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COVER SHEET

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SEC Registration Number

COL FINANCIAL GROUP, INC. AND SUBSIDIARY

(Company's Full Name)

2401B Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City

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

Ms. Catherine L. Ong

(Contact Person)

635-5735

(Company Telephone Number)

1	2		3	1

Month *Day*

(Calendar Year)

17-Q

(Form Type)

September 30, 2012

Month *Day*

(Annual Meeting)

Broker

(Secondary License Type, If Applicable)

CFD

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/section

Total Amount of Borrowings

29

Total No. of Stockholders

Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended: **September 30, 2012**

2. Commission 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 issuer's 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) 636-5411**

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 Code, or Sections 4 and 8 of the RSA:

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common	**467,710,000 shares**

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

Yes [**x**] No [ ]

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 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 the registrant was required to file such reports)

Yes [x] No [ ]

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

Yes [x] No [ ]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements are filed as part of this Form 17-Q.

Item 2. Management's Discussion and Analysis (MD&A) of Financial Conditions and Results of Operations.

The following is a discussion and analysis of the financial performance of COL Financial Group, Inc. (COL, COL Financial or the Parent Company) and COL Securities (HK) Limited (the HK Subsidiary or COLHK) collectively referred to as "The Group". The discussion aims to provide readers with an appreciation of its business model and the key factors underlying its financial results. The MD&A should be read in conjunction with the unaudited consolidated financial statements of the Group filed as part of this report.

<u>Company Overview</u>

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

COL is the leading online stockbroker in the Philippines today. With over 42,000 customers and ₱32.1 billion in customer assets, it has built itself as a formidable institution and a force to reckon with in the stockbrokerage industry.

Since 2008, it has continued to be the Number 1 Broker in the Philippine Stock Exchange (PSE or the Exchange) in terms of the total number of transactions executed in the Exchange having cornered 23.2% market share during the first nine months of 2012, besting over 130 local and foreign brokers. In value terms, COL maintained its overall ranking at number 7 as it handled ₱111.6 billion worth of transactions. Its market share, however, was slightly lower at 4.3% for the current period compared to 4.5% during the nine-month period in 2011.

With its customer-focused strategy, it aims to deliver the best service to its customers with key enhancements on its online trading platform and value-added offerings to further improve the customers' online trading experience and empower them to make better-informed investment decisions.

COL's mission is to make successful investors out of every Filipino by providing easy access to financial products and services that suit the different investment profiles and objectives of its customers.

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

COL also formed the (Equity Advisory Group (EAG), composed of a team of seasoned investment professionals, to expand its client reach by focusing on the needs of high net worth individuals and institutions by providing expert advice according to the specific investment objective and risk profile of these client groups .

COL owns 100% of its HK subsidiary, COL Securities (HK) Limited (the HK Subsidiary or

COLHK) which was incorporated on June 20, 2001 and commenced its operations on May 29, 2002. The change in name of COLHK from CitisecOnline.com Hong Kong Limited to its current name was approved on May 24, 2011 by the Companies Registry of the Securities and Futures Commission. COLHK is a member of the Hong Kong Exchanges (HKEx) and as such is a registered owner of a HKEx Trading Right. In August 2010, COLHK successfully upgraded and launched its online trading platform in line with COL's commitment of empowering the investors by providing them with the tools they need to make great investment decisions.

On July 12, 2006, COL completed its Initial Public Offering (IPO) of 110,000,000 common shares, thus raising its paid-up capital from ₱320.0 million to ₱464.7 million. Today, COL's market capitalization stands at over ₱9.0 billion allowing it to remain well positioned to stay ahead of its competitors, backed up with the necessary resources to strengthen its product and service delivery platform to all its customers.

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

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

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

On February 21, 2012, the Securities and Exchange Commission (SEC) approved the Parent Company's application for a change in name from CitisecOnline.com, Inc. to its current name.

Over the next few years, COL will continue to strengthen its customer focus and will expand its vision by aiming to be the preferred source of financial services, a trusted provider of help and guidance and a stable firm committed to delivering great value to its customers.

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

Business Model

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

1. Commission generated from trades;
2. Interest income from margin financing; and
3. Interest income from short-term placements.

With its solid foundation deeply rooted in its core values of Value, Innovation, Trust and Service, COL is well-positioned to capitalize both on the anticipated development of the capital markets as well as the vast opportunities of increasing the retail investor base in the Philippines.

<u>Industry and Economic Review</u>

The Philippine market performed strong during the first nine months of 2012, with the PSEi rising by 22.3% for the year to date period to close at 5,346.1. Average daily value turnover also picked up to ₱7.0 billion during the first nine months of 2012 from ₱5.5 billion during the same period last year, benefiting from the strength of the market and the commencement of whole day trading in January of this year. Foreigners also increased their exposure to the market, with net foreign buying increasing to ₱82.7 billion during the first nine months of 2012 from ₱16.6 billion during the same period last year.

Numerous factors were responsible for the market's strong performance. Domestically, the Philippines benefited from an upgrade in its credit rating by all three major credit ratings agencies namely, Fitch, S&P and Moody's. The Philippines also delivered strong economic growth numbers for the year to date period, driven by the country's resilient consumer segment and the significant increase in government spending. Interest rates also continued to drop, brought about by ample liquidity and the move of Bangko Sentral ng Pilipinas (BSP) to cut interest rates three times during the first nine months of the year.

Factors were also highly favorable outside of the country, with the aggressive steps taken by global central banks to pump prime their economies resulting to improving risk appetite and increasing fund flows to the Philippine stock market. For example, during late 2011 and early this year, the European Central Bank (ECB) offered three-year loans at very attractive terms to European banks. Last September, it also announced that it would buy an unlimited amount of government bonds with maturities of between one and three years. Meanwhile, in the US, the Fed announced its third round of quantitative easing or more commonly known as QE3 last September. The Fed also said it would extend its extremely low rates policy until at least mid-2015.

While the Philippine market performed strongly during the first nine months of the year, the same could not be said of the HK market which showed high levels of volatility due to concerns that China's economic growth would slow down as the country shifts its focus away from exports and capital spending to consumer spending. Although the Hang Seng Index and the Hang Seng China Affiliate Corp. Index ended the first nine months higher by 13.1% and 10.9% respectively, the said indices almost reversed all their gains at one point during the year. Meanwhile, after performing strongly during the first quarter, the Hang Seng China Enterprise Index failed to recover, falling by 1.1% for the year to date period. Average daily turnover in the HK Stock Exchange continued to drop, falling to HKD53.1 million during the first nine months of 2012 from HKD72.9 milion during the same period last year.

<u>Business Review</u>

Key Performance Indicators

The management of COL Financial regularly reviews numerous Key Performance Indicators or KPIs to determine whether or not it is on track to meet the organization's long term goals. Key Performance Indicators are quantifiable measurements that reflect an organization's critical success factors. Below are some of the Key Performance Indicators regularly reviewed by management to determine whether or not it is enhancing the value of its shareholders:

	September 30, 2012	**September 30, 2011**
Number of Customer Accounts	42,164	22,662
Customers' Net Equity (in millions)	₱32,050.3	₱15,642.4
Net Revenues (in millions)	₱484.5	₱513.6
Return on Equity	21.0%	24.5%
Risk Based Capital Adequacy Ratio*	822.0%	1,191.0%
Liquid Capital** (in millions)	HKD58.4	HKD70.8

**Parent Company only*
*** HK Subsidiary*

COL Financial proceeded to grow substantially in terms of customer acquisitions. The nine month tally stood at an increase of 19,502 new accounts demonstrating an 86.1% rise compared to the nine-month period last year. Popularity of COL's Easy Investment Program continued to draw in heavy interest comprising a little over 60% of new accounts opened. COL Financial remained focus on key market segments given marketing campaigns and educational seminars – much of which scored robust lead flows and consequently interested walk-ins. Awareness towards the COL Financial brand also improved and contributed to new accounts as many more were drawn to its website to register for demos and drove higher sign-ups.

Net revenues, during the nine-month period of 2012 fell by 5.7% largely due to the weakness of HK operations. The decrease in consolidated revenues coupled with the expected increase in the expenses of the Parent Company consequent to the expansion of its local operations, led to the drop of the Group's **Return on equity (ROE)**, computed as net income divided by average equity, by 3.5 percentage point year-on-year to 21.0%.

Customers' net equity (customers' deposited cash and stocks), more than doubled as at end of the reporting period compared to its level during the same period last year primarily as a result of the Parent Company's tie up with a major foreign bank and a local bank to service the needs of their customers who participated in the SMC Preferred shares offering. This arrangement generated around ₱6.8 billion in new client assets. In addition, the Parent Company also recorded a net inflow of around ₱6.0 billion from its regular customers and an increase in the portfolio value by around ₱3.1 billion.

