



**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, 2016**
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
<b>Common</b>	<b>476,000,000 shares</b>

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

Yes  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  No

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

Yes  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.

#### **Company Overview**

COL Financial Group, Inc. is the leading online financial services provider in the Philippines. It aims to be the most trusted wealth-building partner of every Filipino, providing practical and ethical financial products through value-driven and innovative solutions to help them achieve their financial goals.

As of end September 30, 2016, COL had more than 195,000 customers and ₱62.0 billion in consolidated net customer assets. It has also been the number one brokerage in the Philippine Stock Exchange (PSE) in terms of number of transactions executed since 2008.

COL's main offering is its proprietary online trading platform. Through [www.colfinancial.com](http://www.colfinancial.com), COL offers real-time market information and execution, superior investing tools and functionalities, and comprehensive stock market research and analysis to guide independent investors make well informed investment decisions.

COL also remains committed to its advocacy of investor education for its customers and the investing public by regularly providing free seminars. These are scheduled weekly and are held at the COL Training Center with topics ranging from the basics of stock and mutual funds investing and how to trade online to the more advanced topics for the active traders.

As part of COL’s commitment to provide more useful products and services to help its customers build genuine wealth, COL launched in July 2015 the first and only online fund supermarket in the country, called COL Fund Source. It is the first and only online mutual fund supermarket in the Philippines which provides investors access to a wide selection of mutual funds. This new service allows COL to further strengthen its existing relationship with its customers as well as expand its reach to more Filipino investors, particularly those who either do not have the time to actively manage their investments or are looking for a professionally managed diversified portfolio of stocks, bonds and other fixed income instruments.

COL also provides investors online access to the HK stock market through its wholly owned foreign subsidiary COL Securities (HK) Limited. In 2015, COLHK launched its new trading platform called “COL Global Access” which aims to improve and expand the online trading experience of its clients in Hong Kong by giving them direct market access to trade global equities in a single platform and universal account.

Going forward, COL Financial will continually seek to maintain the loyalty and trust of its customers by offering them a meaningful and financially rewarding investing experience.

## **Business Model**

COL Financial derives a significant proportion of its revenues from its stock brokerage business in the Philippines. Most of the revenues generated from its Philippine operations include: (1) commission generated from stock trades, (2) interest income from margin financing, and (3) interest income made from short-term placements.

COL also derives revenues from the commissions earned by its stock brokerage business in HK through its wholly owned subsidiary COLHK.

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

## **Industry and Economic Review**

The Philippine stock market had a volatile performance during the first nine months of 2016. From 6,952.08 during the start of the year, the PSEi fell by as much as 12.5% to a low of 6,084.28 in January, rallied to high of 8,102.3 in August, before closing at 7,629.73 by the end of September 2016.

Investor sentiment was extremely negative during the start of the year, brought about by several factors including disappointing corporate earnings results, the weak performance of the Chinese economy and its currency, the poor performance of other Asian markets, the U.S. Fed's decision to proceed with its first rate hike, falling prices of commodities including oil, the weakness of emerging market currencies including the peso and the rise in local interest rates.

Sentiment for stocks improved briefly from March to August, after global central banks announced fresh stimulus measures and after the U.S. Fed signaled that it was not about to increase interest rates anytime soon. As a result, the dollar weakened while interest rates in the secondary market fell. This in turn led to the increase in oil and other commodity prices, the strengthening of emerging market currencies including the peso and the drop in local interest rates. The peaceful conclusion of the local presidential elections and investors' favorable view towards the country's newly elected President Rodrigo Duterte also helped boost the performance of the stock market.

However, the market's recovery was cut short after the U.S. Fed began to hint that it was ready to resume its interest rates hike cycle. President Duterte's negative reaction to criticisms against his war on drugs and his anti-U.S. rhetoric also negatively affected sentiment for the stock market.

Value turnover in the Philippine Stock Exchange (PSE) remained thin. Average daily value turnover fell by 15.2% to ₱8.0 billion during the nine months of 2016 compared to the same period in 2015.

In contrast, the HK stock market recovered during the third quarter of the year after performing poorly during the first half of 2016. The market rebounded after the Chinese economy started showing signs of stabilization. For example, China's industrial production stayed above 6% since March of this year. Retail sales growth also accelerated to 10.6% in August after falling to a low of 10% in May. As of end September, the Hang Seng index (HSI), the Hang Seng China Affiliate Corp. Index (HSCCI) and the Hang Seng China Enterprise Index (HSCEI) ended higher by 12.0%, 6.5% and 10.0% respectively compared to their end June 2016 levels. Average daily turnover also increased slightly to HKD67.8 billion during the third quarter from HKD67.2 billion during the first half of 2016, although it was still well below the 2015 average of HKD105.1 billion.

## Business Review

### 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. KPIs are quantifiable measurements that reflect an organization's critical success factors. Below are some of the KPIs regularly reviewed by management to determine whether or not it is enhancing the value of its shareholders:

	September 30, 2016	September 30, 2015
Number of Customer Accounts	196,026	152,979
Customers' Net Equity (in millions)	₱62,269.3	₱47,768.9
Net Revenues (in millions)	₱658.7	₱583.9
Annualized Return on Equity	31.1%	25.5%
Risk Based Capital Adequacy Ratio*	619.0%	575.0%
Liquid Capital** (in millions)	HKD24.7	HKD32.6

\*Parent Company only

\*\*HK Subsidiary

Despite the volatile trading environment in the PSE, the **number of customer accounts** for COL's Philippine operations expanded by 20.3% for the year to date period to more than 190,000 as of end September 2016. COL's client base continued to grow as it remained active in educating and encouraging Filipinos to save and invest. It also continued to benefit from the heightened interest among Filipinos to invest outside of traditional fixed income instruments brought about by the low interest rate environment.

**Net equity of customers** also continued to grow, increasing to ₱62.3 billion as of end September 2016 from ₱47.8 billion as of end 2015. This included net new cash inflow amounting to ₱4.9 billion during the first nine months of 2016.

Even with the challenging operating environment, COL's **revenues** during the first nine months of 2016 increased by 12.8% to ₱658.7 million. Although trading activity in the PSE fell compared to year ago levels, commission revenues from COL's domestic operations managed to grow by 32.8% as the Parent Company's market share in terms of value turnover improved to 5.9% from 3.9%. The significant increase in COL's commission revenues from domestic operations was partly offset by the weak performance of its HK operations and the drop in interest income. During the first nine months of 2016, COL's revenues from HK dropped by 70.0% to only ₱8.4 million while interest income fell by 7.4% to ₱164.5 million, largely driven by the 43.6% decline in the average value of margin loans.

**Return on average equity (ROE)** also improved to 31.1% in the first nine months of 2016 from 25.5% during the same period in 2015 due to COL's strong earnings performance.

During the first nine months of 2016, both COL (Parent Company) and its HK subsidiary continued to meet the stringent rules of regulators in the Philippines and Hong Kong. As of end September 2016, the Parent Company's **Risk Based Capital Adequacy Ratio (RBCA)** reached 619%, well above the minimum requirement of 110%. Meanwhile, COL HK had HKD24.7 million of **liquid capital**. This is also well above the minimum requirement of HKD3.0 million or 5% of adjusted liabilities.

### Material Changes in the Financial Position (September 30, 2016 vs December 31, 2015)

COL's financial position remained strong with a high level of cash and zero interest bearing debt.

Despite the somewhat challenging operating environment, COL's assets continued to grow,

increasing by 30.2% to ₱10.4 billion compared to its end 2015 level of ₱8.0 billion. The growth was largely funded by non-interest bearing liabilities as trade payables jumped by 35.4% to ₱8.9 billion. Trade payables rose largely due to the increase in customers' cash balance which in turn was a result of the significant growth in COL's client base.

**Cash and cash equivalents** composed mainly of cash in banks and short-term placements increased by 31.5% to ₱8.5 billion as of end September 2016, also largely due to COL's growing client base and the resulting increase in their cash balances. As discussed earlier, net inflow of funds amounted to ₱4.9 billion during the first nine months of 2016.

**Cash in a segregated account** booked by COL's HK Subsidiary decreased by 23.4% to ₱195.6 million due to net withdrawals made by some customers in light of poor market conditions in the Chinese market.

**Trade receivables** increased from ₱1.1 billion as of end 2015 to ₱1.3 billion as of end September 2016. Trade receivables increased as the value of outstanding margin loans reached ₱741.0 million as of end September, up from ₱639.5 million as of end 2015. Net buying transactions of institutional investors amounting to ₱81.0 million that are within the settlement period also contributed to the increase in trade receivables.

**Financial assets at fair value through profit or loss (FVPL)** increased by 24.5% to ₱2.1 million.

**Other non-current assets** increased by 1,783.0% largely due to the allocation of ₱200.0 million in long term deposit maturing in June, 2021 that bear higher interest rates.

