34,944.4 |
| Net Revenues (in millions) | ₱741.0 | ₱650.9 |
| Return on Equity(<i>annualized</i>) | 23.0% | 24.0% |
| Risk Based Capital Adequacy Ratio* | 717.0% | 903.0% |
| Liquid Capital** (in millions) | HKD67.0 | HKD68.6 |

* *Parent Company only*

***HK Subsidiary*

COL's **new accounts** for the Philippines expanded considerably in 2013, almost doubling its growth rate from 2012. New accounts for 2013 grew by 36,372 accounts displaying a growth rate of 98.0% from 2012. In 2013, COL catered to over 3,000 new account openings per month as compared to an average of 1,500 accounts processed in 2012. Consequently, total accounts quickly rose to 82,929 showing an expansion of 78.3% as compared with the previous year's 46,511. Steady programs to educate the public through seminars and company visits solicited a healthy amount of leads for account opening. Moreover, continuing marketing campaigns using newsprint publications, television and internet media have also provided an added source of leads for new accounts. Key tie ups with corporates conducting IPOs also contributed to the stalwart growth of fresh accounts. COL Financial also increased its seminar facilitators to broaden its ability to disseminate stock market literacy and enhance customer acquisition. As was seen as a trend in the last

three years, over 90% of new accounts were first time investors, suggesting that the market for new accounts remains to be robust. COL Financial will continue to look into key marketing partnerships to generate healthy account acquisition.

Net revenues in 2013 rose 13.8% year-on-year. COL Financial benefited from the strength of the Philippine market, coupled with the increased margin line usage and the substantial increase in the new accounts opened.

Return on equity (ROE) is computed as net income divided by average equity. Although earnings before tax increased by 13.8%, the normalization of the Parent Company's income tax dragged the consolidated net income which recorded a decrease of 0.8%. Nevertheless, the Group's ROE remained very healthy at 23.0%.

Customers' net equity (customers' deposited cash and stocks), posted a substantial growth, increasing 54.1% from its year ago level of ₱32.1 billion to ₱49.4 billion as at end of 2013, 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. Bulk of the growth came from the institutional customers of the Parent Company which added ₱9.4 billion worth of stocks accounting for over 70.0% of the total stock flow for the year. On the other hand, almost ₱6.0 billion or 97.0% of the net cash flows came from COL's plus and premium accounts.

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

2013 vs 2012

COL'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.

The Group ended the year with consolidated **Assets** reaching a new record high of ₱4.8 billion, up 13.0% from last year's ₱4.3 billion. Likewise, **Liabilities**, comprised mostly of Trade payables, was up 17.5% to ₱3.5 billion from ₱3.0 billion as at end of 2012. Factors contributing to these upward movements are as follows:

Cash and cash equivalents composed mainly of cash in banks and short-term placements of local funds increased substantially by 24.0% or ₱620.4 million as high cash balances left in the customers' accounts as of cut-off period allowed COL to increase its cash position to ₱3.2 billion, the highest cash balance recorded thus far in the financial history of COL. The Parent Company continued to experience remarkable net inflow of funds coming from new accounts opened and from existing accounts who took advantage of the strong performance of the Philippine market. Further, the robust growth in COL's cash

balance can also be viewed as a measure of the firm confidence being bestowed to COL by the investing public. As a proof, net inflows from prepaid customers increased substantially in 2013, as ₱6.5 billion net cash was added to the customers' portfolio. Daily average deposits processed during the year increased by 97.5% from 673 to 1,329 in terms of number and from ₱14.6 million to ₱53.6 million in terms of value.

Cash in a segregated account booked by the HK Subsidiary likewise went up 75.4% or ₱48.4 million to ₱112.6 million primarily due to the liquidation of positions made by its customers because of the unfavourable market environment experienced in HK especially during the first and second quarters of 2013.

Financial assets at fair value through profit or loss (FVPL) increased by ₱4.5 million to ₱7.2 million or 164.2% due to additional investments made by the HK Subsidiary in the US market.

Trade receivables went down by 7.9% or ₱115.9 million to ₱1.4 billion largely due to the settlement in 2013 of the receivable balance from the clearing house as of end of 2012. This movement offset the increase in receivable from margin customers of the Parent Company which posted an increase of 15.1% year-to-date, putting it back to its ₱1 billion level.

Meanwhile, **Deferred tax assets** went down 13.4% or ₱8.2 million to ₱53.3 million due to the combined effects of the additional shares exercised during the year which reduced the tax deductible expense that COL can use in the future and the downward movement in the price of the Parent Company's share price which affects the computation of the stock options' intrinsic value and its related future tax benefits.

Trade payables, consisting mainly of payable to customers, was up 17.9% or ₱515.5 million to ₱3.4 billion due to the strong growth in COL's client base which led to additional cash deposits. The increase in the balance of this account is also partly due to the selling transactions made by some of its FI accounts that are yet to be settled three days after the reporting period.

Due to the normalization of corporate income taxes and the booking of the appropriate taxes on the taxable earnings in 2013, **Income tax payable** increased by 18.4% to ₱13.8 million as of end of year compared to the ₱11.7 million tax due booked by the Parent Company as of end of 2012.

Retirement obligation, on the other hand, increased by 19.5% or ₱4.5 million due to the booking of the corresponding retirement cost for the year based on the report prepared by an actuary.

Finally, from a decrease of 4.6% during the first half of the year, **Stockholders' equity** managed to increase by 2.3% to ₱1.3 billion as the consolidated net income generated during the year fully offset the ₱295.2 million worth of cash dividends distributed to the stockholders of the Parent Company in April 2013.

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 ₱4.1 billion as at end of December 2012 compared to the ₱3.4 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 ₱3.0 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 ₱1.5 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, however, in terms of the number of local customers availing of the margin facility decreased from 37.3% to 31.4%. 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.

Material Changes in the Results of Operations

2013 vs 2012

COL's **Consolidated Revenue** increased by ₱90.1 million or 13.8% to ₱741.0 million year-on-year. This was largely driven by the 16.7% increase in commission revenues to ₱540.5 million. **Cost of Services** grew by ₱35.5 million or 18.9% from ₱188.1 million to ₱223.7 million because of the increase in direct costs associated with clients' trading

activities. Nevertheless, these are mostly variable in nature and are directly proportional to the movement in trading volume. **Operating Expenses** increased by a slower pace of 6.3% or ₱7.7 million from ₱123.6 million to ₱131.3 million. Meanwhile, **Provision for income tax** jumped by 147.4% or ₱49.1 million from ₱33.3 million to ₱82.4 million. As a result of the foregoing movements, **Net Income** was down slightly by ₱2.2 million from ₱305.9 million to ₱303.6 million year-on-year.

Commission revenues from COL's Philippine operations were strong, jumping by 22.0% to ₱496.1 million. Despite the volatile performance of the Philippine stock market in 2013, total value turnover in the local market grew by 43.7% year-on-year, with growth in value turnover from foreign investors increasing at a faster pace of 64.5% vs. 26.3% for local investors. In 2013, COL recorded a total of ₱186.6 billion worth of trading transactions which is 25.1% higher compared to ₱152.2 billion value traded it posted during the preceding year.

Partly offsetting the strong performance of COL's Philippine operations was the weak performance of its HK operations as investors continued to favour investing in the Philippines over HK in light of the former's more attractive fundamentals. Although, the value turnover of the HK Subsidiary in 2013 was generally flat, having registered HKD5.126 billion worth of transactions against the HKD5.164 billion value traded it booked in 2012, commission revenues fell by 21.7% to ₱44.6 million due to a reduction in the commission rate for several high turnover clients to better align the rate with a wholesale pricing model.

Meanwhile, **Interest income**, mostly from margin financing, grew by 7.9% to ₱198.7 million. Interest earned on margin grew by 26.7% to ₱156.8 million as more clients utilized COL's margin facility. This more than offset the 30.6% drop in interest income from bank placements which was largely brought about by the drop in interest rates. Average margin availment per month expanded by 29.3% from ₱952.1 million to ₱1.2 billion. Margin utilization rate in terms of the number of local customers availing of the margin facility, likewise, increased to 37.1% as compared to the 31.4% recorded as at close of 2012.

Meanwhile, the increase in the Parent Company's cash position as a natural consequence of the rapid and steady growth in its customer base tempered the effect of lower interest rates. Average monthly placement increased by 38.0% to ₱2.8 billion while interest rate dropped by more than 100% from 3.3% net to 1.0% net. In spite of this, the management of COL continued to exercise prudence in handling its unused cash. Idle funds were invested in a manner that would ensure the safety and preservation of the principal and the liquidity of the invested funds to meet the daily operating requirements through continuous forecasting while at the same time attaining the best yield or rate of return allowed. As a result, its working capital requirements were serviced in a timely manner without incurring any penalty.

The increase in 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 expense went up by ₱22.7 million 25.5% to ₱111.69 million from ₱88.9 million in 2012. In 2013, EAG's total value turnover increased by 27.7% year-on-year to ₱61.1 billion.

Other expenses which are directly linked to the trading activities of the Group like **Stock exchange dues and fees** and **central depository fees** which are fixed percentages of the trading value also went up 13.4% and 47.1% to ₱12.3 million and ₱8.3 million, respectively, as a direct result of the increase in the value traded recorded by the Parent Company.

The increase in operating expenses was largely due to the ramping up of **Advertising and marketing** expenses which more than doubled to ₱10.1 million from ₱4.8 million. In 2013, COL continued to spend on its advocacy of creating awareness about investing in the stock market. It also continued to spend on creating awareness about the change in its corporate name. However, higher spending on the said items paid off as we saw a significant increase in our client base during the reporting period.

Personnel costs and Professional fees, which account for the bulk of operating expenses, increased by only 3.6% to ₱128.7 million. This was largely due to steps taken to reduce expenses in HK.

Bank charges doubled from ₱1.8 million to ₱3.5 million as more customers added funds to their accounts thru the payment channels of COL's partner banks. Although bank charges is becoming a significant expense already, it is still the most prudent and cheaper way of providing the best, the safest and the fastest service to the local customers as compared to hiring or outsourcing the collection of deposits. With these online banking arrangements in place, complemented by COL's highly capable internal processing systems, deposits were credited to the customer ledgers at the shortest possible time, thus, giving COL accountholders the necessary buying power to post an order when a trading opportunity comes.

The double digit growth in revenues coupled with the controlled increase in expenses allowed COL's operating profits to grow by 13.8% to ₱386.0 million. However, net profits fell slightly as **Provision for income taxes** more than doubled from ₱33.3 million to ₱82.4 million. Recall that in 2012, the exercise of stock options valued at ₱177.7 million during the said year significantly reduced the Parent Company's income tax provision by around ₱53.3 million. As a result, COL's effective tax rate was only 9.8% in 2012. Due to the very small number of stock options exercised in 2013, the effective tax rate normalized to around 21.3% while provision for income tax reached ₱82.4 million.

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 ₱343.0 in 2011 to ₱264.0 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 centre 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 centres and office users. COL also invested on the switch over of analogue to digital trunk lines and telephone lines to be able to service the expanding customers' user support requirements.

Personnel 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.

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 activity in the Philippine stock market for 2014 to remain subdued for most part of the year as funds flow favor developed market. That said,

we remain optimistic about the Philippine economy as the macro backdrop remains very solid. The Philippines' current-account surplus should continue in the coming years given the recurring and growing nature of the overseas Filipino worker (OFW) remittance and business process outsourcing (BPO) revenue.

With local interest rates expected to remain low, COL is well positioned to capitalize on the growing need of the retail investor for alternative investment that potentially offer better returns over the long term. COL recently concluded its capacity expansion program and is exploring the possibility of making various professionally managed funds available through its platform. This is part of COL's plan to expand its products and services to better address the needs of Filipino investors.

Meanwhile, COL's HK operations will most likely remain a small contributor to its total revenue in 2014. Although we have most likely seen the worst in 2013 as far as the Chinese economy and the HK market are concerned, we believe prospects in the Philippines will continue to remain attractive thereby the incentive to invest overseas will remain low.

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 a 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, 2013 and 2012.