The Parent Company and the HK Subsidiary maintain stockbroker licenses which subject both to the stringent rules of regulators in the Philippines and Hong Kong. As such, the Parent Company is required to maintain a minimum **Risk based capital adequacy ratio** (RBCA) or the ratio of total measured risk to liquid capital of 110% while the HK Subsidiary is required to maintain a **Liquid capital** of HKD3.0 million or 5% of its adjusted liabilities, whichever is higher. The RBCA ratio of the Parent Company and the liquid capital of the HK Subsidiary both consistently exceeded the minimum statutory requirement.

Material Changes in the Financial Position (September 30, 2012 vs December 31, 2011)

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.

Consolidated Assets composed mainly of cash and cash equivalents and trade receivables increased by 6.3% to ₱3.7 billion as at end of September 2012. Likewise, Liabilities comprised mostly of Trade payables was up 12.1% to ₱2.5 billion. Factors contributing to these upward movements are as follows:

Cash and cash equivalents composed mainly of cash in banks and short-term SDA placements of local funds slightly decreased by 0.4%.

Trade receivables, on the other hand, composed mainly of Receivable from customers and clearing house posted a net increase of ₱247.7 million or 21.3% to ₱1.4 billion primarily because of the increase in the balance of collectibles from post paid accounts due to net buying transactions within the settlement cut-off period and the increase in margin availment of local customers. This increase in customer accounts was partly offset by the reduction of the balance of Receivable from the clearing house, which went down by 70.1% or ₱136.2 million from ₱194.4 million to ₱58.2 million due to the collection of net settlement for selling transactions as of end 2011.

Deferred tax assets decreased by ₱22.5 million or 30.0% to ₱52.6 million due to the exercise of 9.2 million stock options share during the first six months of 2012 which correspondingly reduced the tax benefit that the Parent Company can claim in the future.

Trade payables, consisting of payable to customers, was up 14.4% to ₱2.4 billion as a result of the net fund inflow and the net buying transactions of the local customers during the reporting period.

Meanwhile, **Other current liabilities** decreased by ₱55.4 million or 73.7 % primarily due to the payment in January 2012 of the performance bonus for the year 2011 and the remittance of the corresponding tax due to the Bureau of Internal Revenue.

Material Changes in the Results of Operations (September 30, 2012 vs September 30, 2011)

The Group's **Consolidated Revenue** was down 5.7% to ₱484.5 million year-on-year. Although locally it managed to book a 4.6% 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 barely half of the revenues it generated during the same period last year. **Cost of Services** grew by ₱30.7 million or 34.8% from ₱88.1 million to ₱118.8 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 ₱9.7 million or 14.5% from ₱66.9 million to ₱76.6 million. **Provision for income tax**, on the other hand, dropped by ₱47.7 million from ₱70.2 million to ₱22.5 million. As a result of the foregoing movements, **Net Income** went down ₱21.8 million or 7.8% from ₱288.3 million to ₱266.5 million year-on-year.

The mixed performance of the Philippine and HK markets was evident in COL Financial's earnings results during the first nine months of the year. The Parent Company's commissions went up by 18.7% owing to the significant increase in the income generated by its Equity Advisory Group. Coming from a low base, the team's average daily turnover increased 55.0% from ₱120.0 million to ₱186.0 million outpacing the growth in COL's regular accounts, which increased 7.6% from ₱378.0 million to ₱406.0 million. As of end of the reporting period, the share of the Equity Advisory Group already comprise slightly over 30.0% of the commission revenues of the Parent Company. Total turnover value in the local market for the nine-month period grew by 17.0% year-on-year to ₱111.6 billion, the commission generated, therefrom, accounts for 62.0% of the total revenues of the Group. Daily average turn over increased 22.0% to ₱607.5 million this year against ₱497.5 million last year.

The increase in the Parent Company's commissions however failed to offset the slump in the HK commissions, which went down 52.7% to Php43.9 million as its turn-over value during the nine-month period of 2012 dropped to HKD4.0 billion from HKD8.3 billion during the same period last year. The Hong Kong Market continued to be mired in negative sentiment going into the 2nd quarter of 2012. The financial crisis in Europe coupled with reports that show a considerable slowdown in China's economy deterred investors from taking substantial positions despite the signs of recovery in the US. Our Hong Kong customers took a step back onto the sidelines to conserve their resources during this particularly volatile period.

Another major source of revenues of the Group is the **Interest** income, mostly from margin financing. Interest earned on margin fell 23.3% to ₱137.7 million year-on-year. The interest on the placement of idle funds which more than doubled, however, helped offset the effect of decreased margin line utilization during the nine-month period. 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 ₱1.2 billion to ₱934.4 million or a decrease of 22.3% 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 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 43.4% to ₱61.4 million during the first nine months of

2012 from ₱42.8 million during the same period last year. The Equity Advisory Group recorded a total turn-over value of ₱34.4 billion, up 49.4% from ₱23.0 billion, thus, increasing its market share from 27.0% to 33.0%, and consequently, the amount of rebates paid.

Moreover, **Communication** increased 58.4% to ₱16.8 million this year against last year's ₱10.6 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 . **Payroll costs** of personnel directly involved in operations likewise increased 15.8% to ₱27.7 million from ₱24.1 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 14.5% or ₱9.7 million to ₱76.6 million.

Professional fees also posted a 17.5% increase or ₱2.5 million to ₱17.1 million 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.

Personnel costs of administrative staff increased by 18.9% or ₱2.6 million to ₱16.5 million due to the across-the-board salary adjustments made.

Rentals, likewise, increased by ₱1.4 million or 23.9% to ₱7.4 million due to the expansion of COL's business and training centers in its Pasig offices and the establishment of a Disaster Recovery Site in the Makati area to ensure non-disruption of its trading operations.

Depreciation expense went up54.1% or ₱4.4 million to ₱12.7 million as the cost of the capital expenditures 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.

Meanwhile, although **Income before income tax** fell 6.5% to ₱211.9 million, consolidated net income still posted an increase of ₱26.8 million from ₱182.3 million last year to ₱209.1 million during the six-month period this year as **Provisions for income tax** dropped by 93.7% due to additional tax deductible expenses coming from stock option exercise valued at ₱176.0 million versus last year's ₱18.0 million.

Given the rise in expenses and the subdue growth in revenues, Income before income tax was only ₱289.1 million down by 19.4% Y/Y. However, the exercise of stock options valued at ₱176.0 million during the first semester of 2012 significantly reduced the Parent Company's income tax provision by around ₱53.0 million, thus providing the cushion needed to end the nine-month period with a net income lower by only 7.5% year-on-year.

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 Parent Company are fully funded in compliance with the Securities Regulation Code (SRC) Rule 49.2 while the HK 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.

PART II – OTHER INFORMATION

Not applicable. There are no material disclosures that have not been reported under SEC Form 17-C covered by this period.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **COL FINANCIAL GROUP, INC.**

By:

Conrado F. Bate
President and Chief Executive Officer
November 16, 2012

Catherine L. Ong
Senior Vice President and Chief Finance Officer
November 16, 2012

Lorena E. Velarde
Vice President and Financial Controller
November 16, 2012

COL FINANCIAL GROUP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30, 2012 (Unaudited)			December 31, 2011 (Audited)		
		Security Valuation			Security Valuation	
	Money Balance	**Long**	**Short**	Money Balance	Long	Short
ASSETS						
Current Assets						
Cash and cash equivalents (Note 4)	**₱2,179,085,153**			₱2,188,940,069		
Financial assets at fair value through profit or loss (FVPL; Note 5)	**9,575,791**	**₱9,571,791**		1,313,282	₱1,313,282	
Trade receivables (Note 6)	**1,408,426,177**	**12,618,051,992**		1,160,690,295	4,359,793,839	
Other receivables (Note 6)	**5,907,974**			8,130,814		
Prepayments	**4,769,416**			2,206,021		
Total Current Assets	**3,607,764,511**			3,361,280,481		
Noncurrent Assets						
Property and equipment (Note 8)	**39,848,164**			41,731,847		
Intangibles (Note 9)	**22,230,147**			23,027,647		
Deferred income tax assets-net (Note 17)	**52,644,784**			75,178,490		
Other noncurrent assets (Note 10)	**7,636,155**			8,626,513		
Total Noncurrent Assets	**122,359,250**			148,564,497		
TOTAL ASSETS	**₱3,730,123,761**			₱3,509,844,978		
Securities in box, in Philippine Depository and Trust Corporation and Hong Kong Securities Clearing Company, Limited			**₱31,026,803,669**			₱15,793,197,812