As discussed earlier, **Trade payables**, which account for more than 90% of total liabilities, jumped by 35.4% to ₱8.9 billion. The increase was driven by the continuous growth in COL's client base and their corresponding cash balances.

**Other current liabilities** decreased by 18.3% to ₱48.3 million as a result of the distribution in January 2016 of the performance bonuses accrued in 2015 and the remittance to the BIR of the corresponding taxes.

**Stockholders' equity** increased by 6.2% or ₱82.3 million to ₱1.4 billion due to the booking of ₱316.9 million in net income during the first nine months of 2016, partly offset by the payment of ₱237.5 million worth of cash dividends to shareholders.

### **Material Changes in the Results of Operations (September 30, 2016 vs September 30, 2015)**

COL's consolidated **revenues** during the first nine months of 2016 were up by 12.8% to ₱658.7 million as the strong growth of commission revenues from the Philippines was able to offset the decline in interest income and the weak performance of HK operations. **Cost of services** increased by 12.3% to ₱152.1 million as various trade related expenses including commission costs, stock exchange dues and fees, and central depository fees rose in line with the increase in clients' trading activity in the PSE. Communication costs also went up as COL took steps to improve its ability to service its growing client base. However, total **operating expenses** fell by 19.7% to ₱96.9 million due to the absence of tax assessments this period. **Provision for income taxes** increased by 13.9% to ₱92.8 million, slower than the 25.0% increase in operating profits. As a result of the foregoing movements, **net income** was higher by 23.4% to ₱322.9 million on a year-on-year basis.

COL's revenues increased as the strong growth of **commission** revenues from the Philippines was able to offset the decline of interest income and the weak performance

of HK. Commission revenues from the Philippines improved by 32.8% to ₱483.4 million as the favorable impact of COL's growing client base was able to offset the weaker overall trading volume in the PSE. Commission revenues increased despite the 12.0% drop in the PSE's value turnover as COL's market share improved from 3.9% during the nine-month period in 2015 to reach a new record high of 5.9% during the same period in 2016. Growth was led by self-directed clients which registered a 41.6% increase in commission revenues and now account for 68.9% of Philippine commission revenues.

On the other hand, commission revenues from HK dropped by 72.7% to ₱7.4 million due to weak market conditions in HK.

**Interest income** also fell by 7.4% as the average value of margin loans dropped by 43.6% on a year-on-year basis. Despite the pickup in the value of margin loans towards the end of September, average margin receivable fell to ₱591.2 million during the first nine months of 2016 from ₱1.0 billion during the same period last year as volatile market conditions prompted clients to reduce their utilization of margin loans.

**Cost of services** increased by 12.3% to ₱152.1 million as trade related expenses, namely commission costs, stock exchange dues and fees, and central depository fees rose by 12.8% to ₱94.2 million, in line with the increase in clients' trading activity. Communication cost also went up by 23.4% as COL increased its capacity to service its growing client base.

As discussed earlier, **operating expenses** fell by 19.7% to ₱96.9 million, as the Parent Company was not subjected to tax assessments as of end of the reporting period. The Parent Company also initiated cost cutting measures in 2016 that led to the reduction in other expenses including bank charges and office supplies.

Coupled with the increase in bandwidth capacity (as reflected in higher communication costs), COL invested in new hardware and software technologies to improve its ability to service its growing client base. This in turn explains the 5.6% increase in the depreciation expense. COL also engaged the services of more consultants to help the Parent Company expand its product and service offerings which resulted to the 13.1% increase in professional fees from ₱18.8 million to ₱21.3 million.

Due to the strong growth of COL's Philippine operations and the absence of deficiency taxes assessed against the Parent Company this year, operating profits jumped by 25.0% to ₱409.7 million. Net profits increased by a slightly faster pace of 28.6% to ₱316.9 million as provision for income taxes rose by only 13.9% to ₱92.8 million.

## **Other Matters**

- a. We are not aware of any known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity. The Group has not defaulted in paying its obligations which arise mostly from withdrawals made by customers. In addition, obligations of the 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 11, 2016



**Catherine L. Ong**  
Senior Vice President and Chief Finance Officer  
November 11, 2016



**Lorena E. Velarde**  
Vice President and Financial Controller  
November 11, 2016

**COL FINANCIAL GROUP, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	September 30, 2016 (Unaudited)			December 31, 2015 (Audited)		
	Money Balance	Security Valuation		Money Balance	Security Valuation	
		Long	Short		Long	Short
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents (Note 4)	<b>₱8,539,155,127</b>			₱6,493,600,095		
Cash in a segregated account (Note 5)	<b>195,649,529</b>			255,596,013		
Financial assets at fair value through profit or loss (FVPL; Note 6)	<b>2,083,488</b>	<b>₱2,083,488</b>		1,673,427	₱1,673,427	
Trade receivables (Note 7)	<b>1,249,852,905</b>	<b>4,573,337,445</b>		1,075,809,699	3,700,094,576	
Other receivables (Note 7)	<b>17,508,732</b>			8,425,177		
Prepayments	<b>4,451,798</b>			2,097,787		
<b>Total Current Assets</b>	<b><u>10,008,701,579</u></b>			<b><u>7,837,202,198</u></b>		
<b>Noncurrent Assets</b>						
Property and equipment (Note 8)	<b>68,746,401</b>			44,268,412		
Intangibles (Note 9)	<b>24,848,499</b>			24,413,383		
Deferred income tax assets-net (Note 17)	<b>35,522,119</b>			35,558,643		
Other noncurrent assets (Note 10)	<b>214,405,987</b>			11,388,382		
<b>Total Noncurrent Assets</b>	<b><u>343,523,006</u></b>			<b><u>115,628,820</u></b>		
<b>TOTAL ASSETS</b>	<b><u>₱10,352,224,585</u></b>			<b><u>₱7,952,831,018</u></b>		
Securities in box, in Philippine Depository and Trust Corporation and Hong Kong Securities Clearing Company, Limited			<b>₱54,872,773,130</b>			<b>₱43,011,188,066</b>

(Forward)

	September 30, 2016 (Unaudited)			December 31, 2015 (Audited)		
	Money Balance	Security Valuation		Money Balance	Security Valuation	
		Long	Short		Long	Short
<b>LIABILITIES AND EQUITY</b>						
<b>Current Liabilities</b>						
Trade payables (Note 11)	<b>₱8,851,193,137</b>	<b>₱50,297,352,197</b>		₱6,539,148,312	₱39,309,420,063	
Other current liabilities (Note 12)	<b>48,247,716</b>			59,026,457		
Income tax payable	<b>27,183,519</b>			11,387,517		
<b>Total Current Liabilities</b>	<b>8,926,624,372</b>			6,609,562,286		
<b>Noncurrent Liability</b>						
Retirement obligation (Note 16)	<b>26,277,714</b>			26,277,714		
<b>Total Liabilities</b>	<b>8,952,902,086</b>			6,635,840,000		
<b>Equity (Notes 13 and 16)</b>						
Capital stock	<b>476,000,000</b>			475,000,000		
Capital in excess of par value	<b>53,219,024</b>			53,219,024		
Cost of share-based payment				4,031,571		
Accumulated translation adjustment	<b>694,792</b>			(5,241,859)		
Loss on remeasurement of retirement obligation	<b>(4,836,196)</b>			(4,836,196)		
Retained earnings:						
Appropriated	<b>198,811,471</b>			169,021,759		
Unappropriated	<b>675,433,408</b>			625,796,719		
<b>Total Equity</b>	<b>1,399,322,499</b>			1,316,991,018		
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱10,352,224,585</b>	<b>₱54,872,773,130</b>	<b>₱54,872,773,130</b>	₱7,952,831,018	₱43,011,188,066	₱43,011,188,066