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 | |
|---|-------------------------|----------|
| | 2013 | 2012 |
| Audit and Audit-Related Fees in connection with the annual review of the Group's financial statements | ₱1,135,000 | ₱945,000 |
| 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, 2013 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, 58, 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, 58, 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, 51, 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, 61, 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, 55, 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, 68, 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, 70, Filipino, was elected as Member of the Board of Directors of COL 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, 59, 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, 60, 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, 54, Chinese, was elected as Director of COL on November 11, 2010. He 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, 43, American, was elected as Director of COL on August 12, 2011. He is currently the Chief Investment Strategist and Managing Director of Valens Securities, Inc. headquartered in New York City. He serves as Chairman and CEO of Valens Credit LLC, Valens Equities, and the Institute of Strategy & Valuation. 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 is on faculty at Hult International Business School and has lectured at Harvard and other MBA programs. He is Chairman of the Foundation for Socioeconomic Advancement focused on philanthropic efforts, particularly in the Philippines. 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, 63, 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, 46, 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 advance 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, 44, 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, 43, 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. 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, 37, 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, 41, 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, 2013

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 2014 (est) | Annual Salary 2013 | Annual Salary 2012 | Annual Salary 2011 | Bonuses 2011 - 2013 | Other Annual Compensation 2011 - 2013 |
| 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 2014 (est) | Annual Salary 2013 | Annual Salary 2012 | Annual Salary 2011 | Bonuses 2011 - 2013 | Other Annual Compensation 2011 - 2013 |
| April Lynn Lee-Tan VP/Head of Research | | | | | | |
| All above-named Executives and Officers as a Group | ₱14.4 | ₱14.3 | ₱14.3 | ₱11.5 | ₱72.2 | -nil- |
| b) All other Executives and Officers as a Group named | ₱4.7 | ₱4.6 | ₱4.5 | ₱3.3 | ₱21.1 | -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, 2013, 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 2013, 840,000 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, 2013** 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 | 94,860,600 | 20.24% |
| | | COL Financial Group, Inc. (COL) | Filipino | 88,162,100 | 18.81% |
| Common | Edward K. Lee | Edward K. Lee | Filipino | 91,284,900 | 19.48% |

| 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 (%) |
|----------------|---|--|-------------|--------------------|-------------|
| | 186 N. Averilla St., San Juan, Metro Manila <i>Stockholder</i> | | | | |
| Common | Alexander C. Yu 211 Ortega St., San Juan, Metro Manila <i>Stockholder</i> | Alexander C. Yu | Filipino | 62,811,800 | 13.40% |
| Common | Paulwell Han 9E G/F Broom Road, Happy Valley, Hong Kong <i>Stockholder</i> | Paulwell Han | Chinese | 30,077,900 | 6.42% |

**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, 2013

| Title of Class | Name of Owner | Position | Citizenship | Total No. of Shares | Percent (%) |
|----------------|--|--|-------------|---------------------|---------------|
| Common | Edward K. Lee | Chairman | Filipino | 91,284,900 | 19.48% |
| Common | Alexander C. Yu | Vice-Chairman | Filipino | 62,811,800 | 13.40% |
| Common | Conrado F. Bate | President | Filipino | 17,483,700 | 3.73% |
| Common | Hernan G. Lim | Director | Filipino | 18,438,600 | 3.93% |
| Common | Raymond C. Yu | Director | Filipino | 18,216,400 | 3.89% |
| Common | Wellington C. Yu | Director | Filipino | 561,900 | 0.12% |
| Common | Paulwell Han | Director | Chinese | 30,077,900 | 6.42% |
| Common | Joel Litman | Director | American | 34,000 | 0.01% |
| Common | Manuel S. Estacion | Independent Director | Filipino | 414,300 | 0.09% |
| Common | Khoo Boo Boon | Independent Director | Malaysian | 823,900 | 0.18% |
| 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 | 2,279,900 | 0.49% |
| Common | Nikos J. Bautista | VP/Chief Technology Officer | Filipino | 660,200 | 0.14% |
| Common | Lorena E. Velarde | VP/Financial Controller | Filipino | 467,000 | 0.10% |
| Common | April Lynn L. Tan | VP/Head of Research | Filipino | 2,693,400 | 0.57% |
| Common | Melissa O. Ng | AVP/Head of Operations | Chinese | 239,500 | 0.05% |
| Common | Sharon T. Lim | Asst. Corporate Secretary | Filipino | 8,500 | 0.00% |
| Common | Key Officers and Directors (as a group) | | | 259,311,900 | 55.34% |

As of December 31, 2013, the Company's public float is 44.66%.

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) | Change in shareholdings of director | 07/31/13 | 07/31/13 | 6177-2013 |
| 2) | Changes in shareholdings of director | 08/05/13 | 08/05/13 | 6304-2013 |
| 3) | Changes in shareholdings of director | 08/12/13 | 08/12/13 | 6512-2013 |
| 4) | Change in shareholdings of director | 08/16/13 | 08/16/13 | 6688-2013 |
| 5) | Board approval of Operations and Financial Report for quarter ended June 30, 2013 | 08/19/13 | 08/20/13 | 6709-2013 |
| 6) | Press Release: "COL Financial's First Half Earnings Release" | 08/19/13 | 08/20/13 | 6710-2013 |
| 7) | Changes in shareholdings of director | 09/03/13 | 09/09/13 | 6946-2013 |
| 8) | Change in shareholdings of director | 09/13/13 | 09/13/13 | 7166-2013 |
| 9) | Board approval of Operations and Financial Report for quarter ended September 30, 2013 | 11/14/13 | 11/15/13 | 8288-2013 |
| 10) | Press Release: "COL Posts Record 9M Numbers" | 11/14/13 | 11/15/13 | 8289-2013 |
| 11) | Change in shareholdings of director/officer | 11/27/13 | 11/27/13 | 8504-2013 |
| 12) | Signing of Memorandum of Agreement with I-Remit, Inc. | 12/02/13 | 12/02/13 | 8596-2013 |
| 13) | Changes in shareholdings of directors/officer | 12/06/13 | 12/06/13 | 8723-2013 |
| 14) | Change in shareholdings of director/officer | 12/12/13 | 12/12/13 | 8848-2013 |
| 15) | Changes in shareholdings of director/officer | 12/19/13 | 12/19/13 | 8982-2013 |

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 8, 2014.

COL FINANCIAL GROUP, INC.
Issuer

By:


Conrado F. Bate
 President and Chief Executive Officer

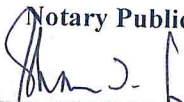

Caesar A. Guerzon
 SVP, Corporate Secretary


Catherine L. Ong
 SVP, Treasurer/Chief Financial Officer


Lorena E. Velarde
 VP and Financial Controller

SUBSCRIBED AND SWORN to before me this 8th day of April 2014 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 | PP # EB1473902 | Nov. 30, 2010 | Manila |
| Catherine L. Ong | PP # EC0356590 | February 20, 2014 | NCR East |
| Caesar A. Guerzon | PP # EB2801974 | June 27, 2011 | Manila |
| Lorena E. Velarde | D16-97-165067 | July 5, 2011 | Pasig City |


Notary Public

ATTY. SHARON T. LIM
 Notary Public for the Cities of Pasig, Taguig & San Juan and Municipality of Pateros
 Until 12-31-15/Appt. No. 27 (2014-2015)
 2401B East Tower, Phil. Stock Exchange Centre,
 Exchange Rd., Ortigas Center, Pasig City 1605
 Roll No. 53601/ IBP No. 942274/10-23-13/RSM
 PTR No. 9856974/1-14-14/Pasig
 MCLE Compliance No. IV-0010699/12-20-12/Pasig

Doc. No. 320
 Page No. 65
 Book No. II
 Series of 2014

**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, 2013 and 2012 | ✓ |
| Consolidated Statements of Income for the Years Ended December 31, 2013, 2012 and 2011 | |
| Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2013, 2012 and 2011 | ✓ |
| Consolidated Statements of Changes in Equity for the Years Ended December 31, 2013, 2012 and 2011 | ✓ |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2012 and 2011 | ✓ |
| 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

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SEC Registration Number

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| U | B | S | I | D | I | A | R | Y | | | | | | | | | | | | | | | | | | | | |
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(Company's Full Name)

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

| |
|----------------------------|
| Mr. Conrado F. Bate |
|----------------------------|

(Contact Person)

| |
|----------------------|
| (02) 636-5411 |
|----------------------|

(Company Telephone Number)

| | | | | | |
|---|---|---|---|---|---|
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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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To be accomplished by SEC Personnel concerned

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

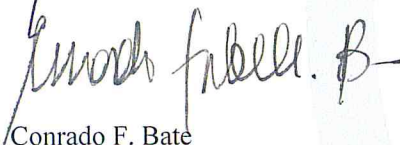
The management of COL Financial Group, Inc. (formerly CitisecOnline.com, Inc.) and Subsidiary (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2013 and 2012, including the additional components attached therein, 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 3rd day of March 2014.

***Statement of Management's Responsibility
for Financial Statements***

SUBSCRIBED AND SWORN to before me this 4th day of March 2014, 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 # EC0356590 | Feb. 20, 2014/Manila |

NOTARY PUBLIC


CAESAR A. GUERZON

Notary Public

Until December 31, 2015

Roll of Atty. No. 27749

PTR No. 2393327/11-19-13/Manila

IBP No. 942219/10-21-13/Manila

MCLE Compliance No. IV-0022286/10-23-13/ Pasig

Doc. No. : 354
Page No. : 72
Book No. : XXV
Series of 2014

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
COL Financial Group, Inc.

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, 2013 and 2012, 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, 2013, 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, 2013 and 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013 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. 4225180, January 2, 2014, Makati City

March 3, 2014



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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31, 2013 | | | December 31, 2012 (As restated, Note 2) | | | January 1, 2012 (As restated, Note 2) | | |
|--|-----------------------|--------------------|-----------------|---|--------------------|-----------------|---------------------------------------|--------------------|-----------------|
| | Money Balance | Security Valuation | | Money Balance | Security Valuation | | Money Balance | Security Valuation | |
| | | Long | Short | | Long | Short | | Long | Short |
| ASSETS | | | | | | | | | |
| Current Assets | | | | | | | | | |
| Cash and cash equivalents (Note 4) | ₱3,203,489,204 | | | ₱2,583,051,902 | | | ₱2,010,759,498 | | |
| Cash in a segregated account (Note 5) | 112,593,425 | | | 64,200,375 | | | 178,180,571 | | |
| Financial assets at fair value through profit or loss (FVPL; Note 6) | 7,210,678 | ₱7,210,678 | | 2,729,120 | ₱2,729,120 | | 1,313,282 | ₱1,313,282 | |
| Trade receivables (Note 7) | 1,351,853,823 | 5,277,924,865 | | 1,467,738,946 | 13,485,028,553 | | 1,177,557,974 | 4,359,793,839 | |
| Other receivables (Note 7) | 6,790,722 | | | 5,038,652 | | | 8,130,814 | | |
| Prepayments | 2,166,739 | | | 2,411,331 | | | 2,206,021 | | |
| Total Current Assets | 4,684,104,591 | | | 4,125,170,326 | | | 3,378,148,160 | | |
| Noncurrent Assets | | | | | | | | | |
| Property and equipment (Note 9) | 39,066,499 | | | 38,397,201 | | | 41,731,847 | | |
| Intangibles (Note 10) | 23,269,449 | | | 21,952,936 | | | 23,027,647 | | |
| Deferred income tax assets - net (Note 18) | 53,303,732 | | | 61,523,324 | | | 77,389,263 | | |
| Other noncurrent assets (Note 11) | 8,048,137 | | | 9,158,278 | | | 8,626,513 | | |
| Total Noncurrent Assets | 123,687,817 | | | 131,031,739 | | | 150,775,270 | | |
| TOTAL ASSETS | ₱4,807,792,408 | | | ₱4,256,202,065 | | | ₱3,528,923,430 | | |
| Securities in box, in Philippine Depository and Trust Corporation and Hong Kong Securities Clearing Company, Limited | | | ₱47,265,033,481 | | | ₱33,182,350,977 | | | ₱15,793,197,812 |