(Forward)

	September 30, 2012 (Unaudited)			December 31, 2011 (Audited)		
		Security Valuation			Security Valuation	
	Money Balance	**Long**	**Short**	Money Balance	Long	Short
LIABILITIES AND EQUITY						
Current Liabilities						
Trade payables (Note 11)	**₱2,441,297,859**	**₱18,399,175,886**		₱2,133,524,943	₱11,432,090,691	
Income tax payable	**15,415,754**			–		
Other current liabilities (Note 12)	**19,810,758**			75,193,971		
Total Current Liabilities	**2,476,524,371**			2,208,718,914		
Noncurrent Liability						
Retirement obligation (Note 16)	**6,152,980**			6,152,980		
Total Liabilities	**2,482,677,351**			2,214,871,894		
Equity (Notes 13 and 16)						
Capital stock	**467,710,000**			458,550,000		
Capital in excess of par value	**47,499,024**			44,899,024		
Cost of share-based payment	**34,207,791**			63,541,685		
Accumulated translation adjustment	**(42,275,856)**			(26,007,546)		
Retained earnings:						
Appropriated	**75,458,201**			45,004,197		
Unappropriated	**664,847,250**			708,985,724		
Total Equity	**1,247,446,410**			1,294,973,084		
TOTAL LIABILITIES AND EQUITY	**₱3,730,123,761**	**₱31,026,803,669**	**₱31,026,803,669**	₱3,509,844,978	₱15,793,197,812	₱15,793,197,812

See accompanying Notes to Consolidated Financial Statements.

COL FINANCIAL GROUP, INC. AND SUBSIDIARY
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	For the Nine Months Ended September 30		For the Quarter Ended September 30	
	2012	2011	**2012**	2011
REVENUES				
Commissions	**₱344,531,312**	₱346,094,657	**₱83,011,383**	₱136,980,440
Others:				
Interest (Notes 4, 6, 7 and 14)	**137,674,995**	141,967,760	**45,178,731**	49,243,469
Gain on financial assets at FVPL - net (Note 5)	**727,947**	19,549,068	–	5,567,140
Others	**1,541,384**	5,957,866	**2,470,883**	1,060,765
	484,475,638	513,569,351	**130,660,997**	192,851,814
COST OF SERVICES				
Commission expense (Note 18)	**61,386,094**	42,789,655	**13,538,250**	18,790,961
Personnel costs - operations (Note 15)	**27,712,435**	24,060,118	**7,613,777**	7,017,375
Stock exchange dues and fees	**8,212,447**	7,550,217	**1,943,140**	3,078,487
Central depository fees	**3,912,049**	3,047,378	**1,195,770**	1,228,061
Others:				
Communications	**16,847,227**	10,635,087	**5,593,881**	3,970,522
Others	**697,813**	–	**228,388**	–
	118,768,065	88,082,455	**30,113,206**	34,085,406
GROSS PROFIT	**365,707,573**	425,486,896	**100,547,791**	158,766,408
OPERATING EXPENSES				
Administrative expenses:				
Professional fees (Note 18)	**17,143,520**	14,594,759	**4,020,912**	4,566,994
Personnel costs (Note 15)	**16,542,814**	13,915,122	**4,885,155**	4,445,311
Rentals (Note 19)	**7,436,762**	6,001,606	**2,534,031**	2,209,692
Taxes and licenses	**2,959,070**	2,271,012	**941,607**	738,069
Power, light and water	**2,809,720**	2,047,826	**1,009,337**	774,713
Advertising and marketing	**2,542,328**	2,473,624	**851,988**	1,613,143
Security and messengerial services	**1,762,057**	1,268,626	**663,407**	485,351
Insurance and bonds	**1,666,725**	1,216,218	**607,306**	593,146
Stock option expense (Notes 16 and 18)	**1,599,000**	5,772,000	**143,000**	4,888,000
Office supplies	**1,579,111**	1,298,853	**354,685**	623,902
Condominium dues	**1,317,308**	1,109,097	**438,511**	430,435
Trainings, seminars and meetings	**1,314,341**	913,681	**319,495**	169,497
Bank charges	**1,312,044**	711,221	**445,648**	296,403
Repairs and maintenance	**716,568**	581,135	**272,513**	288,528
Representation and entertainment	**693,572**	348,249	**229,678**	148,170
Membership fees and dues	**656,448**	340,324	**218,533**	97,235
Transportation and travel	**587,602**	873,166	**158,397**	170,786
Others	**1,276,288**	2,558,331	**481,704**	1,052,342
	63,915,278	58,294,850	**18,575,907**	23,591,717
Depreciation and amortization (Note 8)	**12,653,173**	8,212,262	**4,066,863**	3,275,092
Provision for credit losses	–	–	**647,522**	–
Foreign exchange losses-net	**47,780**	–	**47,780**	–
Interest expense - loans	–	426,667	–	15,556
	76,616,231	66,933,780	**23,338,072**	26,882,365
INCOME BEFORE INCOME TAX	**289,091,342**	358,553,117	**77,209,719**	131,884,043
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)				
Current	**23,495,567**	68,946,002	**20,306,102**	26,851,296
Deferred	**(949,755)**	1,294,397	**(570,526)**	(974,791)
	22,545,812	70,240,399	**19,735,576**	25,876,505
NET INCOME	**₱266,545,530**	₱288,312,718	**₱57,474,143**	₱106,007,538

See accompanying Notes to Consolidated Financial Statements.

COL FINANCIAL GROUP, INC. AND SUBSIDIARY
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Nine Months Ended September 30		For the Quarter Ended September 30	
	2012	2011	**2012**	2011
NET INCOME	**₱266,545,530**	₱288,312,718	**₱57,474,143**	₱106,007,538
OTHER COMPREHENSIVE INCOME (LOSS)				
Translation adjustments- net of tax	**(16,268,310)**	(2,018,924)	**(3,549,008)**	898,943
TOTAL COMPREHENSIVE INCOME	**₱250,277,220**	₱286,293,794	**₱53,925,135**	₱106,906,481
Earnings Per Share (Note 23)				
Basic	**0.58**	0.64	**0.12**	0.24
Diluted	**0.57**	0.62	**0.12**	0.23

See accompanying Notes to Consolidated Financial Statements.

COL FINANCIAL GROUP, INC. AND SUBSIDIARY

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

(With Comparative Figures for the Nine Months Ended September 30, 2011)

	Capital Stock	Capital in Excess of Par Value	Cost of Share-Based Payment	Accumulated Translation Adjustment	Retained Earnings		Total
					Appropriated	Unappropriated	
Balances at December 31, 2010	₱442,650,000	₱35,539,024	₱71,073,568	(₱26,873,680)	₱26,881,330	₱569,969,715	₱1,119,239,957
Issuance of shares upon exercise of stock options (Note 16)	15,900,000	9,360,000	–	–	–	–	25,260,000
Cost of share-based payment (Note 16)	–	–	(22,550,863)	–	–	–	(22,550,863)
Declaration of cash dividend (Note 13)	–	–	–	–	–	(177,660,000)	(177,660,000)
Net income for the period	–	–	–	–	–	288,312,718	288,312,718
Other comprehensive loss	–	–	–	(2,018,924)	–	–	(2,018,924)
Total comprehensive income (loss) for the period	–	–	–	(2,018,924)	–	288,312,718	286,293,794
Appropriation of retained earnings (Note 13)	–	–	–	–	18,122,867	(18,122,867)	–
Balances at September 30, 2011	₱458,550,000	₱44,899,024	₱48,522,705	(₱28,892,604)	₱45,004,197	₱662,499,566	₱1,230,582,888
Balances at December 31, 2011	₱458,550,000	₱44,899,024	₱63,541,685	(₱26,007,546)	₱45,004,197	₱708,985,724	₱1,294,973,084
Issuance of shares upon exercise of stock options (Note 16)	9,160,000	2,600,000	–	–	–	–	11,760,000
Cost of share-based payment (Note 16)	–	–	(29,333,894)	–	–	–	(29,333,894)
Declaration of cash dividend (Note 13)	–	–	–	–	–	(280,230,000)	(280,230,000)
Net income for the period	–	–	–	–	–	266,545,530	266,545,530
Other comprehensive loss	–	–	–	(16,268,310)	–	–	(16,268,310)
Total comprehensive income (loss) for the period	–	–	–	(16,268,310)	–	266,545,530	250,277,220
Appropriation of retained earnings (Note 13)	–	–	–	–	30,454,004	(30,454,004)	–
Balances at September 30, 2012	₱467,710,000	₱47,499,024	₱34,207,791	(₱42,275,856)	₱75,458,201	₱664,847,250	₱1,247,446,410