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	
	2016	2015	2016	2015
<b>REVENUES</b>				
Commissions	<b>P490,849,878</b>	P391,128,692	<b>P197,640,326</b>	P120,308,075
Others:				
Interest income (Note 14)	<b>164,503,344</b>	177,613,326	<b>59,576,540</b>	57,388,277
Gain on financial assets at FVPL - net (Note 6)	–	10,968,644	–	–
Others	<b>3,377,162</b>	4,231,566	<b>1,363,071</b>	1,157,984
	<b>658,730,384</b>	583,942,228	<b>258,579,937</b>	178,854,336
<b>COST OF SERVICES</b>				
Commission expense (Note 18)	<b>75,373,943</b>	67,785,220	<b>28,605,884</b>	19,963,096
Personnel costs (Note 15)	<b>33,799,543</b>	32,147,357	<b>10,313,635</b>	9,299,669
Stock exchange dues and fees	<b>11,913,610</b>	9,270,919	<b>4,751,234</b>	2,911,345
Central depository fees	<b>6,996,989</b>	6,496,051	<b>2,582,266</b>	3,503,821
Others:				
Communications	<b>22,358,210</b>	18,115,730	<b>7,869,749</b>	6,376,748
Others	<b>1,701,737</b>	1,644,084	<b>546,952</b>	613,857
	<b>152,144,032</b>	135,459,361	<b>54,669,720</b>	42,668,536
<b>GROSS PROFIT</b>	<b>506,586,352</b>	448,482,867	<b>203,910,217</b>	136,185,800
<b>OPERATING EXPENSES</b>				
Administrative expenses:				
Professional fees (Note 18)	<b>21,269,765</b>	18,808,705	<b>6,737,070</b>	5,662,511
Personnel costs (Note 15)	<b>19,385,933</b>	19,327,407	<b>4,839,676</b>	5,880,237
Rentals (Note 19)	<b>10,503,055</b>	10,147,001	<b>3,584,953</b>	4,017,525
Advertising and marketing	<b>8,318,260</b>	7,990,195	<b>4,932,947</b>	1,943,277
Security and messengerial services	<b>3,532,682</b>	2,929,553	<b>1,373,019</b>	1,007,804
Taxes and licenses	<b>3,424,698</b>	27,195,994	<b>1,133,384</b>	24,844,528
Power, light and water	<b>3,079,355</b>	3,169,834	<b>1,080,554</b>	1,106,537
Insurance and bonds	<b>2,456,440</b>	2,077,237	<b>896,985</b>	822,187
Office supplies	<b>1,983,265</b>	2,738,742	<b>814,693</b>	744,123
Condominium dues	<b>1,844,381</b>	1,703,755	<b>602,117</b>	747,503
Repairs and maintenance	<b>1,690,031</b>	1,365,721	<b>565,491</b>	599,199
Trainings, seminars and meetings	<b>1,002,173</b>	628,295	<b>249,409</b>	49,214
Representation and entertainment	<b>745,863</b>	993,348	<b>202,858</b>	317,415
Membership fees and dues	<b>605,272</b>	680,940	<b>195,303</b>	229,177
Transportation and travel	<b>529,528</b>	589,074	<b>157,481</b>	166,996
Communications	<b>518,167</b>	465,387	<b>208,364</b>	156,834
Bank charges	<b>431,063</b>	4,151,238	<b>27,216</b>	1,463,401
Directors' fees	<b>350,000</b>	290,000	<b>80,000</b>	100,000
Others	<b>1,700,511</b>	2,092,940	<b>505,110</b>	631,571
	<b>83,370,442</b>	107,345,366	<b>28,186,630</b>	50,490,039
Depreciation and amortization (Note 8)	<b>13,225,021</b>	12,530,094	<b>4,388,999</b>	3,707,787
Loss on financial assets at FVPL - net (Note 6)	<b>293,928</b>	–	<b>343,790</b>	97,426
Foreign exchange losses - net	–	745,212	–	224,117
	<b>96,889,391</b>	120,620,672	<b>32,919,419</b>	54,519,369
<b>INCOME BEFORE INCOME TAX</b>	<b>409,696,961</b>	327,862,195	<b>170,990,798</b>	81,666,431
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)</b>				
Current				
Regular corporate income tax	<b>74,914,977</b>	69,818,283	<b>30,086,010</b>	20,477,084
Final income tax	<b>23,767,672</b>	15,607,665	<b>8,980,103</b>	6,357,548
Deferred	<b>(5,912,089)</b>	(3,965,597)	<b>(1,749,025)</b>	(1,948,056)
	<b>92,770,560</b>	81,460,351	<b>37,317,088</b>	24,886,576
<b>NET INCOME</b>	<b>P316,926,401</b>	P246,401,844	<b>P133,673,710</b>	P56,779,855

See accompanying Notes to Consolidated Financial Statements.

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

	For the Nine Months Ended		For the Quarter Ended	
	September 30		September 30	
	2016	2015	2016	2015
<b>NET INCOME</b>	<b>₱316,926,401</b>	₱246,401,844	<b>₱133,673,710</b>	₱56,779,855
<b>OTHER COMPREHENSIVE INCOME</b>				
Item that may be reclassified subsequently to profit or loss:				
Translation adjustments - net of tax	<b>5,936,651</b>	15,241,699	<b>7,525,236</b>	11,167,399
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱322,863,052</b>	₱261,643,543	<b>₱141,198,946</b>	₱67,947,254
<b>Earnings Per Share</b> (Note 24)				
Basic	<b>₱0.67</b>	₱0.52	<b>₱0.28</b>	₱0.12
Diluted	<b>0.67</b>	0.52	<b>0.28</b>	0.12

*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, 2016**

**(With Comparative Figures for the Nine Months Ended September 30, 2015)**

	Capital Stock	Capital in Excess of Par Value	Cost of Share-Based Payment	Accumulated Translation Adjustment	Loss on Remeasurement of Retirement Obligation	Retained Earnings		Total
						Appropriated	Unappropriated	
<b>Balances at January 1, 2016</b>	<b>₱475,000,000</b>	<b>₱53,219,024</b>	<b>₱4,031,571</b>	<b>(₱5,241,859)</b>	<b>(₱4,836,196)</b>	<b>₱169,021,759</b>	<b>₱625,796,719</b>	<b>₱1,316,991,018</b>
Cost of share-based payment (Note 16)	–	–	(4,031,571 )	–	–	–	–	(4,031,571)
Issuance of shares (Note 13)	1,000,000	–	–	–	–	–	–	1,000,000
Declaration of cash dividend (Note 13)	–	–	–	–	–	–	(237,500,000)	(237,500,000)
Net income for the period	–	–	–	–	–	–	316,926,401	316,926,401
Other comprehensive income	–	–	–	5,936,651	–	–	–	5,936,651
Total comprehensive income for the period	–	–	–	5,936,651	–	–	316,926,401	322,863,052
Appropriation of retained earnings (Note 13)	–	–	–	–	–	29,789,712	(29,789,712)	–
<b>Balances at September 30, 2016</b>	<b>₱476,000,000</b>	<b>₱53,219,024</b>	<b>₱–</b>	<b>₱694,792</b>	<b>(₱4,836,196)</b>	<b>₱198,811,471</b>	<b>₱675,433,408</b>	<b>₱1,399,322,499</b>
Balances at January 1, 2015	₱474,550,000	₱53,219,024	₱5,499,602	(₱21,814,947)	(₱4,400,783)	₱140,028,578	₱629,371,558	₱1,276,453,032
Cost of share-based payment (Note 16)	–	–	(1,419,551)	–	–	–	–	(1,419,551)
Issuance of shares (Note 13)	450,000	–	–	–	–	–	–	450,000
Declaration of cash dividend (Note 13)	–	–	–	–	–	–	(237,275,000)	(237,275,000)
Net income for the period	–	–	–	–	–	–	246,401,844	246,401,844
Other comprehensive income	–	–	–	15,241,699	–	–	–	15,241,699
Total comprehensive income for the period	–	–	–	15,241,699	–	–	246,401,844	261,643,543
Appropriation of retained earnings (Note 13)	–	–	–	–	–	28,993,181	(28,993,181)	–
Balances at September 30, 2015	₱475,000,000	₱53,219,024	₱4,080,051	(₱6,573,248)	(₱4,400,783)	₱169,021,759	₱609,505,221	₱1,299,852,024

*See accompanying Notes to Consolidated Financial Statements.*

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

	<b>For the Nine Months Ended September 30</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱409,696,961</b>	₱327,862,195
Adjustments for:		
Interest income (Note 14)	<b>(164,503,344)</b>	(177,613,326)
Depreciation and amortization (Note 8)	<b>13,373,410</b>	12,666,231
Unrealized loss (gain) on financial assets at FVPL	<b>(180,534)</b>	1,134,655
Dividend income (Note 6)	<b>(26,629)</b>	(20,815)
Gain on disposal of property and equipment	<b>(4,365)</b>	(1,069)
Operating income before working capital changes	<b>258,355,499</b>	164,027,871
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Cash in a segregated account	<b>59,946,484</b>	(121,998,077)
Financial assets at FVPL	<b>(229,526)</b>	6,477,207
Trade receivables	<b>(159,177,163)</b>	321,230,644
Other receivables	<b>20,614,561</b>	4,933,683
Prepayments	<b>(2,350,899)</b>	(3,346,019)
Other noncurrent assets	<b>(10,034,183)</b>	(7,810,307)
Increase (decrease) in:		
Trade payables	<b>2,306,212,978</b>	2,131,482,177
Fringe benefits tax payable	<b>–</b>	(30,437,647)
Other current liabilities	<b>(12,046,954)</b>	(33,089,673)
Net cash generated from operations	<b>2,461,290,797</b>	2,431,469,859
Interest received	<b>134,354,850</b>	160,066,194
Dividends received	<b>26,629</b>	20,815
Income taxes paid	<b>(75,779,874)</b>	(57,979,264)
Net cash flows from operating activities	<b>2,519,892,402</b>	2,533,577,604
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to long-term time deposits (Note 10)	<b>(200,000,000)</b>	–
Acquisition of property and equipment (Note 8)	<b>(37,844,514)</b>	(14,099,547)
Proceeds from disposal of property and equipment	<b>7,144</b>	1,076
Net cash flows used in investing activities	<b>(237,837,370)</b>	(14,098,471)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends declared and paid (Note 13)	<b>(237,500,000)</b>	(237,275,000)
Proceeds from issuance of shares (Note 13)	<b>1,000,000</b>	450,000
Net cash flows used in investing activities	<b>(236,500,000)</b>	(236,825,000)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,045,555,032</b>	2,282,654,133
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>6,493,600,095</b>	4,640,187,892
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)</b>	<b>₱8,539,155,127</b>	₱6,922,842,025

*See accompanying Notes to Consolidated Financial Statements.*



# **COL FINANCIAL GROUP, INC. AND SUBSIDIARY**

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## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **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.