(Forward)



| | December 31, 2013 | | | December 31, 2012 (As restated, Note 2) | | | January 1, 2012 (As restated, Note 2) | | |
|--|-----------------------|------------------------|------------------------|---|------------------------|------------------------|---------------------------------------|------------------------|------------------------|
| | Money Balance | Security Valuation | | Money Balance | Security Valuation | | Money Balance | Security Valuation | |
| | | Long | Short | | Long | Short | | Long | Short |
| LIABILITIES AND EQUITY | | | | | | | | | |
| Current Liabilities | | | | | | | | | |
| Trade payables (Note 12) | ₱3,398,766,516 | ₱41,979,897,938 | | ₱2,883,309,878 | ₱19,694,593,304 | | ₱2,150,392,622 | ₱11,432,090,691 | |
| Other current liabilities (Note 13) | 64,581,008 | | | 64,867,074 | | | 75,193,971 | | |
| Income tax payable | 13,804,483 | | | 11,658,004 | | | — | | |
| Total Current Liabilities | 3,477,152,007 | | | 2,959,834,956 | | | 2,225,586,593 | | |
| Noncurrent Liability | | | | | | | | | |
| Retirement obligation (Note 17) | 27,620,893 | | | 23,113,934 | | | 13,522,226 | | |
| Total Liabilities | 3,504,772,900 | | | 2,982,948,890 | | | 2,239,108,819 | | |
| Equity (Notes 14 and 17) | | | | | | | | | |
| Capital stock | 468,650,000 | | | 467,810,000 | | | 458,550,000 | | |
| Capital in excess of par value | 47,499,024 | | | 47,499,024 | | | 44,899,024 | | |
| Cost of share-based payment | 29,767,551 | | | 33,263,658 | | | 63,541,685 | | |
| Accumulated translation adjustment | (22,976,500) | | | (46,245,403) | | | (26,007,546) | | |
| Loss on remeasurement of retirement obligation | (8,243,643) | | | (9,056,787) | | | (5,204,245) | | |
| Retained earnings: | | | | | | | | | |
| Appropriated | 107,520,383 | | | 75,458,201 | | | 45,004,197 | | |
| Unappropriated | 680,802,693 | | | 704,524,482 | | | 709,031,496 | | |
| Total Equity | 1,303,019,508 | | | 1,273,253,175 | | | 1,289,814,611 | | |
| TOTAL LIABILITIES AND EQUITY | ₱4,807,792,408 | ₱47,265,033,481 | ₱47,265,033,481 | ₱4,256,202,065 | ₱33,182,350,977 | ₱33,182,350,977 | ₱3,528,923,430 | ₱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 | | |
|--|-------------------------|----------------------------------|----------------------------------|
| | 2013 | 2012 (As restated, Note 2) | 2011 (As restated, Note 2) |
| REVENUES | | | |
| Commissions (Note 19) | ₱540,521,647 | ₱463,303,501 | ₱444,675,036 |
| Others: | | | |
| Interest income (Note 15) | 198,655,269 | 184,089,165 | 187,261,774 |
| Foreign exchange gains - net | 31,466 | - | 109,526 |
| Gain on financial assets at FVPL - net (Note 6) | - | 1,766,368 | 16,027,838 |
| Others (Notes 6, 7, and 8) | 1,752,223 | 1,733,913 | 10,582,399 |
| | 740,960,605 | 650,892,947 | 658,656,573 |
| COST OF SERVICES | | | |
| Commission expense (Note 19) | 111,551,863 | 88,863,586 | 57,202,457 |
| Personnel costs - operations (Note 16) | 65,446,518 | 57,256,553 | 55,347,373 |
| Stock exchange dues and fees | 12,331,228 | 10,875,141 | 9,576,859 |
| Central depository fees | 8,257,728 | 5,613,808 | 4,043,001 |
| Research | 975,429 | 923,224 | 746,368 |
| Others: | | | |
| Communications | 23,936,890 | 22,521,749 | 16,360,857 |
| Others (Note 9) | 1,184,374 | 2,098,615 | 1,972,874 |
| | 223,684,030 | 188,152,676 | 145,249,789 |
| | 517,276,575 | 462,740,271 | 513,406,784 |
| GROSS PROFIT | | | |
| OPERATING EXPENSES | | | |
| Administrative expenses: | | | |
| Personnel costs (Note 16) | 26,834,553 | 29,782,288 | 23,648,802 |
| Professional fees (Note 19) | 19,687,554 | 22,758,613 | 21,325,506 |
| Management bonus | 16,715,797 | 13,021,051 | 15,335,034 |
| Rentals (Note 20) | 10,820,260 | 10,024,186 | 8,447,671 |
| Advertising and marketing | 10,050,888 | 4,846,634 | 3,811,116 |
| Taxes and licenses | 4,059,154 | 3,910,937 | 3,003,449 |
| Security and messengerial services | 3,597,811 | 2,465,215 | 1,836,737 |
| Power, light and water | 3,578,703 | 3,746,936 | 2,845,011 |
| Bank charges | 3,527,755 | 1,757,155 | 971,057 |
| Office supplies | 2,615,328 | 2,039,090 | 1,577,809 |
| Insurance and bonds | 2,374,103 | 2,198,516 | 1,740,489 |
| Representation and entertainment | 2,305,722 | 1,306,496 | 1,563,858 |
| Condominium dues | 1,754,120 | 1,755,246 | 1,548,890 |
| Transportation and travel | 1,676,007 | 710,934 | 1,399,065 |
| Repairs and maintenance | 1,092,623 | 883,137 | 859,177 |
| Membership fees and dues | 936,294 | 878,018 | 602,913 |
| Directors' fees | 740,000 | 690,000 | 775,000 |
| Communications | 673,441 | 658,124 | 544,890 |
| Stock option expense (Notes 17 and 19) | 572,000 | 1,742,000 | 5,980,000 |
| Trainings, seminars and meetings | 557,316 | 1,717,408 | 1,132,792 |
| Others | 1,074,436 | 971,488 | 1,343,133 |
| | 115,243,865 | 107,863,472 | 100,292,399 |
| Depreciation and amortization (Note 9) | 14,534,422 | 14,259,874 | 10,159,215 |
| Interest expense (Note 17) | 1,433,064 | 919,511 | 1,053,052 |
| Provision for credit losses | - | - | 120,995 |
| Miscellaneous expense | 82,312 | 82,781 | - |
| | 131,293,663 | 123,125,638 | 111,625,661 |
| | 385,982,912 | 339,614,633 | 401,781,123 |
| INCOME BEFORE INCOME TAX | | | |
| PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 18) | | | |
| Current | 88,160,210 | 37,260,181 | 67,025,552 |
| Deferred | (5,767,191) | (3,822,538) | (89,078) |
| | 82,393,019 | 33,437,643 | 66,936,474 |
| NET INCOME | ₱303,589,893 | ₱306,176,990 | ₱334,844,649 |

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 | | |
|--|-------------------------|----------------------------------|----------------------------------|
| | 2013 | 2012 (As restated, Note 2) | 2011 (As restated, Note 2) |
| NET INCOME | ₱303,589,893 | ₱306,176,990 | ₱334,844,649 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX | | | |
| Item that may be reclassified subsequently to consolidated statements of income: | | | |
| Translation adjustments - net of tax effect of ₱9,972,387 in 2013, (₱8,673,367) in 2012 and ₱371,200 in 2011 | 23,268,903 | (20,237,857) | 866,134 |
| Item that will not be reclassified to consolidated statements of income: | | | |
| Gain (loss) on remeasurement of retirement obligation - net of tax effect of ₱348,490 in 2013, (₱1,651,089) in 2012 and (₱821,894) in 2011 (Note 17) | 813,144 | (3,852,542) | (1,917,752) |
| | 24,082,047 | (24,090,399) | (1,051,618) |
| TOTAL COMPREHENSIVE INCOME | ₱327,671,940 | ₱282,086,591 | ₱333,793,031 |
| Earnings Per Share (Note 25) | | | |
| Basic | ₱0.65 | ₱0.66 | ₱0.75 |
| Diluted | ₱0.64 | ₱0.64 | ₱0.71 |

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, 2013, 2012 and 2011

| | Capital Stock | Capital In Excess of Par Value | Cost of Share-Based Payment | Accumulated Translation Adjustment | Loss on Remeasurement of Retirement Obligation | Retained Earnings | | Total |
|--|---------------------|--------------------------------------|-----------------------------------|--|---|---------------------|---------------------|-----------------------|
| | | | | | | Appropriated | Unappropriated | |
| Balances at January 1, 2013, as previously stated | ₱467,810,000 | ₱47,499,024 | ₱33,263,658 | (₱46,245,403) | ₱- | ₱75,458,201 | ₱704,173,831 | ₱1,281,959,311 |
| Effect of adoption of revised PAS 19 (Note 2) | - | - | - | - | (9,056,787) | - | 350,651 | (8,706,136) |
| Balances at January 1, 2013, as restated | 467,810,000 | 47,499,024 | 33,263,658 | (46,245,403) | (9,056,787) | 75,458,201 | 704,524,482 | 1,273,253,175 |
| Issuance of shares upon exercise of stock options (Note 17) | 840,000 | - | - | - | - | - | - | 840,000 |
| Cost of share-based payment (Note 17) | - | - | (3,496,107) | - | - | - | - | (3,496,107) |
| Declaration of cash dividend (Note 14) | - | - | - | - | - | - | (295,249,500) | (295,249,500) |
| Net income | - | - | - | - | - | - | 303,589,893 | 303,589,893 |
| Other comprehensive income | - | - | - | 23,268,903 | 813,144 | - | - | 24,082,047 |
| Total comprehensive income | - | - | - | 23,268,903 | 813,144 | - | 303,589,893 | 327,671,940 |
| Appropriation of retained earnings (Note 14) | - | - | - | - | - | 32,062,182 | (32,062,182) | - |
| Balances at December 31, 2013 | ₱468,650,000 | ₱47,499,024 | ₱29,767,551 | (₱22,976,500) | (₱8,243,643) | ₱107,520,383 | ₱680,802,693 | ₱1,303,019,508 |



| | Capital Stock | Capital In Excess of Par Value | Cost of Share-Based Payment | Accumulated Translation Adjustment | Loss on Remeasurement of Retirement Obligation | Retained Earnings | | Total |
|--|---------------------|--------------------------------------|-----------------------------------|--|---|--------------------|---------------------|-----------------------|
| | | | | | | Appropriated | Unappropriated | |
| Balances at January 1, 2012, as previously stated | ₱458,550,000 | ₱44,899,024 | ₱63,541,685 | (₱26,007,546) | ₱- | ₱45,004,197 | ₱708,985,724 | ₱1,294,973,084 |
| Effect of adoption of revised PAS 19 (Note 2) | - | - | - | - | (5,204,245) | - | 45,772 | (5,158,473) |
| Balances at January 1, 2012, as restated | 458,550,000 | 44,899,024 | 63,541,685 | (26,007,546) | (5,204,245) | 45,004,197 | 709,031,496 | 1,289,814,611 |
| 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 | - | - | - | - | - | - | 306,176,990 | 306,176,990 |
| Other comprehensive loss | - | - | - | (20,237,857) | (3,852,542) | - | - | (24,090,399) |
| Total comprehensive income (loss) | - | - | - | (20,237,857) | (3,852,542) | - | 306,176,990 | 282,086,591 |
| Appropriation of retained earnings (Note 14) | - | - | - | - | - | 30,454,004 | (30,454,004) | - |
| Balances at December 31, 2012, as restated | ₱467,810,000 | ₱47,499,024 | ₱33,263,658 | (₱46,245,403) | (₱9,056,787) | ₱75,458,201 | ₱704,524,482 | ₱1,273,253,175 |
| Balances at January 1, 2011, as previously stated | ₱442,650,000 | ₱35,539,024 | ₱71,073,568 | (₱26,873,680) | ₱- | ₱26,881,330 | ₱569,969,714 | ₱1,119,239,956 |
| Effect of adoption of revised PAS 19 | - | - | - | - | (3,286,493) | - | - | (3,286,493) |
| Balances at January 1, 2011, as restated | 442,650,000 | 35,539,024 | 71,073,568 | (26,873,680) | - | 26,881,330 | 569,969,714 | 1,115,953,463 |
| 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 | - | - | - | - | - | - | 334,844,649 | 334,844,649 |
| Other comprehensive income (loss) | - | - | - | 866,134 | (1,917,752) | - | - | (1,051,618) |
| Total comprehensive income (loss) | - | - | - | 866,134 | (1,917,752) | - | 334,844,649 | 333,793,031 |
| Appropriation of retained earnings (Note 14) | - | - | - | - | - | 18,122,867 | (18,122,867) | - |
| Balances at December 31, 2011, as restated | ₱458,550,000 | ₱44,899,024 | ₱63,541,685 | (₱26,007,546) | (₱5,204,245) | ₱45,004,197 | ₱709,031,496 | ₱1,289,814,611 |

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 | | |
|--|-------------------------|----------------------------------|----------------------------------|
| | 2013 | 2012 (As restated, Note 2) | 2011 (As restated, Note 2) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Income before income tax | ₱385,982,912 | ₱339,614,633 | ₱401,781,123 |
| Adjustments for: | | | |
| Interest income (Note 15) | (198,655,269) | (184,089,165) | (187,261,774) |
| Depreciation and amortization (Note 9) | 15,718,796 | 16,358,489 | 12,132,089 |
| Retirement costs under 'Personnel costs' (Notes 16 and 17) | 4,235,529 | 3,168,564 | 2,326,382 |
| Interest expense (Note 17) | 1,433,064 | 919,511 | 1,053,052 |
| Stock option expense (Note 17) | 572,000 | 1,742,000 | 5,980,000 |
| Dividend income (Note 6) | (156,803) | (28,589) | (27,362) |
| Unrealized loss (gain) on financial assets at FVPL | 78,088 | (276,187) | 161,642 |
| Gain on disposal of property and equipment (Note 9) | - | (4,448) | - |
| Gain on disposal of held-to-maturity (HTM) investment (Note 8) | - | - | (3,974,316) |
| Operating income before working capital changes | 209,208,317 | 177,404,808 | 232,170,836 |
| Decrease (increase) in: | | | |
| Cash in a segregated account | (48,393,050) | 113,980,196 | (34,425,259) |
| Financial assets at FVPL | (4,347,712) | (1,139,651) | (695,124) |
| Trade receivables | 154,821,033 | (329,602,454) | 246,296,092 |
| Other receivables | 185,905 | 38,974 | 1,963,720 |
| Prepayments | 322,273 | (263,209) | (765,969) |
| Other noncurrent assets | (10,713,428) | (7,432,688) | (4,224,566) |
| Increase (decrease) in: | | | |
| Trade payables | 510,883,058 | 743,606,378 | 878,145,693 |
| Other current liabilities | (3,668,816) | (8,805,020) | 11,709,168 |
| Net cash generated from operations | 808,297,580 | 687,787,334 | 1,330,174,591 |
| Interest received | 196,715,802 | 183,930,182 | 187,702,374 |
| Income taxes paid | (74,015,616) | (15,293,190) | (76,674,630) |
| Dividends received | 156,803 | 28,589 | 27,362 |
| Interest paid | - | - | (426,667) |
| Net cash flows from operating activities | 931,154,569 | 856,452,915 | 1,440,803,030 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisitions of property and equipment (Note 9) | (16,307,767) | (13,446,556) | (27,212,887) |
| Proceeds from disposal of property and equipment (Note 9) | - | 256,045 | - |
| Proceeds from sale of HTM investment | - | - | 106,474,792 |
| Net cash flows from (used in) investing activities | (16,307,767) | (13,190,511) | 79,261,905 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividends declared and paid (Note 14) | (295,249,500) | (280,230,000) | (177,660,000) |
| Issuance of additional shares (Notes 14 and 17) | 840,000 | 9,260,000 | 15,900,000 |
| Payment of loan | - | - | (80,000,000) |
| Proceeds from availment of loan | - | - | 80,000,000 |
| Net cash flows used in financing activities | (294,409,500) | (270,970,000) | (161,760,000) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 620,437,302 | 572,292,404 | 1,358,304,935 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 2,583,051,902 | 2,010,759,498 | 652,454,563 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | ₱3,203,489,204 | ₱2,583,051,902 | ₱2,010,759,498 |

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 (HK), 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 (SFC), 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, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 were authorized for issue by the BOD on March 3, 2014.