See accompanying Notes to Consolidated Financial Statements

COL FINANCIAL GROUP, INC. AND SUBSIDIARY
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ended September30	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱289,091,342**	₱358,553,117
Adjustments for:		
Interest income (Notes 4, 6, 7 and 14)	**(137,674,995)**	(141,967,760)
Depreciation and amortization (Note 8)	**12,653,173**	8,212,262
Stock option expense (Note 16)	**1,599,000**	5,772,000
Provision for(recovery from) credit losses	–	(763,256)
Gain on disposal of HTM investment (Note 7)	–	(3,974,316)
(Gain) loss on disposal of property and equipment	**(4,984)**	–
Unrealized loss (gain) on financial assets at FVPL	**(2,244,436)**	416,707
Provision for impairment losses on other noncurrent assets	–	–
Dividend income (Note 5)	**(6,682)**	(27,359)
Operating income before working capital changes	**163,412,418**	226,221,395
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at FVPL	**(6,018,073)**	(2,236,561)
Trade receivables	**(276,657,104)**	474,273,754
Other receivables	**311,163**	(1,638,426)
Prepayments	**(2,606,359)**	(3,159,274)
Other noncurrent assets	**(3,637,908)**	(3,309,260)
Increase (decrease) in:		
Trade payables	**315,704,885**	1,404,499,252
Other current liabilities	**(56,382,175)**	(24,088,084)
Net cash generated from operations	**134,126,847**	2,070,562,796
Interest received	**137,987,267**	142,301,990
Income taxes paid	–	(52,392,470)
Dividends received	**6,682**	27,359
Net cash flows from operating activities	**272,120,796**	2,160,499,675
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of HTM investment	–	106,474,792
Acquisition of property and equipment (Note 8)	**(11,162,293)**	(21,241,180)
Proceeds from disposal of property and equipment (Note 8)	**256,581**	–
Net cash flows from (used in) investing activities	**(10,905,712)**	85,233,612
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loan	–	80,000,000
Payment of short-term loan	–	(80,000,000)
Payment of cash dividends	**(280,230,000)**	(177,660,000)
Issuance of additional shares (Notes 13 and 16)	**9,160,000**	15,900,000
Net cash flows used in financing activities	**(271,070,000)**	(161,760,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(9,854,916)**	2,083,973,287
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**2,188,940,069**	796,209,875
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)	**₱2,179,085,153**	₱2,880,183,162

See accompanying Notes to Consolidated Financial Statements.

COL FINANCIAL GROUP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

COL Financial Group, Inc. (COL Financial, 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 (COLHK, Subsidiary), a wholly-owned foreign subsidiary, was domiciled and incorporated in Hong Kong, primarily to act as stockbroker and 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, Hong Kong.

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

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

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

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

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

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year.

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 reporting date. 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 Banks - Reserve Bank Account
Cash in banks - reserve bank account includes Parent Company's reserved cash in compliance with SRC Rule 49.2 covering customer protection and custody of securities and 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 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) investments, 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 every reporting date. The Group's financial assets are of the nature of financial assets at FVPL, HTM investments, and loans and receivables. As at September 30, 2012 and December 31, 2011, the Group has no AFS investments.

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 September 30, 2012 and December 31, 2011 are of the nature of other financial liabilities.

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

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

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

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

As at September 30, 2012 and December 31, 2011, the Group has no financial assets and financial liabilities that have been designated as at FVPL.

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

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;

- A separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and

- The hybrid or combined instrument is not recognized at FVPL.

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

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

As at September 30, 2012 and December 31, 2011, the Group has no bifurcated embedded derivatives.

HTM Investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and

ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, during either the current financial year or the two preceding financial years, the entire category would be tainted and reclassified as AFS investments 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 statements 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 statements of income.

Loans and Receivables
These are non-derivative financial assets with fixed or determinable payments and fixed maturities 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 statements of financial position captions 'Cash and cash equivalents' and 'Trade and other receivables', which arise primarily from service revenues and other types of receivables.

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

Other Financial Liabilities
Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Any effects of restatement of foreign currency-denominated liabilities are recognized in 'Foreign exchange gains - net' account in the consolidated statement of income.

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

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

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

Day 1 Difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique

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

Trade Receivables and Payables

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

Derecognition of Financial Instruments

Financial Assets

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

- The rights to receive cash flows from the asset have expired;

- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

a. the amortized cost of the rights and obligations retained by the entity, if the transferred asset is measured at amortized cost; or

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

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

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

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

Impairment of Financial Assets
The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

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

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

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

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

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

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:

Category	Number of Years
Furniture, fixtures and equipment	3-10
Lease 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 financial year end.

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 Group does not intend to sell the exchange trading rights in the near future.

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.

Impairment of Non-financial Assets
The Group assesses at each reporting date whether there is an indication that its property and equipment, intangibles and other noncurrent assets may be impaired. If any such indication exists or when the annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's value-in-use 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 value-in-use is the present value of estimate 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 statements 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 deducted from equity when they are approved by the Group's BOD and stockholders, respectively. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. 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.

Expenses

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. Expenses are recognized when the related revenue is earned or when the service is incurred. The majority of 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 16 to the consolidated notes to 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 reporting date 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 16).

<u>Retirement Cost</u>
The Parent Company has a noncontributory defined benefit retirement plan.

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

The liability recognized in the consolidated statement of financial position in respect of the defined benefit retirement plan is the present value of the defined benefit retirement obligation at the reporting date less the fair value of any plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit retirement obligation is calculated annually, as necessary, by an independent actuary using the projected unit credit method. The present value of the defined benefit retirement obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded ten percent (10.00%) of the higher of the defined benefit retirement obligation and the fair value of plan assets, if any, at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

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

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

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

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

Diluted EPS is computed by dividing net income by the weighted average number of common shares outstanding during the year, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year, and adjusted for the effect of dilutive options. Outstanding stock options will have a dilutive effect under the treasury stock method only when the average market price of the underlying common share during the period exceeds the exercise price of the option. Where the effect of the exercise of all outstanding options has anti-dilutive effect, basic and diluted EPS are stated at the same amount.

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

Deferred Income Tax
Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date 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 reporting date 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 tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred income tax asset to be recovered.

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

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

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

<u>Contingencies</u>
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 disclosed when an inflow of economic benefits is probable.

<u>Segment Reporting</u>
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 24. The Group operates in one business segment, being stockbrokerage services; therefore, business segment information is no longer presented.

<u>Events After the Reporting Date</u>
Post-year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed when material.

3. Summary of Significant Accounting Judgments, Estimates and Assumptions

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

Judgments and estimates 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.

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 Hong Kong dollar, respectively. The Philippine peso and the Hong Kong 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 each of the respective entities of the Group.

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

Classifying Financial Assets at FVPL
The Group classifies financial assets that are held for trading as financial assets at FVPL. These financial assets are held for the purpose of selling in the short term. As at September 30, 2012 and December 31, 2011 the Group has financial assets at FVPL amounting to ₱9,575,791 and ₱1,313,282, respectively (see Note 5).

Classifying HTM Investments
The Group follows the guidance of PAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for specific circumstances explained in PAS 39, it will be required to reclassify the whole amount as AFS investments. The investments would therefore be measured at fair value, not amortized cost. If the class of HTM investment is tainted, its fair value would change with a corresponding entry in the fair value reserve in equity. As at September 30, 2012 and December 31, 2011, the Group has no HTM investment.

Deferred Income Tax Assets
The Group reviews the carrying amounts of deferred income tax assets at each reporting date 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 ₱52,644,784 and ₱75,178,490 as at September 30, 2012 and December 31, 2011, respectively (see Note 17).

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.

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 value-in-use 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 for the cash generating unit are further explained in Note 9. The Group does not intend to sell the exchange trading rights in the near future. As at September 30, 2012 and December 31, 2011, the carrying values of intangibles amounted to ₱22,230,147 and ₱23,027,647, respectively (see Note 9).

Estimating Useful Lives of Property and Equipment
The Group estimates the useful lives of its property and equipment based on the period over which

the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in the Group's estimates brought about by changes in the factors mentioned. Depreciation and amortization amounted to ₱12,653,173 and ₱8,212,262 in September 2012 and 2011, respectively. As at September 30, 2012 and December 31, 2011, the net book values of property and equipment amounted to ₱39,848,164 and ₱41,731,847, respectively (see Note 8).

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

- Significant underperformance relative to expected historical or projected future operating results;

- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and

- Significant negative industry or economic trends.

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

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

Based on management's assessment, there are no indications of impairment on the Group's property and equipment as at September 30, 2012 and December 31, 2011.