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### **2. Basis of Preparation, Changes in Accounting Policies and Disclosures and Summary of Significant Accounting Policies**

#### Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value (FVPL) which have been measured at fair value. The Group's consolidated financial statements are presented in Philippine peso (PHP), which is the presentation currency under 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 PHP and HK dollar (HK\$), respectively. All values are rounded to the nearest peso, except when otherwise indicated.

#### Basis of Consolidation

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

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the Parent Company's returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins

when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control and until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resulting gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

#### Changes in Accounting Policies and Disclosures

The Group applied for the first time certain standards and amendments. Unless otherwise indicated, these standards and amendments have no impact to the Group. Except for these standards and amended PFRS which were adopted as of January 1, 2016, the accounting policies adopted are consistent with those of the previous financial year.

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements*
- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
- PAS 1, *Presentation of Financial Statements - Disclosure Initiative (Amendments)*
- PFRS 14, *Regulatory Deferral Accounts*
- PAS 16, *Property, Plant and Equipment* and PAS 41, *Agriculture - Change in Financial Reporting for Bearer Plants*
- PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization*

#### Annual Improvements to PFRSs (2012 - 2014 cycle)

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
- PFRS 7, *Financial Instruments: Disclosures - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
- PAS 19, *Employee Benefits - Regional Market Issue regarding Discount Rate*
- PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*

#### Standards and Interpretations Issued but not yet Effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective. Adoption of these standards and interpretations are not expected to have any significant impact on the consolidated financial statements of the Group unless otherwise stated.

No definite adoption date prescribed by the SEC and Financial Reporting Standards Council (FRSC)

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

Effective January 1, 2018

- PFRS 9, *Financial Instruments* (2014 or final version)

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application is before February 1, 2015. The Group did not early adopt PFRS 9.

The adoption of PFRS 9 will have an effect on the classification and measurements of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurements of the Group's financial liabilities. The Group is currently assessing the impact of adopting this standard.

- International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers* (effective January 1, 2018)

IFRS 15 which was issued in May 2014 by the IASB establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring good or services to a customer. The principles on IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard in the required effective date once adopted locally.

- IFRS 16, *Leases* (effective January 1, 2019)

On January 13, 2016, the IASB issued its new standard, IFRS 16, *Leases*, which replaces IAS 17, the current leases standard and the related Interpretations.

Under the new standard, lessees will no longer reclassify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and the related liabilities for most leases in their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with the term of twelve (12) months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standards carried forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required

effective date once adopted locally.

## Summary of Significant Accounting Policies

### Foreign Currency Translation

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

On consolidation, the assets and liabilities of the consolidated foreign subsidiary are translated into Philippine Peso at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at the average exchange rates for the year. The exchange differences arising on translation for consolidation are recognized in equity (under accumulated translation adjustment). Upon disposal of the foreign subsidiary, the component of OCI relating to the foreign subsidiary is recognized in the consolidated statement of income.

### Current versus Non-current Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in a normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve (12) months after reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve (12) months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in a normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve (12) months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets are classified as non-current assets.

### Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of acquisition and that are subject to insignificant risk of changes in value.

### Cash in a Segregated Account

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

## Financial Instruments - Initial Recognition and Subsequent Measurement

### *Date of Recognition*

Financial instruments are any contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

### *Initial Recognition and Classification of Financial Instruments*

All financial assets, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for financial assets at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, and loans and receivables. The classification depends on the purpose for which the financial instruments were acquired and whether they are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at each end of the reporting period. The Group's financial assets include financial assets at FVPL and loans and receivables. As at September 30, 2016 and December 31, 2015, the Group has no HTM investments and AFS financial assets.

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, 2016 and December 31, 2015 are in 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 'Trading gains - 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, 2016 and December 31, 2015, the Group has no financial assets and financial liabilities that have been designated as at FVPL. As at September 30, 2016 and December 31, 2015, the Group has financial assets which are held for trading purposes that are classified as financial assets at FVPL.

### *Loans and Receivables*

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

This accounting policy mainly relates to the consolidated statement of financial position captions 'Cash and cash equivalents', 'Cash in a segregated account', 'Trade receivables', 'Other receivables', refundable deposits and long-term time deposits under 'Other noncurrent assets', which arise primarily from service revenues and other types of receivables.

Receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest 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 effective interest rate (EIR). The amortization is included in 'Interest income' in the consolidated statement of income. The losses arising from impairment are recognized in 'Provision for credit losses' in the consolidated statement of income.

### *Other Financial Liabilities*

Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are measured at amortized cost using the effective interest 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 the Group's statutory liabilities).

### *Fair Value Measurement*

The Group measures financial instruments, such as financial assets at FVPL, at fair value at each end of the reporting period. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 22.

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

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

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

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

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

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

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

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

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

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

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

#### Trade Receivables and Payables

Trade receivables from customers, which include margin accounts, and payable to clearing house and other brokers arise from securities purchased (in a regular way transaction) that have been contracted for but not yet delivered and settled at the end of the reporting period. Payable to customers and receivable from clearing house and other brokers arise from securities sold (in a regular way transaction) that have been contracted for but not yet delivered and settled at the end of the reporting period. Refer to the accounting policy for 'Loans and receivables' and 'Other financial liabilities' for recognition and measurement. The related security valuation shows all positions as of clearance date.

#### Derecognition of Financial Instruments

##### *Financial Assets*

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

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

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

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

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

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

#### *Financial Liabilities*

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

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

#### Impairment of Financial Assets

The Group assesses at each end of the reporting period whether a financial asset or group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial Assets Carried at Amortized Cost*

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's



carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income.

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

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

#### Offsetting of Financial Assets and Liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal 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.

#### Prepayments and Other Noncurrent Assets

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

#### Property and Equipment

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

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

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

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

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

#### Software cost

Costs related to software purchased by the Group for use in operations are included in the 'Property and equipment' account and are amortized on a straight-line basis over the estimated life of three (3) to ten (10) years.

#### 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 assessment of indefinite life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. The Parent Company does not intend to sell its exchange trading right in the near future. COLHK's exchange trading right is a nontransferable right.

#### Impairment of Non-Financial Assets

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

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

### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

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

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

### *Group as a Lessee*

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

### Provisions

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

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

### Capital Stock and Capital in Excess of Par Value

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

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

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

### Retained Earnings

Retained earnings are accumulated profits realized out of normal and continuous operations of the business after deducting therefrom distributions to stockholders and transfers to capital or other accounts. Cash and stock dividends are recognized as a liability and a deduction from equity when they are approved by the Group's BOD and stockholders, respectively. Dividends for the year that

are approved after the end of the reporting period are dealt with as an event after the end of the reporting period.

Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Unappropriated retained earnings represent that portion which is free and can be declared as dividends to stockholders. Appropriated retained earnings represent that portion which has been restricted and, therefore, not available for dividend declaration.

#### Cash Dividend

The Group recognizes a liability to make cash distributions to equity holders of the parent when distribution is authorized and the distribution is no longer at the discretion of the Group. A corresponding amount is recognized in equity.

#### 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, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue 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 for every trade transaction based on a flat rate or a percentage of the amount of trading transaction whichever is higher.

#### *Interest*

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

#### *Dividend*

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

#### *Other Income*

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

#### Cost and Expenses

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

#### Share-Based Payment Transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, vesting conditions,

including performance conditions, other than market conditions (conditions linked to share prices), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account in estimating the number of equity instruments that will vest. The fair value is determined using an appropriate pricing model, further details of which are given in Note 16 to the notes to consolidated financial statements.

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

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. Where the terms of an equity-settled award are modified, as a minimum, expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

Prior to January 1, 2005, the Group did not recognize any expense for share options granted but disclosed required information for such options (Note 16). The Group recognizes capital stock upon the exercise of the stock options.

The dilutive effect of outstanding stock options is reflected as additional share dilution in the computation of diluted earnings per share (EPS) (Note 24).

#### Retirement Costs

The Parent Company has a noncontributory defined benefit retirement plan.