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 HK dollar (HK\$), respectively. All values are rounded to the nearest peso, except as otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional consolidated statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the consolidated financial statements. An additional consolidated statement of financial position as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of certain accounting policies as discussed below in changes in accounting policies and disclosures.

The specific accounting policies followed by the Group are disclosed in the following section.

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 exit 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.

Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Parent Company controls an investee if and only if the Parent Company has all of the following:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the Parent Company's returns.

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 Group applied, for the first time, certain standards and amendments that require restatement of previous consolidated financial statements and changes in accounting disclosures. These include Philippine Accounting Standards (PAS) 19, *Employee Benefits* (Revised 2011), PFRS 13, *Fair Value Measurement* and amendments to PAS 1, *Presentation of Financial Statements*.

Several other amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group.

The nature and the impact of each new standard and amendment are described below:

- PFRS 1, *First-time Adoption of International Financial Reporting Standards - Government Loans* (Amendments)
The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, *Financial Instruments: Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Group.
- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
These 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, *Financial Instruments: Presentation*. 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.

As the Group is not setting off financial instruments in accordance with PAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group. The Group is presenting its financial assets and financial liabilities at gross amounts in the consolidated statements of financial position.



- **PFRS 10, *Consolidated Financial Statements***
The Group adopted PFRS 10 in the current year. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 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 is applicable but it has no impact to the Group since the Parent Company's subsidiary is wholly owned.
- **PFRS 11, *Joint Arrangements***
PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removed 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. The amendment does not have an impact on the Group since the Group has no related joint venture arrangement.
- **PFRS 12, *Disclosure of Interests in Other Entities***
PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). The new standard has no impact to the Group since the Parent Company's subsidiary is wholly owned and the Group has no interests in joint arrangements, associates and structured entities.
- **PFRS 13, *Fair Value Measurement***
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. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 23.

- **PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)**
The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments were applied retrospectively and resulted to the modification of the presentation of items of OCI on the consolidated statements of comprehensive income.



- PAS 19, *Employee Benefits* (Revised)

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. On January 1, 2013, the Group adopted the revised standards retrospectively, with permitted exception on sensitivity disclosures for the defined benefit obligation for the comparative period which have not been provided.

For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised PAS 19, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded ten percent (10%) of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised PAS 19, the Group changed its accounting policy to recognize all actuarial gains and losses in OCI and all past service costs in the consolidated statement of income in the period they occur.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Group's financial position and financial performance.

The changes in accounting policies have been applied retrospectively. The effects of adoption of the Revised PAS 19 on the consolidated financial statements are as follows:



| | As at December 31, 2013 | | |
|---|--|--|--|
| | Under previous PAS 19 | Increase (decrease) | Under revised PAS 19 |
| <u>Consolidated statements of financial position:</u> | | | |
| Retirement obligation | ₱16,706,613 | ₱10,914,280 | ₱27,620,893 |
| Deferred income tax assets | 50,029,448 | 3,274,284 | 53,303,732 |
| Loss on remeasurement of retirement obligation - net of deferred income tax | – | (8,243,643) | (8,243,643) |
| Retained earnings - unappropriated | 608,199,046 | 603,647 | 680,802,693 |
| | As at December 31, 2012 | | |
| | As previously reported | Increase (decrease) | As restated |
| <u>Consolidated statements of financial position:</u> | | | |
| Retirement obligation | ₱10,676,598 | ₱12,437,336 | ₱23,113,934 |
| Deferred income tax assets | 57,792,124 | 3,731,200 | 61,523,324 |
| Loss on remeasurement of retirement obligation - net of deferred income tax | – | (9,056,787) | (9,056,787) |
| Retained earnings - unappropriated | 704,173,831 | 350,651 | 704,524,482 |
| | As at January 1, 2012 | | |
| | As previously reported | Increase (decrease) | As restated |
| <u>Consolidated statements of financial position:</u> | | | |
| Retirement obligation | ₱6,152,980 | ₱7,369,246 | ₱13,522,226 |
| Deferred income tax assets | 75,178,490 | 2,210,773 | 77,389,263 |
| Loss on remeasurement of retirement obligation - net of deferred income tax | – | (5,204,245) | (5,204,245) |
| Retained earnings - unappropriated | 708,985,724 | 45,772 | 709,031,496 |
| | For the year ended December 31, 2013 | For the year ended December 31, 2012 | For the year ended December 31, 2011 |
| <u>Consolidated statements of income:</u> | | | |
| Increase (decrease) in: | | | |
| Retirement costs | (₱361,423) | (₱435,543) | (₱65,389) |
| Provision for income tax - deferred | 108,427 | 130,664 | 19,617 |
| Net income | 252,996 | 304,879 | 45,772 |
| | For the year ended December 31, 2013 | For the year ended December 31, 2012 | For the year ended December 31, 2011 |
| <u>Consolidated statements of comprehensive income:</u> | | | |
| Increase (decrease) in: | | | |
| Loss (gain) on remeasurement of retirement obligation | (₱1,161,634) | ₱5,503,631 | ₱2,739,646 |
| Benefit from (provision for) income tax - deferred | 348,490 | (1,651,089) | (821,894) |



The net effect of all transitions adjustments are closed to retained earnings on the transition date. The Revised PAS 19 has been applied retrospectively from January 1, 2012, in accordance with its transitional provisions. Consequently, the Group has restated its reported results throughout the comparative periods presented and reported the cumulative effect as at January 1, 2012 as adjustment to opening balances.

The application of Revised PAS 19 did not have a material effect on the consolidated statements of cash flows. The effect on the earnings per share and disclosures on segment information for the years ended December 31, 2013, 2012 and 2011 is not material.

Change of Presentation

Upon adoption of the Revised PAS 19, the presentation of the consolidated statement of income was updated to reflect these changes. Net interest is now shown under interest expense line item (previously under personnel costs under cost of services or administrative expenses). This presentation better reflects the nature of net interest since it corresponds to the compounding effect of the long-term net defined benefit liability (net defined benefit asset). In the past, the expected return on plan assets reflected the individual performance of the plan assets, which were regarded as part of the operating activities.

- *PAS 27, Separate Financial Statements* (as revised in 2011)
As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, 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 the separate financial statements. The revised standard is not applicable to the consolidated financial statements.
- *PAS 28, Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, 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. The revised standard is not applicable to the Group since it does not have investments in associates and joint ventures.
- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal costs ('stripping costs') that are incurred in surface mining activity during the production phase of the mine ('production stripping costs'). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a noncurrent asset, only if certain criteria are met ('stripping activity asset'). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The interpretation is not relevant to the Group.



Annual Improvements to PFRSs (2009-2011 cycle)

The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The Group adopted these amendments for the current year.

- **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***
These 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. As a result, the Group has not included a complete comparative information in respect of the opening consolidated statement of financial position as at January 1, 2012. The amendments affect presentation 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 is not relevant to the Group.
- **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 amendment does not have any impact on the Group's 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.



Standards and Interpretation Issued but not yet Effective

- *PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*
These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. These amendments do not have an impact to the Group.
- *Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)*
These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at FVPL. The amendments are not relevant to the Group.
- *Philippine Interpretation IFRIC 21, Levies*
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact in future consolidated financial statements.
- *PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The amended standard is not expected to have an impact on the consolidated financial statements.
- *PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)*
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 amended standard is not expected to have an impact on the consolidated financial statements.
- *PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*
The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. The amendment is not relevant to the Group.



Annual Improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- *PFRS 2, Share-based Payment - Definition of Vesting Condition*
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The amendment is not expected to have an impact on the consolidated financial statements.
- *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of PFRS 9, *Financial Instruments* (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment for future business combinations.
- *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amended standard is not expected to have an impact on the consolidated financial statements.
- *PFRS 13, Fair Value Measurement - Short-term Receivables and Payables*
The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The Group does not expect that the amendment will have material financial impact in future consolidated financial statements.
- *PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
 - a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.



- b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Group's financial position or performance.

- *PAS 24, Related Party Disclosures - Key Management Personnel*
The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- *PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
 - a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
 - b) The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Group's financial position or performance.



Annual Improvements to PFRSs (2011-2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- *PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*
The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.
- *PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. These amendments are not relevant to the Group.
- *PFRS 13, Fair Value Measurement - Portfolio Exception*
The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. The amendment has no impact on the Group's financial position or performance.
- *PAS 40, Investment Property*
The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no impact on the Group's financial position or performance.
- *PFRS 9, Financial Instruments*
PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace 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 liabilities designated as at FVPL using the FVO, 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 relating to the entity's own 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 to PFRS 9, including the embedded derivative bifurcation 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 Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

- 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 consolidated financial statements of the Group.

The revised, amended and additional disclosures 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.

Cash in a Segregated Account

Cash in a segregated account represents clients' monies maintained by COLHK with a licensed bank arising from its normal course of business.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of Recognition

Financial instruments are any contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. 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, 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, 2013 and 2012, 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, 2013 and 2012 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, 2013 and 2012, the Group has no financial assets and financial liabilities that have been designated as at FVPL. As at December 31, 2013 and 2012, the Group has financial assets which are held for trading purposes that are classified as financial assets at FVPL.

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.

As at December 31, 2013 and 2012, the Group has no HTM investments.

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', 'Cash in a segregated account', 'Trade and other receivables' and refundable deposits under 'Other noncurrent assets', 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 and other government payables).

Fair Value Measurement

The Group measures financial instruments, such as, financial assets at FVPL at fair value at each end of the reporting period. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 23.

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

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

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.



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

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

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

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

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 end of the reporting period.

For financial instruments 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.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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. The related security valuation shows all positions as of clearance date.

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. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.



Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets Carried at Amortized Cost

The Group assesses, at each end of the reporting period, 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 of Financial Instruments

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.

As at December 31, 2013 and 2012, the Group is not setting off financial instruments in accordance with PAS 32 and does not have relevant offsetting arrangements. The Group is presenting its financial assets and financial liabilities at gross amounts in the consolidated statement of financial position.

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 input VAT. 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 prepayments, 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 end of 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.

Other Income

Revenue is recognized in the consolidated statement of income as they are earned.

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.

The dilutive effect of outstanding stock options is reflected as additional share dilution in the computation of diluted earnings per share (EPS) (see Note 25).

Retirement Costs

The Parent Company has a noncontributory defined benefit retirement plan.

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

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as 'Retirement costs' under personnel costs in the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to the



consolidated statement of income in subsequent periods. Remeasurements recognized in OCI after the initial adoption of the Revised PAS 19 are retained in OCI which is presented as 'Loss on remeasurement of retirement obligation' under equity.

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

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

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.

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 income tax rates and income 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 income tax rates and income 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 items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

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 a 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, 2013 and 2012, the Group has financial assets at FVPL amounting to ₱7,210,678 and ₱2,729,120, respectively (see Note 6).



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 reporting period 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, 2013 and 2012, the allowance for credit losses on trade receivables amounted to ₱2,225,955 and ₱3,504,898, respectively. As at December 31, 2013 and 2012, the carrying amounts of trade receivables amounted to ₱1,351,853,823 and ₱1,467,737,946, respectively (see Note 7).