As at September 30, 2012 and December 31, 2011, allowance for impairment losses on other noncurrent assets amounted to ₱13,724,200.

No impairment loss was recognized as at September 30, 2012 and December 31, 2011 for property and equipment. The net book values of property and equipment amounted to ₱39,848,164 and ₱41,731,847 as at September 30, 2012 and December 31, 2011, respectively (see Note 8).

No provision for impairment losses on other noncurrent assets was made as at September 30, 2012 and December 31, 2011. The net book values of other noncurrent assets amounted to ₱7,636,155 and ₱8,626,513, respectively (see Note 10).

Share-based Payments
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions

and models used for estimating fair value for share-based payments are disclosed in Note 16. As at September 30, 2012 and December 31, 2011, cost of share-based payment in equity amounted to ₱34,207,791 and ₱63,541,685, respectively (see Note 16).

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

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting dates. As at September 30, 2012 and December 31, 2011, the retirement obligation of the Parent Company amounted to ₱6,152,980.

Estimating Impairment of Receivables and HTM Investment
The Group reviews its receivables and HTM investment at each reporting date 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 September 30, 2012 and December 31, 2011, the allowance for credit losses on trade and other receivables amounted to ₱12,442,374 and ₱12,830,410, respectively. The carrying value of trade and other receivables as at September 30, 2012 and December 31, 2011 amounted to ₱1,414,334,151 and ₱1,168,821,109, respectively (see Note 6).

4. Cash on Hand and in Banks

Cash and Cash Equivalents

	September 30, 2012 (Unaudited)	December 31,2011 (Audited)
Cash on hand and in banks	**₱362,519,483**	₱586,526,418
Short-term cash investments	**1,816,565,670**	1,602,413,651
	₱2,179,085,153	₱2,188,940,069

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 1.8% to 4.0% per annum. Interest income of the Group amounted to ₱46,427,225 and ₱21,696,939 in September 30, 2012 and 2011, respectively. The Parent Company has U.S dollar-denominated cash in banks as of September 30, 2012 and December 31, 2011 (see Note 21).

Cash in Banks - Reserve Bank Account

In compliance with SRC Rule 49.2 covering customer protection and custody of securities, the Parent Company maintains special reserve bank accounts for the exclusive benefit of its customers amounting to ₱1,855,226,922 and ₱1,663,501,898 as at September 30, 2012 and December 31, 2011, respectively. The Parent Company's reserve requirement is determined based on the SEC's prescribed computations. As at September 30, 2012 and December 31, 2011, the Parent Company's reserve accounts are adequate to cover its reserve requirements.

COLHK maintains segregated account with a licensed bank to hold clients' monies arising from its normal course of business. The Group has classified the clients' monies under the cash and cash equivalents in the consolidated statements of financial position and recognized a corresponding payable to customers on grounds that it is liable for any loss or misappropriation of clients' monies.

As of September 30, 2012 and December 31, 2011, cash in a segregated account for COLHK amounted to ₱48,140,548 and ₱178,180,571, respectively.

5. Financial Assets at FVPL

Financial assets at FVPL pertain to investments in shares of stocks of companies listed in the PSE and Hong Kong Exchanges. The Group recognized from fair value changes of these financial instruments a gain of ₱727,947 and ₱19,549,068 in September 30, 2012 and 2011, respectively.

6. Trade and Other Receivables

	September 30, 2012 (Unaudited)	December 31,2011 (Audited)
Trade receivables:		
Customers	**₱1,348,476,897**	₱965,366,128
Clearing house	**58,187,683**	194,394,567
Other broker	**5,243,726**	4,799,765
	1,411,908,306	1,164,560,460
Less allowance for credit losses on receivable from customers	**3,482,129**	3,870,165
	₱1,408,426,177	₱1,160,690,295
Other receivables:		
Income tax	**₱11,156,731**	₱14,835,040
Others	**3,711,488**	2,256,019
	14,868,219	17,091,059
Less allowance for credit losses on other receivables	**8,960,245**	8,960,245
	₱5,907,974	₱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 1.0% to 1.5% per month. Total credit line offered by the Parent Company amounted to ₱4,220,259,000 and ₱32,324,636 as of September 30, 2012 and December 31, 2011, respectively. Interest income from customers amounted to ₱91,247,770 and ₱119,007,101 in September 30, 2012 and 2011, respectively.

Other receivables as of September 30, 2012 and December 31, 2011 include the amount of ₱8,960,245 representing additional corporate income tax paid under protest by the Parent Company for the taxable year 2009. For the first, second and third quarters of the taxable year 2009, the Parent Company used the itemized method of deduction in determining its income tax payable for the same period. In its final adjusted income tax return, it opted to use the 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 No. (RR) 16-08 dated November 26, 2008 (see Note 17). However on March 14, 2010, RR No. 2-2010 became effective and amended Section 7 of RR No. 16-08 which now requires 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 return for the taxable year. Likewise, Revenue Memorandum Circular 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 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 payment under protest, a 100% allowance for impairment loss was set up.

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

	September 30, 2012 (Unaudited)		December 31, 2011 (Audited)	
	Money Balance	**Security Valuation**	Money Balance	Security Valuation
Cash and fully secured accounts:				
More than 250%	**₱445,889,486**	**₱11,073,211,902**	₱547,166,376	₱3,548,258,577
Between 200% and 250%	**590,785,505**	**1,258,204,731**	259,656,597	561,782,521
Between 150% and 200%	**25,866,702**	**49,279,023**	127,339,875	240,891,741
Between 100% and 150%	**88,058,875**	**89,467,071**	2,958,701	4,011,000
Less than 100%	**197,872,744**	**147,889,265**	4,904,963	4,850,000
Unsecured accounts	**3,585**	**–**	23,339,616	–
	1,348,476,897	**12,618,051,992**	965,366,128	4,359,793,839
Less allowance for impairment losses	**3,482,129**	**–**	3,870,165	–
	₱1,344,994,768	**₱12,618,051,992**	₱961,495,963	₱4,359,793,839

Receivable from customers have no specific credit terms but customers are required to maintain the value of their collateral within a specific level. Once the value of the collateral falls down this level, customers may either deposit additional collateral or sell stocks to cover their account balance. The receivable balances become demandable upon failure of the customer to duly comply with these requirements. As of September 30, 2012 and December 31, 2011, ₱1,150,600,568 and ₱937,121,549, respectively, of the total receivables are fully covered by collateral.

Receivable from clearing house was fully collected in October and January 2012.

Movements in the allowance for impairment losses on receivables are as follows:

	September 30, 2012 (Unaudited)			December 31, 2011 (Audited)		
	Customers	**Others**	**Total**	Customers	Others	Total
Balances at beginning of period	**₱3,870,165**	**₱8,960,245**	**₱12,830,410**	₱3,749,170	₱8,960,245	₱12,709,415
Provisions (reversal) for the period	**(388,036)**	**–**	**(388,036)**	120,995	–	120,995
Balances at end of period	**₱3,482,129**	**₱8,960,245**	**₱12,442,374**	₱3,870,165	₱8,960,245	₱12,830,410

The table below shows the aging of receivables:

September 30, 2012 (Unaudited)

	Total	**6 Months and less**	**Over 6 months to 1 year**	**Over 1 year**
Customers	**₱1,348,476,897**	**₱1,310,392,748**	**₱29,004,567**	**₱9,079,582**
Clearing house	**58,187,683**	**58,187,683**	**–**	**–**
Other broker	**5,243,726**	**–**	**–**	**5,243,726**
Accrued interest	**927,564**	**927,564**	**–**	**–**
Others	**13,940,655**	**4,980,410**	**–**	**8,960,245**
	₱1,426,776,525	**₱1,374,488,405**	**₱29,004,567**	**₱23,283,553**

December 31, 2011 (Audited)

	Total	6 Months and less	Over 6 months to 1 year	Over 1 year
Customers	₱965,366,128	₱901,874,548	₱59,992,601	₱3,498,979
Clearing house	194,394,567	194,394,567	–	–
Other broker	4,799,765	–	–	4,799,765
Accrued interest	1,239,835	1,239,835	–	–
Others	15,851,224	6,890,979	–	8,960,245
	₱1,181,651,519	₱1,104,399,929	₱59,992,601	₱17,258,989

7. **Held-to-Maturity Investment**

HTM investment represents the Parent Company's investment in a 5-year Fixed Rate Treasury Note, with 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 sold on March 14, 2011 at a gain of ₱3,974,316. Interest income earned from this investment amounted to ₱1,249,960 in September 30, 2011.