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

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

Defined benefit costs comprise the following:

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

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to the consolidated statement of income in subsequent periods. Remeasurements recognized in OCI after the initial adoption of the Revised PAS 19 are retained in OCI which is presented as 'Gain (loss) on remeasurement of retirement obligation' under equity.

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

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

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

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

#### EPS

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

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

basic and diluted EPS are stated at the same amount.

## Taxes

### *Current Income Tax*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The income tax rates and income tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period in the countries where the Group operates and generates taxable income.

### *Deferred Income Tax*

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

Deferred income tax liabilities are recognized for all taxable temporary differences. 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.

Deferred income tax assets are recognized for all deductible temporary differences including net loss carry-over 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.

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

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

Deferred income tax relating to items recognized directly in equity is also recognized in equity. Deferred income tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

### *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.

## Contingencies

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

an inflow of economic benefits is probable.

#### Segment Reporting

The Group's operating businesses are organized and managed separately according to the geographical location of its operations, with each segment representing a unit that offers stockbrokerage services and serves different markets. Financial information on geographical segments is presented in Note 25. The Group operates in one business segment, being stockbrokerage services; therefore, business segment information is no longer presented.

#### Events After the End of the Reporting Period

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

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### **3. Significant Accounting Judgments, Estimates and Assumptions**

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

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

#### Judgments

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

##### *Determining Functional Currency*

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

##### *Assessing Whether an Agreement is a Finance or Operating Lease*

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

##### *Operating Lease Commitments - Group as a Lessee*

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

##### *Classifying Financial Assets at FVPL*

The Group classifies financial assets that are held for trading as financial assets at FVPL. These financial assets are held for the purpose of selling in the short-term. Details of financial assets at FVPL are disclosed in Note 6.



### Estimates and Assumptions

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

#### *Estimating Impairment of Trade Receivables and Other Receivables*

The Group reviews its receivables at each end of the reporting period to assess whether provision for credit 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, 2016 and December 31, 2015, the carrying amounts of trade receivables and other receivables and the allowance for credit losses on trade receivables and other receivables are disclosed in Note 7.

#### *Estimating Useful Lives of Property and Equipment*

The Group estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in the Group's estimates brought about by changes in the factors mentioned. There are no changes in useful lives as at September 30, 2016 and December 31, 2015. The net book values of property and equipment are disclosed in Note 8.

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

The Group assesses impairment on prepayments, property and equipment and other noncurrent assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

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

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

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

Based on management's assessment, there are no indications of impairment on the Group's prepayments and property and equipment as at September 30, 2016 and December 31, 2015.

No impairment loss was recognized as of September 30, 2016 and December 31, 2015 for prepayments,

property and equipment and other noncurrent assets.

As at September 30, 2016 and December 31, 2015, the Group has allowance for impairment losses on other noncurrent assets. The net book values of property and equipment and other noncurrent assets are disclosed in Notes 8 and 10, respectively.

#### *Determining Useful Lives and Impairment of the Intangibles*

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

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

The key assumptions used to determine the recoverable amount of the Group's exchange trading rights are further explained in Note 9. The Parent Company does not intend to sell its exchange trading right in the near future. COLHK's right is nontransferable with an indefinite useful life. As at September 30, 2016 and December 31, 2015, the carrying values of intangibles are disclosed in Note 9.

#### *Estimating Recoverability of Deferred Income Tax Assets*

The Group reviews the carrying amounts of deferred income tax assets at each end of the reporting period and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax assets to be utilized. The deferred income tax assets as at September 30, 2016 and December 31, 2015, are disclosed in 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 (Note 23).

#### *Determining Share-Based Payment*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment are disclosed in Note 16.

#### *Determining Retirement Obligation*

The costs of defined retirement obligation as well as the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future retirement increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligation are highly sensitive to changes in these assumptions. All assumptions are reviewed at each end of the reporting period.

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

Further details about the assumptions used are provided in Note 16.

*Determining Fair Values of Financial Instruments*

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (Note 22).

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**4. Cash and Cash Equivalents**

	<b>September 30, 2016</b> <b>(Unaudited)</b>	December 31, 2015 (Audited)
Cash on hand and in banks	<b>₱993,396,159</b>	₱466,769,391
Short-term cash investments	<b>7,545,758,968</b>	6,026,830,704
	<b>₱8,539,155,127</b>	₱6,493,600,095

Cash in banks earn interest at the respective bank deposit rates. Short-term cash investments are made for varying periods depending on the Group's immediate cash requirements, and earn interest at 0.7% to 2.2% per annum in 2016 and 2015. Interest income from banks of the Group amounted to ₱118,840,976 and ₱78,039,343 in September 30, 2016 and 2015, respectively (see Note 14). The Parent Company has U.S. dollar-denominated cash in banks as of September 30, 2016 and December 31, 2015 (see Note 21).

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 ₱8,288,686,718 and ₱6,194,973,419 as at September 30, 2016 and December 31, 2015, respectively. The Parent Company's reserve requirement is determined based on the SEC's prescribed computations. As at September 30, 2016 and December 31, 2015, the Parent Company's reserve accounts are adequate to cover its reserve requirements.

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**5. Cash in a Segregated Account**

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

As of September 30, 2016 and December 31, 2015, cash in a segregated account for COLHK amounted to ₱195,649,529 and ₱255,596,013, respectively.

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## 6. Financial Assets at FVPL

Financial assets at FVPL pertain to investments in mutual funds and shares of stocks of companies listed in the PSE. The Group recognized from fair value changes of these financial instruments a (loss) gain of (₱293,928) and ₱10,968,644 in September 30, 2016 and 2015, respectively. Dividend income included under other revenues amounted to ₱26,629 and ₱20,815 in September 30, 2016 and 2015, respectively.

Financial assets at FVPL as at September 30, 2016 and December 31, 2015 amounted to ₱2,083,488 and ₱1,673,427, respectively.

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## 7. Trade and Other Receivables

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Trade receivables:		
Customers	₱1,115,816,477	₱846,028,233
Clearing house	38,860,437	96,016,120
Other brokers	97,426,693	134,806,639
Trail fee	586,271	–
Subscription receivables	–	233,064
	<b>1,252,689,878</b>	1,077,084,056
Less allowance for credit losses on receivable from customers	<b>2,836,973</b>	1,274,357
	<b>₱1,249,852,905</b>	₱1,075,809,699
Other receivables:		
Accrued interest	₱13,435,570	₱6,874,758
Advances to officers and employees	717,474	372,055
Others	12,315,933	10,138,609
	<b>26,468,977</b>	17,385,422
Less allowance for credit losses on other receivables	<b>8,960,245</b>	8,960,245
	<b>₱17,508,732</b>	₱8,425,177

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 0.7% to 1.5% per month. Total credit line offered by the Parent Company amounted to ₱ 5,096,506,000 and ₱5,118,001,000 as of September 30, 2016 and December 31, 2015, respectively. Interest income from customers amounted to ₱45,662,368 and ₱99,557,653 in September 30, 2016 and 2015, respectively (see Note 14).

The Group's trade receivables from customers and its security valuation follow:

	September 30, 2016 (Unaudited)		December 31, 2015 (Audited)	
	Money Balance	Security Valuation	Money Balance	Security Valuation
Cash and fully secured accounts:				
More than 250%	<b>₱442,582,897</b>	<b>₱3,506,973,256</b>	₱341,152,360	₱2,908,670,462
Between 200% and 250%	<b>283,152,690</b>	<b>612,006,346</b>	70,434,578	157,862,011
Between 150% and 200%	<b>29,672,787</b>	<b>57,534,023</b>	243,478,049	437,812,936
Between 100% and 150%	<b>253,312,432</b>	<b>302,750,865</b>	106,850,738	115,301,775
Less than 100%	<b>100,933,554</b>	<b>94,072,955</b>	84,112,493	80,447,392
Unsecured accounts	<b>6,162,117</b>	–	15	–
	<b>1,115,816,477</b>	<b>4,573,337,445</b>	846,028,233	3,700,094,576
Less allowance for credit losses on receivable from customers	<b>2,836,973</b>	–	1,274,357	–
	<b>₱1,112,979,504</b>	<b>₱4,573,337,445</b>	₱844,753,876	₱3,700,094,576

Trade receivables from margin customers have no specific credit terms but customers are required to maintain the value of their collateral within a specific level. Once the value of the collateral falls down this level, customers may either deposit additional collateral or sell stock to cover their account balance. Meanwhile, receivables from post-paid customers are required to be settled on two (2) trading days' term for COLHK and three (3) trading days' term for the Parent Company. The receivable balances become demandable upon failure of the customer to duly comply with these requirements. As at September 30, 2016 and December 31, 2015, ₱1,008,720,806 and ₱761,915,725, respectively, of the total trade receivables from customers are fully covered by collateral.

Trade receivables from clearing house as at September 30, 2016 and December 31, 2015 were fully collected subsequently in October and January 2016, respectively. These are noninterest-bearing and are collected on two (2) trading days' term and three (3) trading days' term following the settlement convention of HK and Philippines clearing houses, respectively.