As at December 31, 2013 and 2012, the allowance for credit losses on other receivables amounted to ₱8,960,245. As at December 31, 2013 and 2012, the carrying amounts of other receivables amounted to ₱6,790,722 and ₱5,038,652, 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. There are no changes in useful lives as at December 31, 2013 and 2012. Depreciation and amortization amounted to ₱15,718,796, ₱16,358,489 and ₱12,132,089 in 2013, 2012 and 2011, respectively. As at December 31, 2013 and 2012, the net book values of property and equipment amounted to ₱39,066,499 and ₱38,397,201, respectively (see Note 9).

Assessing Impairment of Prepayments, Property and Equipment and Other Noncurrent Assets

The Group assesses impairment on prepayments, 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 prepayments, property and equipment and other noncurrent assets as at December 31, 2013 and 2012.

No impairment loss was recognized in 2013, 2012 and 2011 for prepayments, property and equipment and other noncurrent assets.

As at December 31, 2013 and 2012, the Group has no allowance for impairment losses on prepayments and property and equipment. The carrying amounts of prepayments amounted to ₱2,166,739 and ₱2,411,331 as at December 31, 2013 and 2012, respectively. The net book values of property and equipment amounted to ₱39,066,499 and ₱38,397,201 as at December 31, 2013 and 2012, respectively (see Note 9). As at December 31, 2013 and 2012, allowance for impairment losses on other noncurrent assets amounted to ₱13,724,200. The net book values of other noncurrent assets (excluding refundable deposits) amounted to ₱3,127,760 and ₱4,414,141 as at December 31, 2013 and 2012, 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, 2013 and 2012, the carrying values of intangibles amounted to ₱23,269,449 and ₱21,952,936, respectively (see Note 10).

Estimating Recoverability of 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 ₱53,303,732 and ₱61,523,324 as at December 31, 2013 and 2012, respectively (see Note 18).



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).

Determining Share-Based Payment

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 payment 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 payment are disclosed in Note 17.

As at December 31, 2013 and 2012, cost of share-based payment in equity amounted to ₱29,767,551 and ₱33,263,658, respectively (see Note 17).

Determining Retirement Obligation

The cost of defined retirement obligation as well as the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future retirement increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligation are highly sensitive to changes in these assumptions. All assumptions are reviewed at each end of the reporting period. As at December 31, 2013 and 2012, the retirement obligation of the Parent Company amounted to ₱27,620,893 and ₱23,113,934, respectively. Retirement costs amounted to ₱5,668,593, ₱4,088,075 and ₱2,952,767 in 2013, 2012 and 2011, respectively.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

Further details about the assumptions used are provided in Note 17.

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 consolidated statement of income and the consolidated statement of changes in equity.

The fair values of the Group's financial assets as at December 31, 2013 and 2012 amounted to ₱4,686,524,340 and ₱4,127,323,454, respectively, while the fair values of financial liabilities as at December 31, 2013 and 2012 amounted to ₱3,444,430,627 and ₱2,926,304,552, respectively (see Note 23).



4. Cash and Cash Equivalents

| | 2013 | 2012 |
|-----------------------------|-----------------------|----------------|
| Cash on hand and in banks | ₱1,427,104,041 | ₱327,438,524 |
| Short-term cash investments | 1,776,385,163 | 2,255,613,378 |
| | ₱3,203,489,204 | ₱2,583,051,902 |

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 1.07% to 2.38% per annum in 2013, 1.30% to 4.56% per annum in 2012 and 1.60% to 4.56% per annum in 2011. Interest income of the Group from cash in banks amounted to ₱41,859,254, ₱60,342,514 and ₱39,522,787 in 2013, 2012, and 2011, respectively (see Note 15). The Parent Company has United States (US) dollar-denominated cash in banks amounting to US\$4,792 and US\$12,249 as at December 31, 2013 and 2012 (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 ₱2,800,523,622 and ₱2,306,326,701 as at December 31, 2013 and 2012, respectively. The Parent Company's reserve requirement is determined based on the SEC's prescribed computations. As at December 31, 2013 and 2012, 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, 2013 and 2012, cash in a segregated account for COLHK amounted to ₱112,593,425 and ₱64,200,375, 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 gain (loss) recognized from fair value changes of these financial instruments amounted to (₱82,312), ₱1,766,368 and ₱16,027,838 in 2013, 2012 and 2011, respectively. Dividend income included under other revenues amounted to ₱156,803, ₱28,589 and ₱27,362 in 2013, 2012 and 2011, respectively.

Financial assets at FVPL as at December 31, 2013 and 2012 amounted to ₱7,210,678 and ₱2,729,120, respectively.



7. Trade and Other Receivables

| | December 31, 2013 | December 31, 2012 (As restated) | January 1, 2012 (As restated) |
|--|-----------------------|---------------------------------------|-------------------------------------|
| Trade receivables: | | | |
| Customers | ₱1,229,452,643 | ₱1,118,451,342 | ₱973,491,524 |
| Clearing house | 123,005,869 | 350,413,704 | 203,136,849 |
| Other brokers | 1,621,266 | 2,378,798 | 4,799,766 |
| | 1,354,079,778 | 1,471,243,844 | 1,181,428,139 |
| Less allowance for credit losses on receivable from customers | 2,225,955 | 3,504,898 | 3,870,165 |
| | ₱1,351,853,823 | ₱1,467,738,946 | ₱1,177,557,974 |
| Other receivables: | | | |
| Accrued interest | ₱3,338,285 | ₱1,398,818 | ₱1,239,835 |
| Others | 12,412,682 | 12,600,079 | 15,851,224 |
| | 15,750,967 | 13,998,897 | 17,091,059 |
| Less allowance for credit losses on other receivables | 8,960,245 | 8,960,245 | 8,960,245 |
| | ₱6,790,722 | ₱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 ₱5,376,475,000 and ₱4,386,835,000 as at December 31, 2013 and 2012, respectively. Interest income from customers amounted to ₱156,796,015, ₱123,746,651 and ₱146,475,134 in 2013, 2012 and 2011, respectively (see Note 15).

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

| | 2013 | | 2012 | |
|--|-----------------------|----------------------------|------------------|----------------------------|
| | Money Balance | Security Valuation-Long | Money Balance | Security Valuation-Long |
| Cash and fully secured accounts: | | | | |
| More than 250% | ₱517,088,328 | ₱3,981,294,253 | ₱416,677,391 | ₱12,154,244,549 |
| Between 200% and 250% | 169,609,557 | 394,350,385 | 550,899,128 | 1,216,482,633 |
| Between 150% and 200% | 426,526,656 | 805,012,268 | 22,867,006 | 43,418,110 |
| Between 100% to 150% | 58,594,993 | 66,008,079 | 14,381,037 | 15,312,365 |
| Less than 100% | 37,922,882 | 31,259,880 | 79,301,040 | 55,570,896 |
| Unsecured accounts | 19,710,227 | - | 34,325,740 | - |
| | 1,229,452,643 | 5,277,924,865 | 1,118,451,342 | 13,485,028,553 |
| Less allowance for credit losses on trade receivables from customers | 2,225,955 | - | 3,504,898 | - |
| | ₱1,227,226,688 | ₱5,277,924,865 | ₱1,114,946,444 | ₱13,485,028,553 |

Trade receivables from margin 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. Meanwhile, receivables from post-paid customers are required to be settled on two (2) trading days' term for COLHK and three (3) trading days' term for the Parent Company. The receivable balances become demandable upon failure of the customer to duly comply with



these requirements. As at December 31, 2013 and 2012, ₱1,171,819,534 and ₱1,004,824,562, respectively, of the total trade receivables from customers are fully covered by collateral.

Trade receivables from clearing house as at December 31, 2013 and 2012 were fully collected subsequently in January 2014 and 2013, respectively. These are noninterest-bearing and are collected on two (2) trading days' term and three (3) trading days' term following the settlement convention of HK and Philippines clearing houses, respectively.

Other receivables as at December 31, 2013 and 2012 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, 2013 and 2012 also include COLHK's provisional tax profits paid amounting to ₱2,406,950 and ₱2,233,503, respectively.

Movements in the allowance for credit losses follow:

| | 2013 | | | 2012 | | |
|-------------------------------|-------------|------------|-------------|------------|------------|-------------|
| | Customers | Others | Total | Customers | Others | Total |
| Balances at beginning of year | ₱3,504,898 | ₱8,960,245 | ₱12,465,143 | ₱3,870,165 | ₱8,960,245 | ₱12,830,410 |
| Recovery | (1,278,943) | - | (1,278,943) | (365,267) | - | (365,267) |
| Balances at end of year | ₱2,225,955 | ₱8,960,245 | ₱11,186,200 | ₱3,504,898 | ₱8,960,245 | ₱12,465,143 |

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



8. Held-to-Maturity Investment

On March 14, 2011, the Group sold its HTM investment which consists of investment in a five (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.

In 2011, interest income from HTM investment amounted to ₱1,249,961 (see Note 15).

As at December 31, 2013 and 2012, the Group has no HTM investment.

9. Property and Equipment

2013

| | Furniture, Fixtures and Equipment | Leasehold Improvements | Total |
|---|---|---------------------------|--------------------|
| Cost: | | | |
| At beginning of year | ₱90,084,154 | ₱26,000,432 | ₱116,084,586 |
| Additions | 16,307,767 | – | 16,307,767 |
| Translation adjustments | 1,116,121 | 59,067 | 1,175,188 |
| At end of year | 107,508,042 | 26,059,499 | 133,567,541 |
| Accumulated depreciation and amortization: | | | |
| At beginning of year | 59,507,053 | 18,180,332 | 77,687,385 |
| Depreciation and amortization | 13,463,901 | 2,254,895 | 15,718,796 |
| Translation adjustments | 1,035,794 | 59,067 | 1,094,861 |
| At end of year | 74,006,748 | 20,494,294 | 94,501,042 |
| Net book values | ₱33,501,294 | ₱5,565,205 | ₱39,066,499 |

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 |



The depreciation and amortization were distributed as follows:

| | 2013 | 2012 | 2011 |
|--------------------|--------------------|-------------|-------------|
| Cost of services | ₱1,184,374 | ₱2,098,615 | ₱1,972,874 |
| Operating expenses | 14,534,422 | 14,259,874 | 10,159,215 |
| | ₱15,718,796 | ₱16,358,489 | ₱12,132,089 |

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, 2013 and 2012, 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 stock exchange trading right is a non-transferable right with an indefinite useful life. It is closely associated with COLHK's business activities to have a right to trade the shares in the HK Stock Exchange in its continuing operation. As at December 31, 2013 and 2012, the carrying value of COLHK exchange trading right in Philippine peso amounted to ₱18,269,449 and ₱16,952,936, 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 (5)-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:

| | 2013 | 2012 |
|------------------------|--------------------|-------------|
| At beginning of year | ₱21,952,936 | ₱23,027,647 |
| Translation adjustment | 1,316,513 | (1,074,711) |
| At end of year | ₱23,269,449 | ₱21,952,936 |



11. Other Noncurrent Assets

| | 2013 | 2012 |
|---|--------------------|-------------|
| Deposit to CTGF | ₱13,724,200 | ₱13,724,200 |
| Refundable deposits: | | |
| Rental deposits | 2,515,674 | 2,366,241 |
| Other refundable deposits | 2,404,703 | 2,377,896 |
| | 4,920,377 | 4,744,137 |
| Input VAT | 3,127,760 | 4,414,141 |
| | 21,772,337 | 22,882,478 |
| Less allowance for impairment losses on other noncurrent assets | 13,724,200 | 13,724,200 |
| | ₱8,048,137 | ₱9,158,278 |

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 (11.00%) 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 one percent (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 100.00% 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, 2013 and 2012.

Other refundable deposits include statutory deposits made to HK Exchanges, admission fees for HK's SFC and for HK Securities Clearing Company Ltd., and contributions to Central Clearing and Settlement System Guarantee Fund.

12. Trade Payables

| | December 31, 2013 | December 31, 2012 (As restated) | January 1, 2012 (As restated) |
|----------------|-----------------------|---------------------------------------|-------------------------------------|
| Customers | ₱3,348,307,648 | ₱2,869,663,324 | ₱2,141,568,368 |
| Clearing house | 50,428,911 | - | 8,742,282 |
| Dividends | 29,957 | 58,304 | 81,972 |
| Brokers | - | 13,588,250 | - |
| | ₱3,398,766,516 | ₱2,883,309,878 | ₱2,150,392,622 |



| | 2013 | | 2012 | |
|-----------------------|-----------------------|----------------------------|------------------|----------------------------|
| | Money Balance | Security Valuation-Long | Money Balance | Security Valuation-Long |
| Payable to customers: | | | | |
| With money balances | ₱3,348,307,648 | ₱41,232,886,586 | ₱2,883,251,575 | ₱17,641,638,873 |
| No money balances | – | 747,011,352 | – | 2,052,954,431 |
| | ₱3,348,307,648 | ₱41,979,897,938 | ₱2,883,251,575 | ₱19,694,593,304 |

Generally, trade payables to customers are noninterest-bearing and have no specific credit terms, while trade payables to brokers are noninterest-bearing and are subject to automatic settlement on due date.