8. **Property and Equipment-net**

September 30, 2012 (Unaudited)

	Furniture, Fixtures and Equipment	**Leasehold Improvements**	**Total**
Cost:			
At beginning of period	**₱78,889,357**	**₱25,820,694**	**₱104,710,051**
Additions	**10,934,336**	**227,957**	**11,162,293**
Disposals	**(1,148,106)**	**–**	**(1,148,106)**
Translation adjustments	**(649,819)**	**(35,781)**	**(685,600)**
At end of period	**88,025,768**	**26,012,870**	**114,038,638**
Accumulated depreciation and amortization:			
At beginning of period	**48,863,269**	**14,114,935**	**62,978,204**
Depreciation and amortization for the period	**9,278,427**	**3,374,746**	**12,653,173**
Disposals	**(896,509)**	**–**	**(896,509)**
Translation adjustments	**(508,613)**	**(35,781)**	**(544,394)**
At end of period	**56,736,574**	**17,453,900**	**74,190,474**
Net book values	**₱31,289,194**	**₱8,558,970**	**₱39,848,164**

December 31, 2011(Audited)

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

9. **Intangibles**

Philippine Operations

On August 15, 2006, the Parent Company purchased the Trading Right of Mark Securities

Corporation amounting to ₱5,000,000. On December 13, 2006, the BOD of the PSE, in its regular meeting approved the application of the Parent Company as a Corporate Trading Participant in the PSE.

Hong Kong Operations
COLHK's exchange trading right is carried at its cost of HKD3,190,000. The carrying value of the exchange trading right is reviewed annually to ensure that this does not exceed the recoverable amount, whether or not an indicator of impairment is present. The said exchange trading right is non-transferable and cannot be sold to any third party independent of the total assets and liabilities of COLHK.

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

Movements in exchange trading rights follow:

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Beginning balance	**₱23,027,647**	₱22,989,686
Translation adjustment	**(797,500)**	37,961
Ending balance	**₱22,230,147**	₱23,027,647

10. **Other Noncurrent Assets**

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Deposit to CTGF	**₱13,724,200**	₱13,724,200
Refundable deposits:		
Rental deposits	**2,339,751**	2,378,081
Other refundable deposits	**2,408,140**	2,939,697
	4,747,891	5,317,778
Input VAT	**2,888,264**	3,308,735
	21,360,355	22,350,713
Less allowance for impairment losses on other noncurrent assets	**13,724,200**	13,724,200
	₱7,636,155	₱8,626,513

The Parent Company made an initial contribution on October 20, 2008 to the Clearing and Trade Guaranty Fund (CTGF) of the SCCP amounting to ₱8,200,000 as a prerequisite to its accreditation as a clearing member of 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 months trading data and a calculation for the ideal fund level using the Value at Risk (VAR) Model. The said amount was recalculated after six (6) months based on the effective rate of eleven per cent (11%) applied to the actual netted trade value of the clearing member. On August 20, 2009, the Parent Company made an additional contribution amounting to ₱5,524,200 to top-up the deficiency in the initial contribution.

In addition to the collection of the initial contribution and as part of the build-up plan for the CTGF, SCCP collects a monthly contribution at the rate of 1/500 of 1% 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 non-refundable. However, in consideration of the 100% increase in the CTGF contributions which took effect on August 1, 2007, the BOD of SCCP has approved the full refund of contributions to the CTGF upon cessation of the business of the clearing member and upon termination of its membership with SCCP. Such amendment has been submitted for the further approval of the SEC. Pending the approval of the SEC, the rule on non-refundability still applies. In view of this, the Parent Company made a full provision for impairment losses amounting to ₱13,724,200 in previous years.

11. **Trade Payables**

	September 30, 2012 (Unaudited)		December 31, 2011 (Audited)	
	Money Balance	**Security Valuation-Long**	Money Balance	Security Valuation-Long
Payable to customers:				
With money balances	**₱2,381,504,870**	**₱16,729,621,247**	₱2,133,442,971	₱11,062,358,289
No money balances	**–**	**1,669,554,639**	–	369,732,402
	2,381,504,870	**18,399,175,886**	2,133,442,971	11,432,090,691
Payable to clearing house	**59,530,385**	**–**	–	–
Dividend payable - customer	**262,604**	–	81,972	–
	₱2,441,297,859	**₱18,399,175,886**	₱2,133,524,943	₱11,432,090,691

Payable to customers with money balances amounting to ₱47,161,051 and ₱179,221,974 as of September 30, 2012 and December 31, 2011, respectively, were payable to COLHK's clients in respect of the trust and segregated bank balances received and held for clients in the course of the conduct of regulated activities. These balances are payable on demand (see Note 4).

12. **Other Current Liabilities**

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Accrued expenses (see Note 18)	**₱8,939,535**	₱35,726,340
Accrued management bonus	**-**	18,005,594
Due to Bureau of Internal Revenue	**5,380,876**	17,388,880
Trading fees	**5,245,175**	3,862,395
Others	**245,172**	210,762
	₱19,810,758	₱75,193,971

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

13. **Equity**

Capital Stock
The details and movements of the Parent Company's capital stock (figures and amounts in thousands) follow:

	September 30, 2012 (Unaudited)		December 31, 2011 (Audited)	
	Shares	**Amount**	Shares	Amount
Common Stock - ₱1 per share Authorized	**1,000,000**	**₱1,000,000**	1,000,000	₱1,000,000
Issued and Outstanding				
Balances at beginning of the period	**458,550**	**₱458,550**	442,650	₱442,650
Issuance of common shares upon exercise of stock options	**9,160**	**9,160**	15,900	15,900
Balances at end of the period	**467,710**	**₱467,710**	458,550	₱458,550

As of September 30, 2012 and December 31, 2011, the Parent Company has 29 and 38 stockholders, respectively.

Retained Earnings
In compliance with SRC Rule 49.1 B Reserve Fund, the Parent Company is required to annually appropriate ten percent (10%) of its audited net income and transfer the same to appropriated retained earnings account. On December 11, 2006, the BOD approved the annual appropriation commencing on the year 2006. Total appropriated retained earnings amounted to ₱75,458,201 and ₱45,004,197 as of September 30, 2012 and December 31, 2011, respectively while total unappropriated retained earnings amounted to ₱664,847,250 and ₱708,985,724 as of September 30, 2012 and December 31, 2011, respectively.

During the BOD meeting on April 26, 2007, the BOD of the Parent Company approved a policy of declaring an annual regular cash dividend of twenty percent (20%) of its net earnings.

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

2012

Cash Dividend	**Declaration Date**	**Ex-date**	**Record Date**	**Payment Date**
Regular				
₱0.12 per share	**March 30, 2012**	**April 13, 2012**	**April 18, 2012**	**May 14, 2012**
Special				
₱0.48 per share	**March 30, 2012**	**April 13, 2012**	**April 18, 2012**	**May 14, 2012**

2011

Cash Dividend	Declaration Date	Ex-date	Record Date	Payment Date
Regular				
₱0.07 per share	March 31, 2011	April 11, 2011	April 14, 2011	April 29, 2011
Special				
₱0.33 per share	March 31, 2011	April 11, 2011	April 14, 2011	April 29, 2011

On December 11, 2008, the Hong Kong Securities and Futures Commission (SFC) approved the increase in the authorized capital stock of COLHK from 20,000,000 shares to 50,000,000 shares at HK$1 par value. On February 19, 2009, the COLHK's BOD declared a scrip dividend corresponding to 23,000,005 shares at HK$1 par value to its existing stockholders as of December 31, 2008.

On December 31, 2009, the Hong Kong SFC approved the increase in the authorized capital stock of COLHK from 50,000,000 shares to 150,000,000 shares at HK$1 par value. On March 1, 2010, the COLHK's BOD declared a scrip dividend corresponding to 21,999,995 shares at HK$1 par value to its existing stockholders as of December 31, 2010.

On February 3, 2011, COLHK's BOD approved to pay a final 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 February 7, 2012, COLHK's BOD has proposed to pay a final dividend of HK$0.064 per share in scrip.

14. **Interest**

	September 30, 2012 (Unaudited)	September 30, 2011 (Unaudited)
Customers (Note 6)	**₱91,247,770**	₱119,007,101
Banks – net (Note 4)	**46,427,225**	21,696,939
HTM investment – net (Note 7)	**–**	1,249,960
Others	**–**	13,760
	₱137,674,995	₱141,967,760

15. **Personnel Costs**

	September 30, 2012 (Unaudited)	September 30, 2011 (Unaudited)
Salaries and wages	**₱40,033,346**	₱33,873,035
Other benefits	**4,221,903**	4,102,205
	₱44,255,249	₱37,975,240

Personnel costs were distributed as follows:

	September 30, 2012 (Unaudited)	September 30, 2011 (Unaudited)
Cost of services	**₱27,712,435**	₱24,060,118
Operating expenses	**16,542,814**	13,915,122
	₱44,255,249	₱37,975,240

16. **Employee Benefits**

SOP

On July 12, 2000 and July 3, 2006, the Group granted stock options 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 of 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 years from July 12, 2006, the effective date of listing of the Parent Company's shares at the PSE, and will terminate ten years from the said date. There was no new SOP granted as of September 30, 2012.