Receivables from other brokers pertain to client monies deposited to Interactive Brokers (IB) LLC through COLHK. In March 2014, COLHK opened an account with the said broker to enable retail customers to trade in other foreign markets.

Included in 'Others' account as at September 30, 2016 and December 31, 2015 are lodgment fees and advances to legal counsels and the amount of ₱8,960,245 representing additional corporate income tax paid under protest by the Parent Company for the taxable year 2009 which was fully provided with allowance for impairment losses. For the first, second and third quarters of the taxable year 2009, the Parent Company used the itemized method of deduction in determining its income tax payable for the same period. In its final adjusted income tax return, it opted to use the forty percent (40%) optional standard deduction (OSD) to determine the final income tax payable for 2009, pursuant to Republic Act No. 9504 effective July 7, 2008, as implemented by Revenue Regulations (RR) No. 16-08 dated November 26, 2008. However on March 14, 2010, RR No. 2-2010 became effective and amended Section 7 of RR No. 16-08, which required taxpayers to signify the election to claim either the OSD or itemized deduction during the filing of the first quarter income tax return which must be consistently applied for all succeeding quarterly returns and in the final income tax returns for the taxable year. Likewise, Revenue Memorandum Circular (RMC) No. 16-2010 was issued on February 26, 2010, giving retroactive application to RR No. 2-2010.

The additional income tax paid under protest is for the sole purpose of avoiding any interest or penalty which may be subsequently imposed in erroneously applying RR No. 2-2010 and RMC No. 16-2010 retroactively in violation of Section 246 of the 1997 Tax Code, as amended. Payment of the additional income tax does not constitute an admission of any deficiency tax liability for the taxable year 2009 nor shall the same be construed as a waiver of the right to apply for and secure a refund of the tax erroneously paid for the period. Hence, on April 3, 2012, the Parent Company filed with the Court of Tax Appeals

(CTA) a Petition for Review asking the CTA to require the Bureau of Internal Revenue (BIR) to refund or issue a Tax Credit Certificate (TCC) for the aforementioned amount representing excess income tax paid for taxable year 2009. On April 21, 2014, a decision was issued by the CTA ordering the BIR to issue a TCC in favor of the Parent Company amounting to ₱8,960,245. On December 15, 2015, the CTA En Banc denied the motion for reconsideration filed by the Commissioner of Internal Revenue (CIR). On April 6, 2016, the Supreme Court (SC) Third Division likewise denied the CIR's petition for review on certiorari. On August 1, 2016, the SC Third Division issued a decision denying with finality the CIR's motion for reconsideration, effectively affirming the Decision of the Court of Tax Appeals Third Division ordering the CIR to issue a tax credit certificate in favor of the Parent Company in the amount of ₱8,960,245.

Pending the actual receipt of the tax credit certificate from the BIR, no reversal of allowance for impairment losses was made.

Movements in the allowance for credit losses follow:

	September 30, 2016 (Unaudited)			December 31, 2015 (Audited)		
	Customers	Others	Total	Customers	Others	Total
Balances at beginning of period	₱1,274,357	₱8,960,245	₱10,234,602	₱3,410,234	₱8,960,245	₱12,370,479
Provisions for (recovery from) credit losses	1,562,616	–	1,562,616	(2,135,877)	–	(2,135,877)
Balances at end of period	₱2,836,973	₱8,960,245	₱11,797,218	₱1,274,357	₱8,960,245	₱10,234,602

## 8. Property and Equipment

### September 30, 2016 (Unaudited)

	Online Trading Equipment and Facilities	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
<b>Cost:</b>				
At beginning of the period	₱110,941,161	₱30,122,088	₱28,009,979	₱169,073,228
Additions	36,800,625	730,208	313,681	37,844,514
Disposals	–	(50,000)	–	(50,000)
Translation adjustments	163,549	218,277	19,522	401,348
At end of the period	147,905,335	31,020,573	28,343,182	207,269,090
<b>Accumulated depreciation and amortization:</b>				
At beginning of the period	74,541,138	25,457,626	24,806,052	124,804,816
Depreciation and amortization	9,846,908	1,905,398	1,621,104	13,373,410
Disposals	–	(47,222)	–	(47,222)
Translation adjustments	163,549	208,614	19,522	391,685
At end of the period	84,551,595	27,524,416	26,446,678	138,522,689
Net book value	₱63,353,740	₱3,496,157	₱1,896,504	₱68,746,401

December 31, 2015 (Audited)

	Online Trading Equipment and Facilities	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
<b>Cost</b>				
At beginning of year	₱92,214,633	₱26,804,789	₱26,292,911	₱145,312,333
Additions	21,545,134	2,899,338	1,668,864	26,113,336
Disposals	(3,222,443)	(94,063)	–	(3,316,506)
Translation adjustments	403,837	512,024	48,204	964,065
At end of year	110,941,161	30,122,088	28,009,979	169,073,228
<b>Accumulated depreciation and amortization</b>				
At beginning of year	64,455,912	22,440,517	22,590,410	109,486,839
Depreciation and amortization	12,904,055	2,611,769	2,167,438	17,683,262
Disposals	(3,222,439)	(94,060)	–	(3,316,499)
Translation adjustments	403,610	499,400	48,204	951,214
At end of year	74,541,138	25,457,626	24,806,052	124,804,816
Net book value	₱36,400,023	₱4,664,462	₱3,203,927	₱44,268,412

The above depreciation and amortization were distributed as follows:

	<b>September 30, 2016 (Unaudited)</b>	September 30, 2015 (Unaudited)
Cost of services	<b>₱148,389</b>	₱136,137
Operating expenses	<b>13,225,021</b>	12,530,094
	<b>₱13,373,410</b>	₱12,666,231

## 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. As at September 30, 2016 and December 31, 2015, the carrying value of COLHK exchange trading right in Philippine peso amounted to ₱19,848,499 and ₱18,338,991, respectively.

The recoverable amount of exchange trading rights of COLHK has been determined based on a VIU calculation. That calculation uses cash from projections based on a financial budget approved by management covering a five (5)-year period, and a discount rate of 9.40%. 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 gross of allowance for impairment losses follow:

	<b>September 30, 2016 (Unaudited)</b>	December 31, 2015 (Audited)
Beginning balance	<b>₱24,413,383</b>	₱23,338,991
Translation adjustment	<b>435,116</b>	1,074,392
Ending balance	<b>₱24,848,499</b>	₱24,413,383

## 10. Other Noncurrent Assets

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Long-term time deposits	<b>₱200,000,000</b>	₱–
Deposit to CTGF	<b>13,724,200</b>	13,724,200
Refundable deposits:		
Rental deposits	<b>4,857,974</b>	4,142,089
Other refundable deposits	<b>2,841,454</b>	2,976,766
	<b>7,699,428</b>	7,118,855
Input VAT	<b>6,706,559</b>	4,269,527
	<b>228,130,187</b>	25,112,582
Less allowance for impairment losses on other noncurrent assets	<b>13,724,200</b>	13,724,200
	<b>₱214,405,987</b>	₱11,388,382

On June 24, 2016, the Parent Company availed of long-term interest-bearing time deposits totaling ₱200,000,000 with a foreign bank. The time deposits bear an interest rate of 4% percent per annum with maturity period of five (5) years.

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.

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



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## 11. Trade Payables

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Customers	P8,514,470,683	P6,479,279,657
Clearing house	336,664,863	59,868,655
Dividends payable	57,591	–
	<b>P8,851,193,137</b>	<b>P6,539,148,312</b>

	September 30, 2016 (Unaudited)		December 31, 2015 (Audited)	
	Money Balance	Security Valuation-Long	Money Balance	Security Valuation-Long
Payable to customers:				
With money balances	P8,514,470,683	P48,661,882,550	P6,479,279,657	P38,259,806,585
No money balances	–	1,635,469,647	–	1,049,613,478
	<b>P8,514,470,683</b>	<b>P50,297,352,197</b>	<b>P6,479,279,657</b>	<b>P39,309,420,063</b>

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

Payable to customers with money balances amounting to P195,649,529 and P255,596,013 as at September 30, 2016 and December 31, 2015, respectively, were payable to COLHK's clients in respect of the trust and segregated bank balances received and held for clients in the course of the conduct of regulated activities. These balances are payable on demand (see Note 5).

Trade payables to clearing house as at September 30, 2016 and December 31, 2015 were fully paid subsequently in October and January 2016, respectively. These are noninterest-bearing and are settled on two (2) trading days' term and three (3) trading days' term following the settlement convention of HK and Philippines clearing houses, respectively.