Payable to customers with money balances amounting to ₱122,070,046 and ₱58,836,378 as at December 31, 2013 and 2012, 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).

Trade payables to clearing house as at December 31, 2013 were fully paid subsequently in January 2014. These are noninterest-bearing and are settled on two (2) trading days' term and three (3) trading days' term following the settlement convention of HK and Philippines clearing houses, respectively.

13. Other Current Liabilities

| | 2013 | 2012 |
|--------------------------|--------------------|-------------|
| Accrued expenses | ₱27,278,682 | ₱28,241,059 |
| Due to BIR | 18,916,897 | 21,872,400 |
| Accrued management bonus | 16,444,884 | 12,713,436 |
| Trading fees | 1,671,277 | 1,830,582 |
| Others | 269,268 | 209,597 |
| | ₱64,581,008 | ₱64,867,074 |

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 transaction costs and clearing fees on the purchase and sale of stocks that are payable to the regulatory bodies.

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:

| | 2013 | | 2012 | | 2011 | |
|--|-----------|------------|-----------|------------|-----------|------------|
| | 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 | 467,810 | 467,810 | 458,550 | 458,550 | 442,650 | 442,650 |
| Issuance of common shares upon exercise of stock options (see Note 17) | 840 | 840 | 9,260 | 9,260 | 15,900 | 15,900 |
| Balances at end of year | 468,650 | ₱468,650 | 467,810 | ₱467,810 | 458,550 | ₱458,550 |

As at December 31, 2013 and 2012, the Parent Company has 33 and 31 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 (as previously stated) of the Parent Company of ₱304,540,045. In 2013, an appropriation of ₱32,062,182 was made based on the 2012 audited net income (as previously stated) of the Parent Company of ₱320,621,815. Total unappropriated retained earnings amounted to ₱680,802,693 and ₱704,524,482 as at December 31, 2013 and 2012, respectively (see Note 21).

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.



On March 19, 2013, the BOD declared a regular and a special dividend amounting to ₱0.12 per share held or ₱56,238,000 (468,650,000 shares multiplied by ₱0.12 cash dividend per share) and ₱0.51 per share held or ₱239,011,500 (468,650,000 shares multiplied by ₱0.51 cash dividend per share), respectively, to stockholders as of record date of April 4, 2013. These dividends were paid on April 19, 2013.

15. Interest Income

| | 2013 | 2012 | 2011 |
|---|---------------------|--------------|--------------|
| Customers (see Note 7) | ₱156,796,015 | ₱123,746,651 | ₱146,475,134 |
| Banks - net of final tax (see Note 4) | 41,859,254 | 60,342,514 | 39,522,787 |
| HTM investment - net of final tax (see Note 8) | - | - | 1,249,961 |
| Others | - | - | 13,892 |
| | ₱198,655,269 | ₱184,089,165 | ₱187,261,774 |

16. Personnel Costs

| | 2013 | 2012 (As restated) | 2011 (As restated) |
|--------------------------------|--------------------|-----------------------|-----------------------|
| Salaries and wages | ₱82,448,387 | ₱78,387,838 | ₱71,112,084 |
| Retirement costs (see Note 17) | 4,235,529 | 3,168,564 | 2,326,382 |
| Other benefits | 5,597,155 | 5,482,439 | 5,557,709 |
| | ₱92,281,071 | ₱87,038,841 | ₱78,996,175 |

The above accounts were distributed as follows:

| | 2013 | 2012 (As restated) | 2011 (As restated) |
|--------------------|--------------------|-----------------------|-----------------------|
| Cost of services | ₱65,446,518 | ₱57,256,553 | ₱55,347,373 |
| Operating expenses | 26,834,553 | 29,782,288 | 23,648,802 |
| | ₱92,281,071 | ₱87,038,841 | ₱78,996,175 |

Pension and other post-employment benefit costs for 2012 and 2011 are restated under Revised PAS 19 and do not correspond to the figures in 2012 consolidated financial statements.

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 2013, 2012 and 2011.



There have been no cancellations or modifications to the plan in 2013, 2012 or 2011.

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

1st Tranche

| | 2013 | 2012 | 2011 |
|---|------------------|-------------|-------------|
| Outstanding at beginning of year | 2,690,000 | 9,450,000 | 16,350,000 |
| Exercised during the year (see Note 14) | (840,000) | (6,760,000) | (6,900,000) |
| Outstanding at end of year | 1,850,000 | 2,690,000 | 9,450,000 |

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

| | 2013 | 2012 | 2011 |
|---|------------------|-------------|-------------|
| Outstanding at beginning of year | 5,500,000 | 8,000,000 | 17,000,000 |
| Exercised during the year (see Note 14) | – | (2,500,000) | (9,000,000) |
| Outstanding at end of year | 5,500,000 | 5,500,000 | 8,000,000 |

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 3.5 years, 4.5 years, and 5.5 years as at December 31, 2013, 2012 and 2011, 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 initial public offering; (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 ten (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:

| | 2013 | 2012 | 2011 |
|--|--------------------|--------------|-------------|
| Balances at beginning of year | ₱33,263,658 | ₱63,541,685 | ₱71,073,568 |
| Movement on deferred income tax asset on | | | |
| intrinsic value of outstanding options | (4,068,107) | (29,420,027) | (4,151,883) |
| Stock option expense (see Note 19) | 572,000 | 1,742,000 | 5,980,000 |
| Cost of share-based payment recognized | | | |
| as capital in excess of par value | - | (2,600,000) | (9,360,000) |
| Movements during the year | (3,496,107) | (30,278,027) | (7,531,883) |
| Balances at end of year | ₱29,767,551 | ₱33,263,658 | ₱63,541,685 |

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 benefit obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement for the years ended December 31, 2013, 2012 and 2011.

Under the existing regulatory framework, RA 7641, *The Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

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 (see Note 16):

| | 2013 | 2012 | 2011 |
|----------------------|-------------------|---------------|---------------|
| | | (As restated) | (As restated) |
| Current service cost | ₱4,235,529 | ₱3,168,564 | ₱2,326,382 |
| Net interest expense | 1,433,064 | 919,511 | 626,385 |
| | ₱5,668,593 | ₱4,088,075 | ₱2,952,767 |

Current service cost is shown under 'Personnel costs' while net interest expense is shown under 'Interest expense' in the consolidated statements of income.

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

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|------------------------------------|----------------------|----------------------|--------------------|
| | | (As restated) | (As restated) |
| Retirement obligation at beginning | | | |
| of year | ₱23,113,934 | ₱13,522,226 | ₱7,829,814 |
| Retirement costs | 5,668,593 | 4,088,075 | 2,952,767 |
| Net actuarial losses (gains) | (1,161,634) | 5,503,633 | 2,739,645 |
| | ₱27,620,893 | ₱23,113,934 | ₱13,522,226 |



Retirement obligation:

| | December 31, 2013 | December 31, 2012 (As restated) | January 1, 2012 (As restated) |
|--|----------------------|---------------------------------------|-------------------------------------|
| Present value (PV) of defined benefit obligation | ₱34,399,721 | ₱29,526,269 | ₱20,236,661 |
| Fair value of plan assets | (6,778,828) | (6,412,335) | (6,714,435) |
| | ₱27,620,893 | ₱23,113,934 | ₱13,522,226 |

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

| | December 31, 2013 | December 31, 2012 (As restated) | January 1, 2012 (As restated) |
|--|----------------------|---------------------------------------|-------------------------------------|
| Opening PV of defined benefit obligation | ₱29,526,269 | ₱20,236,661 | ₱14,368,751 |
| Current service cost | 4,235,529 | 3,168,564 | 2,326,382 |
| Interest cost | 1,830,629 | 1,376,093 | 1,149,500 |
| Remeasurement losses (gains) on: | | | |
| Financial assumptions | 1,970,727 | 2,018,442 | 2,536,603 |
| Demographic assumptions | 77,119 | - | - |
| Experience adjustments | (3,166,302) | 3,361,009 | 170,425 |
| Benefits paid | (74,250) | (634,500) | (315,000) |
| | ₱34,399,721 | ₱29,526,269 | ₱20,236,661 |

Changes in the fair value of plan assets follow:

| | December 31, 2013 | December 31, 2012 (As restated) | January 1, 2011 (As restated) |
|--|----------------------|---------------------------------------|-------------------------------------|
| Balances at beginning of year | ₱6,412,335 | ₱6,714,435 | ₱6,538,937 |
| Expected interest income | 397,565 | 456,582 | 523,115 |
| Benefits paid | (74,250) | (634,500) | (315,000) |
| Remeasurement gain (loss) on plan assets | 43,178 | (124,182) | (32,617) |
| | ₱6,778,828 | ₱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:

| | December 31, 2013 | December 31, 2012 (As restated) | January 1, 2012 (As restated) |
|-----------------------------|----------------------|---------------------------------------|-------------------------------------|
| Short-term cash investments | 99.96% | 99.96% | 99.96% |
| Cash in bank | 0.04% | 0.04% | 0.04% |
| | 100.00% | 100.00% | 100.00% |



The plan assets is exposed to concentration risk since 99.96% of its plan assets is investment in common trust funds. The maximum exposure is equal to the carrying value of the investment in common trust funds.

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

| | December 31, 2013 | December 31, 2012 (As restated) | January 1, 2012 (As restated) |
|-------------------------|------------------------------|---------------------------------------|-------------------------------------|
| Discount rate | 6.80% | 6.20% | 6.80% |
| Future salary increases | 7.00% | 7.00% | 7.00% |
| Mortality rates | | | |
| Male | 0.06%-0.74% | 0.06%-0.74% | 0.06%-0.74% |
| Female | 0.05%-0.61% | 0.05%-0.61% | 0.05%-0.61% |

The sensitivity analysis has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2013 assuming all other assumptions were held constant.

| | Increase (decrease) in significant assumptions | Increase (decrease) in defined benefit obligation |
|-------------------------|--|---|
| Discount rates | +0.50% | (₱2,002,299) |
| | -0.50% | 2,205,131 |
| Future salary increases | +0.50% | 2,014,923 |
| | -0.50% | (1,854,558) |
| Mortality rate | +1 year | (87,480) |
| | -1 year | 80,067 |

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

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---------------------|-------------|-------------|-------------|-------------|
| PV of defined benefit obligation | ₱34,399,721 | ₱29,526,269 | ₱20,236,661 | ₱14,368,751 | ₱12,568,812 |
| Fair value of plan assets | (6,778,828) | (6,412,335) | (6,714,435) | (6,538,937) | (6,072,538) |
| Unfunded status | ₱27,620,893 | ₱23,113,934 | ₱13,522,226 | ₱7,829,814 | ₱6,496,274 |
| Experience adjustments on plan liabilities | (₱3,166,302) | ₱3,361,009 | ₱170,425 | ₱2,501,782 | (₱465,365) |
| Change in financial assumptions on plan liabilities | 1,970,727 | 2,018,442 | 2,536,603 | 1,611,469 | 1,895,246 |
| Change in demographic assumptions on plan liabilities | 77,119 | - | - | - | - |
| Actual return on plan assets | 440,743 | 332,400 | 490,498 | 353,068 | 261,386 |

The Parent Company does not perform any asset-liability matching strategy. The overall investment policy and strategy of the retirement plan is based on the client suitability assessment, as provided by its trust bank, in accordance with the Bangko Sentral ng Pilipinas requirements. It



does not, however, ensure that there will be sufficient assets to pay the retirement benefits as they fall due while attempting to mitigate the various risks of the plan. The retirement plan assets consist of 99.96% short-term cash investments and 0.04% cash in regular savings account.

Retirement costs for 2012 and 2011 are restated under Revised PAS 19 and do not correspond to the figures in 2012 and 2011 consolidated financial statements.

The Parent Company has no funding policies. As at March 3, 2014, the Parent Company has not yet reasonably determined the amount of the 2014 contributions to the retirement plan.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2013:

| | |
|--|-------------|
| Less than one (1) year | ₱4,901,393 |
| More than one (1) year to five (5) years | 6,071,477 |
| More than five (5) years to ten (10) years | 27,497,231 |
| | ₱38,470,101 |

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 retirement costs under 'Personnel costs' amounted to ₱277,402, ₱261,788, and ₱247,285 in 2013, 2012 and 2011, respectively (see Note 16).

18. Income Taxes

The Group's current provision for income tax represents the regular corporate income tax in 2013, 2012 and 2011.