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

The following table illustrates the number of and movements in stock options:

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Outstanding at beginning of the period	**17,450,000**	33,350,000
Exercised during the period	**(9,160,000)**	(15,900,000)
Outstanding at end of the period	**8,290,000**	17,450,000

The options have a contractual term of 10 years. The weighted average remaining contractual life of options outstanding is 4.75 years and 5.5 years as of September 30, 2012 and December 31, 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 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%; (4) option life of 10 years; and (5) risk-free interest rate of 15.61%.

The assumptions used to determine the fair value of the 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%; (4) option life of 10 years; and (5) risk-free interest rate of 11.04%.

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. Since the stock is not quoted at the time of grant date, the Group used the historical volatility of the nearest market comparable available.

Risk-free interest rate is the equivalent 10-year zero coupon rate at the time of grant date. Movements in the cost of share-based payment included in equity are as follows:

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Balances at beginning of year	**₱63,541,685**	₱71,073,568
Cost of share-based payment recognized as capital in excess of par value	**(2,600,000)**	(9,360,000)
Stock option expense	**1,599,000**	5,980,000
Movement on deferred tax asset on intrinsic value of outstanding options	**(28,332,894)**	(4,151,883)
Movements during the period	**(29,333,894)**	(7,531,883)
Balances at end of year	**₱34,207,791**	₱63,541,685

<u>Retirement Benefits</u>

The Parent Company has a funded, noncontributory 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 the employees. The defined retirement benefit obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement as of September 30, 2012 and December 31, 2011.

COLHK makes monthly contribution to a fund under the mandatory provident fund schemes ordinance enacted by the Hong Kong Government. The plan is defined contribution. Under the plan COLHK should contribute 5% of the monthly relevant income of all its qualified employees. The contribution recognized as expense amounted to ₱193,221 and ₱184,671 in September 30, 2012 and 2011, respectively.

17. Income Taxes

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

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Cost of share-based payment	**₱30,632,791**	₱58,965,685
Accumulated translation adjustment	**18,118,224**	11,146,092
Stock option expense	**1,072,500**	1,372,800
Accrued retirement costs	**2,365,834**	2,450,637
Allowance for credit and impairment losses	**1,044,639**	1,161,049
Unrealized loss in the valuation of FVPL	**(590,475)**	82,856
Unrealized foreign exchange (gains) loss	**1,271**	(629)
	₱52,644,784	₱75,178,490

Realization of the future tax benefits related to the net deferred income tax assets is dependent on many factors, including the Group's ability to generate taxable income, within the carryover period. Management has considered these factors in reaching a conclusion that not recognizing a portion of the net deferred income tax assets is necessary for financial reporting purposes.

As of September 30, 2012 and December 31, 2011, the Parent Company has temporary difference arising from allowance for probable losses on other assets amounting to ₱13,724,200 for which no deferred tax asset was recognized since management believes that it is probable that this temporary difference will not be realized in the future.

18. Related Party Disclosures

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

a. The Parent Company, in the ordinary course of business, executed done-through trading transactions of its customers through Citisecurities, Inc. (CSI), a related party through common stockholders. Total commission charged to operations amounted to ₱12,815 and ₱38,023 in September 30, 2012 and 2011, respectively.

b. Lancashire Management Services Limited (Lancashire), a company incorporated in Hong Kong and a related party of COLHK through a common director, provides COLHK accounting services. Total management fee charged to operations amounted to ₱3,515,053 and ₱3,558,950 in September 30, 2012 and 2011, respectively.

c. iGet.com, Limited (iGet), a company incorporated in British Virgin Islands and a related party through common stockholders, provides COLHK financial advisory services including but not limited to research on local and overseas securities. Total financial fee charged to operations mounted to₱3,292,790 and ₱5,000,866, in September 30, 2012 and 2011, respectively.

d. Compensation of key management personnel of the Group follows:

	September 30, 2012 (Unaudited)	September 30, 2011 (Unaudited)
Short-term employee benefits	**₱19,702,771**	₱17,258,111
Pension benefits	**98,784**	100,017
Cost of share-based payment	**1,599,000**	5,772,000
	₱21,400,555	₱23,130,128

19. Leases

The Group leases its office premises under separate operating lease agreements expiring on various dates and whose lease terms are negotiated every 1-3 years. Rental costs charged to operations amounted to ₱7,436,762 and ₱6,001,606 in September 30, 2012 and 2011, respectively.

The future minimum lease payments are as follows:

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Within one (1) year	**₱6,370,223**	₱12,271,336
After one (1) year but not more than five (5) years	**568,800**	5,668,997
	₱6,939,023	₱17,940,333

20. 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 period ended September 30, 2012 and December 31, 2011.

The Amended Implementing Rules and Regulations of the SRC effective February 28, 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 2.5% of aggregate indebtedness, whichever is higher, for broker dealers dealing only in proprietary shares and not holding securities, (b) to allow the SEC to set a different net capital requirement for those authorized to use the Risk-Based Capital Adequacy (RBCA) model, and (c) to require unimpaired paid-up capital of ₱100.0 million for broker dealers, which are either first time registrants or those acquiring existing broker dealer firms and will participate in a registered clearing agency; ₱10.0 million plus a surety bond for existing broker dealers not engaged in market making transactions; and ₱2.5 million for broker dealers dealing only in proprietary shares and not holding securities.

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

The Parent Company being a registered broker in securities is subject to the stringent rules of the SEC and other regulatory agencies with respect to the maintenance of specific levels of RBCA ratios. RBCA is a ratio that compares the broker or dealer's total measured risk to its liquid capital. As a rule, the Parent Company must maintain an RBCA ratio of at least 110% and a net liquid capital (NLC) of at least ₱5.0 million or five percent (5%) of its aggregate indebtedness, whichever is higher. Also, the Aggregated Indebtedness (AI) of every stockbroker should not exceed two thousand percent (2,000%) of its NLC. In the event that the minimum RBCA ratio of 110% or the minimum NLC is breached, the Parent Company shall immediately cease doing business as a broker and shall notify the PSE and SEC. As of September 30, 2012 and December 31, 2011, the Parent Company is compliant with the said requirement.

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

The RBCA ratio of the Parent Company as of September 30, 2012 and December 31, 2011 are as follows:

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Equity eligible for net liquid capital	**₱882,016,355**	₱872,980,645
Less: Ineligible Assets	**194,505,862**	192,910,902
NLC	**₱687,510,493**	₱680,069,743
Position risk	**₱2,452,667**	₱480,243
Operational risk	**81,214,878**	52,746,292
Total Risk Capital Requirement	**₱83,667,545**	₱53,226,535
AI	**₱2,310,451,531**	₱2,030,945,889
5% of AI	**₱115,522,577**	₱101,547,294
Required NLC	**115,522,577**	101,547,294
Net Risk-Based Capital Excess	**571,987,916**	578,522,449
Ratio of AI to NLC	**336%**	299%
RBCA ratio	**822%**	1,278%

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

1. Ineligible assets
   These pertain to fixed assets and assets which cannot be readily converted into cash.

2. Operational risk requirement
   The amount required to cover a level of operational risk which is the exposure associated with commencing and remaining in business arising separately from exposures covered by other risk requirements. It is the risk of loss resulting from inadequate or failed internal processes, people and systems which include, among others, risks of fraud, operational or settlement failure and shortage of liquid resources, or from external events.

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

4. Aggregate indebtedness
   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.

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

The Parent Company's regulated operations have complied with all externally-imposed capital requirements as of September 30, 2012and December 31, 2011.

COLHK monitors capital using liquid capital as provided for under Hong Kong's Securities and Futures Ordinance (Cap. 571) and Securities and Futures (Financial Resources) Rules (Cap. 571N). COLHK's policy is to keep liquid capital at the higher of the floor requirement of Hong Kong dollar (HK$) 3,000,000 and computed variable required capital. As of September 30, 2012 and December 31, 2011, COLHK is compliant with the said requirement.