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## 12. Other Current Liabilities

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Accrued expenses	P13,869,037	P19,124,581
Due to BIR	11,192,729	16,085,261
Trading fees	3,551,197	1,653,463
Accrued management bonus	–	14,514,857
Others	19,634,753	7,648,295
	<b>P48,247,716</b>	<b>P59,026,457</b>

Accrued expenses and accrued management bonus pertain to accruals of operating expenses that were incurred but not yet paid and accruals made for the officers and employees' performance bonus.

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

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

'Others' account consist mainly of 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, 2016 (Unaudited)		December 31, 2015 (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	475,000	₱475,000	474,550	474,550
Issuance of common shares upon exercise of stock options	1,000	1,000	450	450
Balances at end of the period	476,000	₱476,000	475,000	₱475,000

As of September 30, 2016 and December 31, 2015, the Parent Company has 31 and 32 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 ₱198,811,471 and ₱169,021,759 as of September 30, 2016 and December 31, 2015, respectively while total unappropriated retained earnings amounted to ₱675,433,408 and ₱625,796,719 as of September 30, 2016 and December 31, 2015, 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 2016 and 2015:

#### 2016

Cash Dividend	Declaration Date	Ex-date	Record Date	Payment Date
<i>Regular</i>				
₱0.11 per share	March 31, 2016	April 12, 2016	April 15, 2016	April 22, 2016
<i>Special</i>				
₱0.39 per share	March 31, 2016	April 12, 2016	April 15, 2016	April 22, 2016

#### 2015

Cash Dividend	Declaration Date	Ex-date	Record Date	Payment Date
<i>Regular</i>				
₱0.12 per share	March 30, 2015	April 13, 2015	April 16, 2015	May 6, 2015
<i>Special</i>				
₱0.38 per share	March 30, 2015	April 13, 2015	April 16, 2015	May 6, 2015

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, 2013, COLHK's BOD has proposed to pay a final dividend of HK\$0.064 per share in scrip.

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#### 14. Interest Income

	<b>September 30, 2016</b> <b>(Unaudited)</b>	September 30, 2015 <b>(Unaudited)</b>
Banks (Note 4)	<b>₱118,840,976</b>	₱78,039,343
Customers (Note 7)	<b>45,662,368</b>	99,557,653
Others	–	16,330
	<b>₱164,503,344</b>	<b>₱177,613,326</b>

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#### 15. Personnel Costs

	<b>September 30, 2016</b> <b>(Unaudited)</b>	September 30, 2015 <b>(Unaudited)</b>
Salaries and wages	<b>₱46,714,516</b>	₱45,901,695
Other benefits	<b>6,470,960</b>	5,573,069
	<b>₱53,185,476</b>	<b>₱51,474,764</b>

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Other benefits include monetized leave credits of employees and other regulatory benefits.

The above accounts were distributed as follows:

	<b>September 30, 2016</b> <b>(Unaudited)</b>	September 30, 2015 <b>(Unaudited)</b>
Cost of services	<b>₱33,799,543</b>	₱32,147,357
Operating expenses	<b>19,385,933</b>	19,327,407
	<b>₱53,185,476</b>	<b>₱51,474,764</b>

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## 16. Employee Benefits

### Stock Option Plan (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, 2016.

There have been no cancellations or modifications to the plan in 2016 and 2015.

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

<u>1st Tranche</u>	<b>September 30, 2016</b> <b>(Unaudited)</b>	December 31, 2015 (Audited)
Outstanding at beginning of period	<b>1,000,000</b>	1,450,000
Exercised during the period (see Note 13)	<b>(1,000,000)</b>	(450,000)
Outstanding at end of period	<b>–</b>	1,000,000

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

The options have a contractual term of 10 years. All shares under the plan have been exercised as of September 30, 2016.

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, 2016 (Unaudited)	December 31, 2015 (Audited)
Balances at beginning of the period	P4,031,571	P5,499,602
Movement on deferred tax asset on intrinsic value of outstanding options	(4,031,571)	(1,468,031)
Movements during the period	(4,031,571)	(1,468,031)
Balances at end of the period	P-	P4,031,571

#### Retirement Benefits

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, 2016 and December 31, 2015.

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 P214,444 and P246,257 in September 30, 2016 and 2015, respectively.

## 17. Income Taxes

#### Current Income Taxes

The breakdown of provision for current income tax is as follows:

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Regular corporate income tax	P74,914,977	P69,818,283
Final income tax	23,767,672	15,607,665
	<b>P98,682,649</b>	<b>P85,425,948</b>

#### Deferred Income Taxes

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

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Unused tax losses of COLHK	P26,939,331	P20,697,886
Retirement obligation	8,064,042	7,883,314
Allowance for credit losses on trade receivables from customers	851,092	382,307
Accumulated translation adjustment	(297,768)	2,246,511
Unrealized foreign exchange gain	(41,008)	(9,067)
Unrealized trading loss	6,430	60,590
Unamortized past service cost	-	265,531
Cost of share-based payment	-	4,031,571
	<b>P35,522,119</b>	<b>P35,558,643</b>

Realization of the future tax benefits related to the net deferred tax assets is dependent on many factors, including the Group's ability to generate taxable income, within the carry-over period. The unused tax losses of COLHK can be carried forward indefinitely to offset future profits.

As of September 30, 2016 and December 31, 2015, the Parent Company has temporary difference arising from allowance for credit losses on other noncurrent 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

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

Category	Commission income	Interest income	Commission expense	Professional fees
<b>Key management personnel</b>				
<b>September 30, 2016</b>	<b>₱875,366</b>	<b>₱412,822</b>	<b>₱–</b>	<b>₱–</b>
September 30, 2015	1,417,947	573,797	–	–
<b>Other related parties:</b>				
<b>Affiliates with common officers, directors and stockholders</b>				
<b>September 30, 2016</b>	<b>2,096,894</b>	<b>1,102,320</b>	<b>1,422</b>	<b>3,356,246</b>
September 30, 2015	5,461,568	1,598,312	3,090	3,226,468
<b>Directors</b>				
<b>September 30, 2016</b>	<b>5,858,719</b>	<b>108,619</b>	<b>–</b>	<b>–</b>
September 30, 2015	17,353,249	360,301	–	–

Category	Trade payables	Trade receivables	Terms	Conditions
<b>Key management personnel</b>				
<b>September 30, 2016</b>	<b>₱55,179,234</b>	<b>₱7,096,840</b>	3-day; non-interest bearing/Collectible or payable on demand; interest bearing	Secured; no impairment; no guarantee
December 31, 2015	76,796,152	9,706,066		
<b>Other related parties:</b>				
<b>Affiliates with common officers, directors and stockholders</b>				
<b>September 30, 2016</b>	<b>9,957,522</b>	<b>55,216,954</b>	3-day; non-interest bearing/Collectible or payable on demand; interest bearing/Payable upon billing; non-interest bearing	Secured; no impairment; no guarantee
December 31, 2015	28,000,372	–		
<b>Directors</b>				
<b>September 30, 2016</b>	<b>49,102,079</b>	<b>28,400,058</b>	3-day; non-interest bearing/Collectible or payable on demand; interest bearing	Secured; no impairment; no guarantee
December 31, 2015	26,717,466	372,055		

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

	<b>September 30, 2016</b> <b>(Unaudited)</b>	September 30, 2015 <b>(Unaudited)</b>
Short-term employee benefits	<b>₱19,894,015</b>	₱21,053,536
Retirement costs	<b>81,624</b>	130,779
	<b>₱19,975,639</b>	<b>₱21,184,315</b>

## 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 ₱10,503,055 and ₱10,147,001 in September 30, 2016 and 2015, respectively.

The future minimum lease payments are as follows:

	<b>September 30, 2016</b> <b>(Unaudited)</b>	December 31, 2015 <b>(Audited)</b>
Within one (1) year	<b>₱13,016,491</b>	₱10,727,828
After one (1) year but not more than five (5) years	<b>17,580,165</b>	4,239,631
	<b>₱30,596,656</b>	<b>₱14,967,459</b>

## 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, 2016 and December 31, 2015.

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, 2016 and December 31, 2015, 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, 2016 and December 31, 2015 are as follows:

	<b>September 30, 2016</b> <b>(Unaudited)</b>	December 31, 2015 <b>(Audited)</b>
Equity eligible for net liquid capital	<b>₱1,137,966,037</b>	₱1,029,597,528
Less: Ineligible Assets	<b>227,339,132</b>	197,401,134
<b>NLC</b>	<b>₱910,626,905</b>	<b>₱832,196,394</b>
Position risk	<b>₱1,382,575</b>	₱956,579
Operational risk	<b>145,843,377</b>	139,461,571
Counterparty risk	<b>116</b>	15
<b>Total Risk Capital Requirement (TRCR)</b>	<b>₱147,226,068</b>	<b>₱140,418,165</b>
<b>AI</b>	<b>₱8,593,922,820</b>	<b>₱6,178,490,687</b>
5% of AI	<b>429,696,141</b>	₱308,924,534
Required NLC	<b>429,696,141</b>	308,924,534
<b>Net Risk-Based Capital Excess</b>	<b>480,930,764</b>	<b>₱523,271,860</b>
Ratio of AI to NLC	<b>944%</b>	742.00%
<b>RBCA ratio (NLC/TRCR)</b>	<b>619%</b>	<b>593.00%</b>

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 broker 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, 2016 and December 31, 2015.