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

| | December 31, 2013 | December 31, 2012 (As restated) | January 1, 2012 (As restated) |
|---|----------------------|---------------------------------------|-------------------------------------|
| Cost of share-based payment | ₱25,477,551 | ₱29,545,658 | ₱58,965,685 |
| Accumulated translation adjustment | 9,847,071 | 19,819,459 | 11,146,092 |
| Retirement obligation | 8,721,405 | 7,454,119 | 4,661,410 |
| Stock option expense | 1,287,000 | 1,115,400 | 1,372,800 |
| Allowance for credit losses on trade receivable from customers | 667,786 | 1,051,469 | 1,161,049 |
| Unrealized loss in the valuation of FVPL | 23,426 | - | 82,856 |
| Unrealized foreign exchange gains | (689) | (51) | (629) |
| Others | 7,280,182 | 2,537,270 | - |
| | ₱53,303,732 | ₱61,523,324 | ₱77,389,263 |



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.

Others pertain to deferred income tax asset recognized on the net loss position of COLHK.

The Parent Company has temporary difference arising from allowance for impairment on deposit to CTGF amounting to ₱13,724,200 as at December 31, 2013 and 2012, 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 (see Note 7).

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 income follows:

| | 2013 | 2012 (As restated) | 2011 (As restated) |
|---|---------------------|-----------------------|-----------------------|
| Income tax at statutory income tax rate | ₱115,794,874 | ₱101,884,390 | ₱120,534,337 |
| Additions to (reductions in) income tax resulting from: | | | |
| 40% OSD | (22,442,235) | - | (40,508,282) |
| Interest income subjected to final tax | (12,577,776) | (18,102,754) | (12,231,824) |
| Loss (income) of COLHK subject to income tax | 7,679,068 | 1,830,527 | (10,892,488) |
| Provision for (benefit from) income tax of COLHK | (4,340,710) | 3,195,537 | 6,049,460 |
| Others | (1,740,091) | (2,058,028) | (1,200,479) |
| Non-taxable income | (111) | (2,029) | - |
| Exercise of stock option | - | (53,310,000) | (23,143,800) |
| Nondeductible expenses | - | - | 28,329,550 |
| Provision for income tax | ₱82,373,019 | ₱33,437,643 | ₱66,936,474 |

In 2013 and 2011, the Parent Company availed of the OSD method in claiming its deductions. In 2012, 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 expense | Professional fees | Trade payables | Trade receivables | Terms | Conditions |
|--|--------------------|-------------------|--------------------|-------------------|---------------------|--------------------|--|--|
| Key management personnel | | | | | | | | |
| 2013 | ₱4,087,083 | ₱3,543,170 | ₱- | ₱- | ₱51,109,892 | ₱6,378,345 | 3-day; noninterest-bearing/ Collectible or payable on demand; interest-bearing | Secured; no impairment; no guarantee |
| 2012 | ₱3,733,575 | ₱1,033,467 | ₱- | ₱- | ₱56,709,837 | ₱15,284,711 | | |
| 2011 | ₱3,689,717 | ₱1,262,386 | ₱- | ₱- | ₱18,233,314 | ₱41,426,781 | | |
| Other related parties: | | | | | | | | |
| Affiliates with common officers, directors and stockholders | | | | | | | | |
| 2013 | 29,858,696 | 1,390,621 | 279,710 | 4,516,537 | 18,464,495 | 7,560,697 | 3-day; noninterest-bearing/ Collectible or payable on demand; interest-bearing/ Payable upon billing; noninterest-bearing | Secured; no impairment; no guarantee |
| 2012 | 42,923,001 | 1,879,203 | 16,585 | 7,686,867 | 29,368,151 | 9,149,278 | | |
| 2011 | 70,129,621 | 10,491,521 | 111,087 | 11,190,567 | 59,661,524 | 78,695,482 | | |
| Directors | | | | | | | | |
| 2013 | 20,017,639 | 25,098 | - | - | 41,210,586 | 19,710,226 | 3-day; noninterest-bearing/ Collectible or payable on demand; interest-bearing | Secured; no impairment; no guarantee |
| 2012 | 22,487,994 | 528,747 | - | - | 23,310,923 | 34,325,740 | | |
| 2011 | 51,179,621 | 2,574,980 | - | - | 7,334,016 | 28,714,284 | | |
| Total | ₱53,963,418 | ₱4,958,889 | ₱279,710 | ₱4,516,537 | ₱110,784,973 | ₱33,649,268 | | |
| 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 | | |



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

| | 2013 | 2012 | 2011 |
|------------------------------|--------------------|-------------|-------------|
| Short-term employee benefits | ₱59,186,893 | ₱50,528,506 | ₱17,597,285 |
| Retirement costs | 1,896,639 | 2,420,795 | 100,149 |
| Stock options (see Note 17) | 572,000 | 1,742,000 | 5,980,000 |
| | ₱61,655,532 | ₱54,691,301 | ₱23,677,434 |

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

As at December 31, 2013 and 2012, the carrying amount of the retirement fund amounted to ₱6,718,984 and ₱6,489,846, respectively. As at December 31, 2013 and 2012, the fair value of the retirement fund amounted to ₱6,778,828 and ₱6,412,335, respectively.

The retirement fund consists of the following (see Note 17):

| | 2013 | 2012 |
|-----------------------------|----------------|---------|
| Short-term cash investments | 99.96% | 99.96% |
| Cash in bank | 0.04% | 0.04% |
| | 100.00% | 100.00% |

In 2013 and 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 one (1) to three (3) years. Rental costs charged to operations amounted to ₱10,820,260, ₱10,024,186 and ₱8,447,671 in 2013, 2012 and 2011, respectively.

The future minimum lease payments are as follows:

| | 2013 | 2012 |
|---|--------------------|------------|
| Within one (1) year | ₱11,697,986 | ₱7,327,525 |
| After one (1) year but not more than five (5) years | 14,185,388 | 2,404,002 |
| | ₱25,883,374 | ₱9,731,527 |

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, 2013, 2012 and 2011.



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 one hundred ten percent (110.00%) and a net liquid capital (NLC) of at least ₱5.0 million or five percent (5.00%) of its aggregate indebtedness, whichever is higher. Also, the Aggregated Indebtedness (AI) of every stockbroker should not exceed two thousand percent (2,000.00%) of its NLC. In the event that the minimum RBCA ratio of one hundred ten percent (110.00%) 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, 2013 and 2012, 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, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---------------------------------------|-----------------------|----------------|
| Equity eligible for NLC | ₱950,337,344 | ₱923,551,437 |
| Less ineligible assets | 190,706,380 | 190,163,399 |
| NLC | ₱759,630,964 | ₱733,388,038 |
| Position risk | ₱128,588 | ₱40,367 |
| Operational risk | 105,862,204 | 81,214,878 |
| Counterparty risk | 3,814 | - |
| Total Risk Capital Requirement (TRCR) | ₱105,994,606 | ₱81,255,245 |
| AI | ₱3,256,492,851 | ₱2,870,517,840 |
| 5.00% of AI | ₱162,824,643 | ₱143,525,892 |
| Required NLC | 162,824,643 | 143,525,892 |
| Net Risk-Based Capital Excess | ₱596,806,321 | ₱589,862,146 |
| Ratio of AI to NLC | 429.00% | 391.00% |
| RBCA ratio (NLC/TRCR) | 717.00% | 903.00% |



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 2013 and, 2012, 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 30.00%, 20.00% and 10.00% 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, 2013 and 2012.

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, 2013 and 2012, 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, refundable deposits under other noncurrent assets, 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.

The table below shows the credit quality by class of the financial assets of the Group:

2013

| | Neither Past Due nor Specifically Impaired | | | Individually Impaired | Total |
|---------------------------------|--|-------------------|-------------------|-----------------------|-----------------------|
| | High Grade | Standard Grade | Substandard Grade | | |
| Loans and receivables: | | | | | |
| Cash and cash equivalents | ₱3,203,489,204 | ₱- | ₱- | ₱- | ₱3,203,489,204 |
| Cash in a segregated account | 112,593,425 | - | - | - | 112,593,425 |
| Trade receivables | 1,351,853,823 | - | - | 2,225,955 | 1,354,079,778 |
| Other receivables | - | 6,790,722 | - | 8,960,245 | 15,750,967 |
| Refundable deposits | 4,920,377 | - | - | - | 4,920,377 |
| | 4,672,856,829 | 6,790,722 | - | 11,186,200 | 4,690,833,751 |
| Financial assets at FVPL | 7,210,678 | - | - | - | 7,210,678 |
| | ₱4,680,067,507 | ₱6,790,722 | ₱- | ₱11,186,200 | ₱4,698,044,429 |



2012

| | Neither Past Due nor Specifically Impaired | | | Individually Impaired | Total |
|------------------------------|--|----------------|-------------------|-----------------------|----------------|
| | High Grade | Standard Grade | Substandard Grade | | |
| Loans and receivables: | | | | | |
| Cash and cash equivalents | ₱2,583,051,902 | ₱- | ₱- | ₱- | ₱2,583,051,902 |
| Cash in a segregated account | 64,200,375 | - | - | - | 64,200,375 |
| Trade receivables | 1,467,738,946 | - | - | 3,504,898 | 1,471,243,844 |
| Other receivables | - | 5,038,652 | - | 8,960,245 | 13,998,897 |
| Refundable deposits | 4,744,137 | - | - | - | 4,744,137 |
| | 4,119,735,360 | 5,038,652 | - | 12,465,143 | 4,137,269,155 |
| Financial assets at FVPL | 2,729,120 | - | - | - | 2,729,120 |
| | ₱4,122,464,480 | ₱5,038,652 | ₱- | ₱12,465,143 | ₱4,139,998,275 |

The Group's bases in grading its financial assets are as follows:

Loans and Receivables

High grade

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).

Cash and cash equivalents and cash in a segregated account are considered high grade since these are deposited with reputable banks duly approved by the BOD and have low probability of insolvency.

Trade receivables from margin 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. Meanwhile, receivables from post-paid customers are required to be settled on two (2) trading days' term for COLHK and three (3) trading days' term for the Parent Company. The receivable balances become demandable upon failure of the customer to duly comply with these requirements. As at December 31, 2013 and 2012, ₱1,209,742,416 and ₱1,084,125,602 of the total receivables from customers is secured by collateral comprising of cash and equity securities of listed companies with a total market value of ₱5,277,924,865 and ₱13,485,028,553, 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, 2013 and 2012.

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.

Standard grade

These are loans and receivables from counterparties with no history of default and are not past due as at the end of the reporting period.

Financial Assets at FVPL

High grade

Companies that are consistently profitable, have strong fundamentals and pays out dividends.

As at December 31, 2013 and 2012, the Group's financial assets at FVPL are classified as high grade since these are with listed companies of good reputation.



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 statements of financial position:

| | 2013 | 2012 |
|---|-----------------------|----------------|
| Cash and cash equivalents (see Note 4)* | ₱3,203,452,023 | ₱2,583,015,959 |
| Cash in a segregated account (see Note 5) | 112,593,425 | 64,200,375 |
| Financial assets at FVPL (see Note 6) | 7,210,678 | 2,729,120 |
| Trade receivables (see Note 7) | 1,351,853,823 | 1,467,738,946 |
| Other receivables (see Note 7) | 6,790,722 | 5,038,652 |
| Refundable deposits (see Note 11) | 4,920,377 | 4,744,137 |
| | 4,686,821,048 | 4,127,467,189 |
| Unutilized margin trading facility | 4,288,422,787 | 3,441,237,792 |
| | ₱8,975,243,835 | ₱7,568,704,981 |

*Excluding cash on hand

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, 2013 and 2012, all of the Group's financial liabilities, which consist of trade payables and other current liabilities, are contractually payable on demand and up to sixty (60) days' term.

Correspondingly, the financial assets that can be used by the Group to manage its liquidity risk as at December 31, 2013 and 2012 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 2013 and 2012 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 in banks amounting to US\$4,792 and US\$12,249 as at December 31, 2013 and 2012, 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 2013 and 2012 is not significant.

23. Fair Value Measurement

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, 2013 and 2012. Fair value of financial assets at FVPL is based on the closing 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 2.37% and 1.30% as at December 31, 2013 and 2012, respectively. There are no changes in the valuation techniques in 2013 and 2012.



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 | |
|------------------------------|-----------------------|----------------|-----------------------|----------------|
| | 2013 | 2012 | 2013 | 2012 |
| Financial Assets | | | | |
| Loans and receivables: | | | | |
| Cash and cash equivalents | ₱3,203,489,204 | ₱2,583,051,902 | ₱3,203,489,204 | ₱2,583,051,902 |
| Cash in a segregated account | 112,593,425 | 64,200,375 | 112,593,425 | 64,200,375 |
| Trade receivables | 1,351,853,823 | 1,467,738,946 | 1,351,853,823 | 1,467,738,946 |
| Other receivables | 6,790,722 | 5,038,652 | 6,790,722 | 5,038,652 |
| Refundable deposits | 4,920,377 | 4,744,137 | 4,586,488 | 4,564,459 |
| | 4,679,647,551 | 4,124,774,012 | 4,679,313,662 | 4,124,594,334 |
| Financial assets at FVPL | 7,210,678 | 2,729,120 | 7,210,678 | 2,729,120 |
| | ₱4,686,858,229 | ₱4,127,503,132 | ₱4,686,524,340 | ₱4,127,323,454 |
| Financial Liabilities | | | | |
| Other financial liabilities: | | | | |
| Trade payables | ₱3,398,766,516 | ₱2,883,309,878 | ₱3,398,766,516 | ₱2,883,309,878 |
| Other current liabilities* | 45,664,111 | 42,994,674 | 45,664,111 | 42,994,674 |
| | ₱3,444,430,627 | ₱2,926,304,552 | ₱3,444,430,627 | ₱2,926,304,552 |

*Excluding due to BIR

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).