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21. Financial Risk Management Objectives and Policies

The Group's principal financial instruments consist of cash and cash equivalents, financial assets at FVPL, receivables, payable to clearing house and other brokers, payable to customers, and accounts payable and accrued expenses, which arise from operations. The Group also has HTM investment acquired for purposes of investing idle funds.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. The BOD reviews and agrees 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, it 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 stocks identified by the Parent Company using a set of criteria.

Cash in banks and short-term placements are deposited to reputable banks duly approved by the BOD.

As of September 30, 2012 and December 31, 2011, ₱1,348,473,312 and ₱942,026,512 of total receivable from customers is secured by collateral comprising of cash and equity securities of listed companies with total market value of ₱12,618,051,992 and ₱4,359,793,839, respectively.

Transactions through the stock exchange are covered by the guarantee fund contributed by member brokers and maintained by the clearing house.

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 6).

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

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Cash and cash equivalents (see Note 4)	**₱2,179,065,153**	₱2,188,916,901
Financial assets at FVPL (see Note 5)	**9,575,791**	1,313,282
Trade receivables (see Note 6)	**1,408,426,177**	1,160,690,295
Other receivables (see Note 6)	**5,907,974**	8,130,814
Refundable deposits (see Note 10)	**4,747,891**	5,317,778
	3,607,722,986	3,364,369,070
Unutilized margin trading facility	**3,224,878,058**	3,114,681,139
	₱6,832,601,044	₱6,479,050,209

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

As of September 30, 2012 and December 31, 2011, the Group has no past due but not impaired financial assets.

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's objectives to manage its liquidity profile are: 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 of September 30, 2012 and December 31, 2011, all of the Group's financial liabilities are contractually payable on demand.

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.

Interest Rate Risk
As of September 30, 2012 and December 31, 2011, changes in interest rates have no impact on the Group's profit and loss and equity.

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

The Group's exposure to foreign currency exchange risk arises from its US dollar-denominated cash amounting to US$4,691 and US$5,859 as of September 30, 2012 and December 31, 2011, respectively.

There is no other impact on the Parent Company's equity other than those already affecting the consolidated statement of comprehensive income.

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 pertains to investments in shares of stocks of companies listed in the PSE and major U.S. 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 as of September 30, 2012 and December 31, 2011 is not significant.

22. Financial Instruments

Fair Values
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, receivables, payable to clearing house and other brokers, payable to customers and accounts payable and accrued expenses, 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 of September 30, 2012 and December 31, 2011. Fair value of financial assets at FVPL is based on quoted prices of stock investments published by the PSE and major U.S. Stock Exchanges.

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

	Carrying Amount		Fair Value	
	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)	**September 30, 2012 (Unaudited)**	December 31, 2011 (Audited)
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱2,179,085,153**	₱2,188,940,069	**₱2,179,085,153**	₱2,188,940,069
Trade receivables	**1,408,426,177**	1,160,690,295	**1,408,426,177**	1,160,690,295
Other receivables	**5,907,974**	8,130,814	**5,907,974**	8,130,814
Refundable deposits	**4,747,891**	5,317,778	**4,747,891**	5,317,778
	3,598,167,195	3,363,078,956	**3,598,167,195**	3,363,078,956
Financial assets at FVPL	**9,575,791**	1,313,282	**9,575,791**	1,313,282
	₱3,607,742,986	₱3,364,392,238	**₱3,607,742,986**	₱3,364,392,238
Financial Liabilities				
Other financial liabilities:				
Trade payables	**₱2,441,297,859**	₱2,133,524,943	**₱2,441,297,859**	₱2,133,524,943
Other current liabilities	**19,810,758**	57,805,091	**19,810,758**	57,805,091
	₱2,461,108,617	₱2,191,330,034	**₱2,461,108,617**	₱2,191,330,034

23. **Earnings Per Share (EPS) Computation**

	September 30, 2012 (Unaudited)	**September** 30, 2011 (Unaudited)
Net income	**₱266,545,530**	₱288,312,718
Weighted average number of shares for basic earnings per share	**463,130,000**	450,600,000
Dilutive shares arising from stock options	**8,290,000**	17,450,000
Adjusted weighted average number of shares of common shares for diluted earnings per share	**471,420,000**	468,050,000
Basic earnings per share	**₱0.58**	₱0.64
Diluted earnings per share	**₱0.57**	₱0.62

24. **Segment Information**

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

<u>September 30, 2012 (Unaudited)</u>

	Philippines	**Hong Kong**	**Elimination**	**Total**
Revenue from external customers:				
Commission	**₱300,627,665**	**₱43,903,647**	**₱–**	**₱344,531,312**
Interest	**137,674,995**	**–**	**–**	**137,674,995**
Others	**1,199,070**	**1,070,261**	**–**	**2,269,331**
Inter-segment revenue	**32,097,071**	**–**	**(32,097,071)**	**-**
Segment revenue	**471,598,801**	**44,973,908**	**(32,097,071)**	**484,475,638**
Cost of services	**(105,901,078)**	**(12,866,987)**	**–**	**(118,768,065)**
Operating expenses	**(52,798,430)**	**(43,269,330)**	**32,104,702**	**(63,963,058)**
Depreciation	**(10,897,668)**	**(1,755,505)**	**–**	**(12,653,173)**
Income (loss) before income tax	**302,001,625**	**(12,917,914)**	**7,631**	**289,091,342**
(Provision for) benefit from income tax	**(24,668,510)**	**2,122,698**	**–**	**(22,545,812)**
Net income (loss)	**₱277,333,115**	**(₱10,795,216)**	**₱7,631**	**₱266,545,530**
Segment assets	**₱3,291,870,738**	**₱576,001,810**	**(₱137,748,787)**	**₱3,730,123,761**
Segment liabilities	**2,375,327,823**	**110,300,604**	**(2,951,076)**	**2,482,677,351**
Capital expenditures:				
Tangible fixed assets	**10,652,628**	**509,665**	**–**	**11,162,293**
Cash flows arising from:				
Operating activities	**475,650,078**	**(203,529,282)**	**–**	**272,120,796**
Investing activities	**(10,396,047)**	**(509,665)**	**–**	**(10,905,712)**
Financing activities	**(271,070,000)**	**–**	**–**	**(271,070,000)**

<u>December 31, 2011 (Audited)</u>

	Philippines	Hong Kong	Elimination	Total
Revenue from external customers:				
Commission	₱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)	(16,375,197)	–	(143,276,915)
Operating expenses	(83,991,556)	(62,423,967)	44,883,688	(101,531,835)
Depreciation and amortization	(9,916,754)	(2,215,335)	–	(12,132,089)
Income before income tax	365,407,443	36,336,780	(28,489)	401,715,734
Provision for income tax	(60,867,398)	(6,049,460)	–	(66,916,858)
Net income	₱304,540,045	₱30,287,320	(₱28,489)	₱334,798,876
Segment assets	₱2,970,734,596	₱677,592,269	(₱138,481,887)	₱3,509,844,978
Segment liabilities	2,033,721,552	184,823,683	(3,673,341)	2,214,871,894
Capital expenditures:				
Tangible fixed assets	26,538,726	674,161	–	27,212,887

	Philippines	Hong Kong	Elimination	Total
Cash flows arising from:				
Operating activities	1,420,727,251	54,501,038	–	1,475,228,289
Investing activities	79,936,066	(674,161)	–	79,261,905
Financing activities	(161,760,000)	–	–	(161,760,000)

25. Reclassification

Certain accounts in 2011 consolidated financial statements were reclassified to conform with the 2012 presentation in accordance with the Broker Dealer Chart of Accounts as approved by SEC effective as at January 1, 2011.

26. Early Adoption of PFRS 9, *Financial Instruments: Classification and Measurement*

This standard is effective for annual periods beginning on or after January 1, 2015. It introduces new requirements on the classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in PAS 39, *Financial Instruments: Recognition and Measurement*. The approach in the new standard is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in PAS 39. As of September 30, 2012, the Group is still in the process of making an evaluation of the possible impact of an early adoption of PFRS 9 on its consolidated financial statements. Hence, the Group's unaudited interim consolidated financial statements do not reflect yet the impact of an early adoption of this new accounting standard.

SCHEDULE I
COL FINANCIAL GROUP, INC. AND SUBSIDIARY
SCHEDULE SHOWING FINANCIAL SOUNDNESS
PURSUANT TO SRC RULE 68, AS AMENDED

	September 30, 2012	September 30, 2011
Profitability ratios:		
Return on assets	**7%**	7%
Return on equity	**21%**	25%
Net profit margin	**55%**	56%
Solvency and liquidity ratios:		
Current ratio	**1.46:1**	1.40:1
Debt to equity ratio	**1.95:1**	1.97:1
Quick ratio	**1.45:1**	1.40:1
Asset to equity ratio	**2.93:1**	3.38:1