2013

| | Level 1 | Level 2 | Level 3 |
|--|-------------------|---------|-------------------|
| Asset measured at fair value | | | |
| Financial assets at FVPL | ₱7,210,678 | ₱- | ₱- |
| Asset for which fair values are disclosed | | | |
| Refundable deposits | - | - | 4,586,488 |
| | ₱7,210,678 | ₱- | ₱4,586,488 |

2012

| | Level 1 | Level 2 | Level 3 |
|--|------------|---------|------------|
| Asset measured at fair value | | | |
| Financial assets at FVPL | ₱2,729,120 | ₱- | ₱- |
| Asset for which fair values are disclosed | | | |
| Refundable deposits | - | - | 4,564,459 |
| | ₱2,729,120 | ₱- | ₱4,564,459 |

During the years ended December 31, 2013 and 2012, 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 Citisecurities, Inc., a related party, (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

| | 2013 | 2012 | 2011 |
|--|---------------------|--------------|--------------|
| Net income | ₱303,589,893 | ₱306,176,990 | ₱334,844,649 |
| Weighted average number of shares for basic earnings per share | 468,440,000 | 465,205,000 | 447,225,000 |
| Dilutive shares arising from stock options | 7,152,804 | 10,282,806 | 27,404,762 |
| Adjusted weighted average number of shares of common shares for diluted earnings per share | 475,592,804 | 475,487,806 | 474,629,762 |
| Basic EPS | ₱0.65 | ₱0.66 | ₱0.75 |
| Diluted EPS | ₱0.64 | ₱0.64 | ₱0.71 |

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:

2013

| | Philippines | Hong Kong | Elimination | Total |
|---|----------------|---------------|----------------|----------------|
| Revenue from external customers: | | | | |
| Commissions | ₱496,054,561 | ₱44,467,086 | ₱- | ₱540,521,647 |
| Interest | 198,655,269 | - | - | 198,655,269 |
| Others | 1,679,451 | 104,238 | - | 1,783,689 |
| Inter-segment revenue | 42,891,145 | - | (42,891,145) | - |
| Segment revenue | 739,280,426 | 44,571,324 | (42,891,145) | 740,960,605 |
| Cost of services | (206,360,621) | (17,323,409) | - | (223,684,030) |
| Operating expenses | (106,771,560) | (52,642,954) | 42,655,273 | (116,759,241) |
| Depreciation and amortization | (14,332,569) | (201,853) | - | (14,534,422) |
| Income (loss) before income tax | 411,815,676 | (25,596,892) | (235,872) | 385,982,912 |
| Benefit from (provision for) income tax | (86,733,729) | 4,340,710 | - | (82,393,019) |
| Net income (loss) | ₱325,081,947 | (₱21,256,182) | (₱235,872) | ₱303,589,893 |
| Segment assets | ₱4,318,785,171 | ₱627,600,640 | (₱138,593,403) | ₱4,807,792,408 |
| Segment liabilities | 3,340,514,991 | 167,980,551 | (3,722,642) | 3,504,772,900 |
| Capital expenditures: | | | | |
| Tangible fixed assets | 16,307,767 | - | - | 16,307,767 |
| Cash flows arising from: | | | | |
| Operating activities | 827,420,780 | 103,733,789 | - | 931,154,569 |
| Investing activities | (16,307,767) | - | - | (16,307,767) |
| Financing activities | (294,409,500) | - | - | (294,409,500) |

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 | (94,618,395) | (56,731,293) | 42,483,924 | (108,865,764) |
| Depreciation and amortization | (14,030,045) | (229,829) | - | (14,259,874) |
| Income (loss) before income tax | 357,559,874 | (17,987,531) | 42,290 | 339,614,633 |
| Benefit from (provision for) income tax | (36,633,180) | 3,195,537 | - | (33,437,643) |
| Net income (loss) | ₱320,926,694 | (₱14,791,994) | ₱42,290 | ₱306,176,990 |
| Segment assets | ₱3,873,049,401 | ₱521,394,354 | (₱138,241,690) | ₱4,256,202,065 |
| Segment liabilities | 2,922,768,705 | 63,634,563 | (3,454,378) | 2,982,948,890 |
| 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 | (83,926,167) | (62,423,967) | 44,883,688 | (101,466,446) |
| Depreciation and amortization | (9,916,754) | (242,461) | - | (10,159,215) |
| Income before income tax | 365,472,832 | 36,336,780 | (28,489) | 401,781,123 |
| Provision for income tax | (60,887,015) | (6,049,459) | - | (66,936,474) |
| Net income | ₱304,585,817 | ₱30,287,321 | (₱28,489) | ₱334,844,649 |
| Segment assets | ₱2,989,813,048 | ₱677,592,269 | (₱138,481,887) | ₱3,528,923,430 |
| Segment liabilities | 2,057,958,477 | 184,823,683 | (3,673,341) | 2,239,108,819 |
| 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) |

27. Reclassification

Trade receivables from and payables to customers and clearing house of a broker-dealer in securities should be presented at gross amounts as the offsetting conditions of PAS 32 are not met.

Certain trade receivables and trade payables in 2012 consolidated financial statements were reclassified as follows:

| | As at December 31, 2012 | | |
|------------------|-------------------------|-------------|----------------|
| | As previously stated | Increase | As restated |
| Trade receivable | ₱1,444,285,187 | ₱23,453,759 | ₱1,467,738,946 |
| Trade payable | 2,859,856,119 | 23,453,759 | 2,883,309,878 |

| | As at January 1, 2012 | | |
|------------------|-----------------------|-------------|----------------|
| | As previously stated | Increase | As restated |
| Trade receivable | ₱1,160,690,295 | ₱16,867,679 | ₱1,177,557,974 |
| Trade payable | 2,133,524,943 | 16,867,679 | 2,150,392,622 |



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, 2013 and 2012, and for each of the three years in the period ended December 31, 2013, included in this Form 17-A, and have issued our report thereon dated March 3, 2014. 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. 4225180, January 2, 2014, Makati City

March 3, 2014



**COL FINANCIAL GROUP, INC. AND SUBSIDIARY
SUPPLEMENTARY SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2013**

SUPPLEMENTARY SCHEDULES

- I. Reconciliation of retained earnings available for dividend declaration
- II. Schedule of effective standards and interpretations under the PFRS
- III. Supplementary schedules under Annex 68-E
- IV. Map of the relationships of the companies within the group
- V. Schedule showing financial soundness indicators

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, 2013

| | |
|---|----------------------------|
| <u>Unappropriated Retained Earnings, beginning</u> | ₱298,313,245 |
| Adjustments | — |
| <u>Unappropriated Retained Earnings, as adjusted, beginning</u> | 298,313,245 |
| <u>Net income during the period closed to retained earnings (Parent)</u> | 325,081,947* |
| 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 | (1,426,481) |
| Subtotal | <u>(1,426,481)</u> |
| 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>—</u> |
| <u>Net Income Actual/Realized</u> | 323,655,466 |
| Add (Less): | |
| Dividend declarations during the period | (295,249,500) |
| Appropriations of retained earnings based on 10% of December 31, 2013 audited net income** | (32,508,195) |
| Reversals of appropriations | — |
| Effects of prior period adjustments | 350,651 |
| Treasury shares | — |
| Subtotal | <u>(327,407,044)</u> |
| <u>Unappropriated Retained Earnings, as adjusted, ending</u> | <u>₱294,561,667</u> |

* Consolidated net income of ₱303,589,893 net of ₱21,256,182 COLHK net loss and ₱235,872 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, 2013

List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as at December 31, 2013:

| 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 | | | ✓ |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | | | ✓ |
| 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 | ✓ | | |
| PFRS 10, PFRS 12 and PAS 27 | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities | Not early adopted | | |
| PFRS 11 | Joint Arrangements | | | ✓ |
| PFRS 12 | Disclosure of Interests in Other Entities | | | ✓ |
| PFRS 13 | Fair Value Measurement | ✓ | | |
| Philippine Accounting Standards | | | | |
| PAS 1 (Revised) | Presentation of Financial Statements | ✓ | | |
| | Amendment to PAS 1: Capital Disclosures | ✓ | | |

| PFRS | | Adopted | Not adopted | Not applicable |
|-------------------------|---|-------------------|-------------|----------------|
| PAS 1 (Revised) | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendments to PAS 1: Presentation 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 (Revised) | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Employee Benefits - Defined Benefit Plans: Employee Contributions | 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 | ✓ | | |

| PFRS | | Adopted | Not adopted | Not applicable |
|-------------------------|--|-------------------|-------------|----------------|
| PAS 26 | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| PAS 27 | Consolidated and Separate Financial Statements | ✓ | | |
| PAS 27 (Amended) | Separate Financial Statements | | | ✓ |
| PAS 28 | Investments in Associates | | | ✓ |
| PAS 28 (Amended) | Investments in Associates and Joint Ventures | | | ✓ |
| 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 | ✓ | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets | Not early adopted | | |
| 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 | | | ✓ |

| PFRS | | Adopted | Not adopted | Not applicable |
|-----------------------------------|---|-------------------|-------------|----------------|
| PAS 39 | 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 | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives | | | ✓ |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| | Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting | Not early adopted | | |
| 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 | Scope of PFRS 2 | | | ✓ |
| IFRIC 9 | Reassessment of Embedded Derivatives | | | ✓ |

| PFRS | | Adopted | Not adopted | Not applicable |
|-----------------|--|-------------------|-------------|----------------|
| IFRIC 9 | 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 Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement | | | ✓ |
| IFRIC 15 | Agreements for the Construction of Real Estate | Not early adopted | | |
| 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 | | | ✓ |
| IFRIC 21 | Levies | 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 | | | ✓ |

| PFRS | | Adopted | Not adopted | Not applicable |
|---------------|--|----------------|--------------------|-----------------------|
| 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, 2014 onwards.

SCHEDULE III
COL FINANCIAL GROUP, INC. AND SUBSIDIARY
SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2013

Schedule A. Financial Assets

Financial Assets at FVPL

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

The Group did not present the schedule of financial assets since the aggregate cost or market value of financial assets at FVPL as of the end of the reporting period did not constitute five percent (5%) or more of the total current assets.

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 | ₱3,454,378 | ₱42,891,145 | ₱42,622,881 | ₱- | ₱- | ₱- | ₱3,722,642 |

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 | 16,952,936 | - | - | 1,316,513 | - | 18,269,449 |
| | ₱21,952,936 | ₱- | ₱- | ₱1,316,513 | ₱- | ₱23,269,449 |

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 |

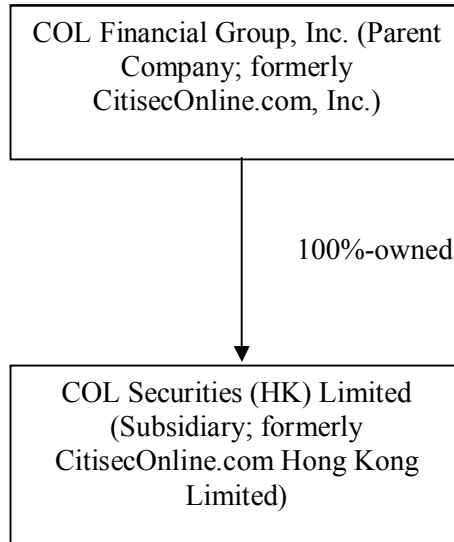
Schedule G. Guarantees of Securities of Other Issuers

| 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 | 468,650 | 7,350 | – | 259,312 | 209,338 |

**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, 2013**



SCHEDULE V
COL FINANCIAL GROUP, INC. AND SUBSIDIARY
SCHEDULE SHOWING FINANCIAL SOUNDNESS INDICATORS
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2013

| | 2013 | 2012 |
|--------------------------------|---------------|-------------|
| Profitability ratios: | | |
| Return on assets | 6% | 7% |
| Return on equity | 23% | 24% |
| Net profit margin | 41% | 47% |
| Solvency and liquidity ratios: | | |
| Current ratio | 1.35:1 | 1.39:1 |
| Debt to equity ratio | 2.72:1 | 2.33:1 |
| Quick ratio | 1.35:1 | 1.39:1 |
| Asset to equity ratio | 3.73:1 | 3.26:1 |
| Other relevant ratios: | | |
| RBCA ratio | 717% | 903% |
| Ratio of AI to NLC | 429% | 391% |