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, 2016 and December 31, 2015, COLHK is compliant with the said requirement.

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## 21. Financial Risk Management Objectives and Policies

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

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

### Credit risk

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

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

### Aging Analyses of Financial Assets

The aging analyses of the Group's financial assets as at September 30, 2016 and December 31, 2015 are summarized in the following tables:

#### **September 30, 2016 (Unaudited)**

	Neither past due nor impaired	Past due but not impaired			Impaired	Total
		4-14 days	15-31 days	More than 31 days		
<b>Loans and receivables:</b>						
Cash and cash equivalents*	P8,539,111,461	P-	P-	P-	P-	P8,539,111,461
Cash in segregated account	195,649,529	-	-	-	-	195,649,529
Trade receivables	460,226,485	141,848,624	120,787,405	529,827,364	-	1,252,689,878
Other receivables	17,508,732	-	-	-	8,960,245	26,468,977
Long-term time deposits	200,000,000	-	-	-	-	200,000,000
Refundable deposits	7,699,428	-	-	-	-	7,699,428
Financial assets at FVPL	2,083,488	-	-	-	-	2,083,488
<b>Total</b>	<b>P9,422,279,123</b>	<b>P141,848,624</b>	<b>P120,787,405</b>	<b>P529,827,364</b>	<b>P8,960,245</b>	<b>P10,223,702,761</b>

\*Excluding cash on hand

#### **December 31, 2015 (Audited)**

	Neither past due nor impaired	Past due but not impaired			Impaired	Total
		4-14 days	15-31 days	More than 31 days		
<b>Loans and receivables:</b>						
Cash and cash equivalents*	P6,493,556,838	P-	P-	P-	P-	P6,493,556,838
Cash in segregated account	255,596,013	-	-	-	-	255,596,013
Trade receivables	281,162,220	63,717,839	60,878,758	671,325,239	-	1,077,084,056
Other receivables	8,425,177	-	-	-	8,960,245	17,385,422
Refundable deposits	7,118,855	-	-	-	-	7,118,855
Financial assets at FVPL	1,673,427	-	-	-	-	1,673,427
<b>Total</b>	<b>P7,047,532,530</b>	<b>P63,717,839</b>	<b>P60,878,758</b>	<b>P671,325,239</b>	<b>P8,960,245</b>	<b>P7,852,414,611</b>

\*Excluding cash on hand

Past due accounts pertain to margin accounts of the Parent Company earning interest ranging from 8% to 18%. The account has no due date and becomes demandable only when equity percentage of the customers falls below 33.33%.

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

#### **September 30, 2016 (Unaudited)**

	Neither Past Due nor Specifically Impaired		Individually Impaired	Total
	High Grade	Standard Grade		
<b>Loans and receivables:</b>				
Cash and cash equivalents*	P8,539,111,461	P-	P-	P8,539,111,461
Cash in a segregated account	195,649,529	-	-	195,649,529
Trade receivables	1,252,689,878	-	-	1,252,689,878
Other receivables	-	17,508,732	8,960,245	26,468,977
Long-term time deposits	200,000,000	-	-	200,000,000
Refundable deposits	7,699,428	-	-	7,699,428
	<b>10,195,150,296</b>	<b>17,508,732</b>	<b>8,960,245</b>	<b>10,221,619,273</b>
Financial assets at FVPL	2,083,488	-	-	2,083,488
	<b>P10,197,233,784</b>	<b>P17,508,732</b>	<b>P8,960,245</b>	<b>P10,223,702,761</b>

\*Excluding cash on hand

December 31, 2015 (Audited)

	Neither Past Due nor Specifically Impaired		Individually Impaired	Total
	High Grade	Standard Grade		
Loans and receivables:				
Cash and cash equivalents*	₱6,493,556,838	₱–	₱–	₱6,493,556,838
Cash in a segregated account	255,596,013	–	–	255,596,013
Trade receivables	1,013,366,217	63,717,839	–	1,077,084,056
Other receivables	–	8,425,177	8,960,245	17,385,422
Refundable deposits	7,118,855	–	–	7,118,855
	7,769,637,923	72,143,016	8,960,245	7,850,741,184
Financial assets at FVPL	1,673,427	–	–	1,673,427
	₱7,771,311,350	₱72,143,016	₱8,960,245	₱7,852,414,611

\*Excluding cash on hand

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

*Loans and Receivables*

High grade

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

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

Trade receivables from margin customers have no specific credit terms but customers are required to maintain the value of their collateral within a specific level. Once the value of the collateral falls down this level, customers may either deposit additional collateral or sell stock to cover their account balance. Meanwhile, receivables from post-paid customers are required to be settled on two (2) trading days' term for COLHK and three (3) trading days' term for the Parent Company. The receivable balances become demandable upon failure of the customer to duly comply with these requirements. As at September 30, 2016 and December 31, 2015, ₱1,109,654,360 and ₱846,028,218 of the total receivables from customers is secured by collateral comprising of cash and equity securities of listed companies with a total market value of ₱4,573,337,445 and ₱3,700,094,576, respectively (see Note 7). Transactions through the stock exchange are covered by the guarantee fund contributed by member brokers and maintained by the clearing house.

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

Standard grade

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

*Financial Assets at FVPL*

High grade

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

As at September 30, 2016 and December 31, 2015, the Group's financial assets at FVPL are classified as high grade since these are with listed companies of good reputation. The Group's exposure to credit risk arising from default of the counterparty has a maximum exposure equal to the carrying amount of

the particular instrument plus any irrevocable loan commitment or credit facility.

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

	<b>September 30, 2016</b> <b>(Unaudited)</b>	December 31, 2015 <b>(Audited)</b>
Cash and cash equivalents (see Note 4)*	<b>₱8,539,111,461</b>	₱6,493,556,838
Cash in a segregated account (see Note 5)	<b>195,649,529</b>	255,596,013
Financial assets at FVPL (see Note 6)	<b>2,083,488</b>	1,673,427
Trade receivables (see Note 7)	<b>1,249,852,905</b>	1,075,809,699
Other receivables (see Note 7)	<b>17,508,732</b>	8,425,177
Long-term time deposits	<b>200,000,000</b>	–
Refundable deposits (see Note 10)	<b>7,699,428</b>	7,118,855
	<b>10,211,905,543</b>	7,842,180,009
Unutilized margin trading facility	<b>4,355,509,580</b>	4,478,456,061
	<b>₱14,567,415,123</b>	₱12,320,636,070

\*Excluding cash on hand

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

#### Liquidity Risk

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

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

As at September 30, 2016 and December 31, 2015, all of the Group's financial liabilities, which consist of trade payables and other current liabilities, are contractually payable on demand and up to sixty (60) days' term.

Correspondingly, the financial assets that can be used by the Group to manage its liquidity risk as at September 30, 2016 and December 31, 2015 consist of cash and cash equivalents, cash in a segregated account, financial assets at FVPL and trade receivables.

#### Market Risk

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

#### *Equity Price Risk*

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

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 at September 30, 2016 and December 31, 2015 is not significant.

#### *Foreign Currency Risk*

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

The Group's exposure to foreign currency exchange risk arises from its US Dollar-denominated cash in banks amounting to US\$96,537 and US\$55,404 as at September 30, 2016 and December 31, 2015, respectively.

Since the amount of US\$-denominated cash in bank subject to foreign currency risk is immaterial relative to the consolidated financial statements, management believes that disclosure of foreign currency risk analysis as at September 30, 2016 and December 31, 2015 is not significant.

#### Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7 require the Group to disclose information about rights to offset related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar agreements. The effects of these arrangements are disclosed in the succeeding tables:

#### **September 30, 2016 (Unaudited)**

Financial Instruments Recognized at End of Reporting Period by Type	Gross Carrying Amounts (Before Offsetting)	Gross Amounts Offset in Accordance with the Offsetting Criteria	Net Amount Presented in Statements of Financial Position [a-b]	Effect of Remaining Rights of Set-Off (Including Rights to Set Off Financial Collateral) that do not Meet PAS 32 Offsetting Criteria			
				Financial Instruments	Fair Value of Financial Collateral		Net Exposure
					[d]	[e]	
	[a]	[b]	[c]	[d]	[e]	[e] = [c-d]	
<b>Financial Assets</b>							
Receivable from customers	P1,115,816,477	P-	P1,115,816,477	P41,933,844	P-	P1,073,882,633	
Receivable from clearing house	38,860,437	-	38,860,437	-	-	38,860,437	
	<b>P1,154,676,914</b>	<b>P-</b>	<b>P1,154,676,914</b>	<b>P41,933,844</b>	<b>P-</b>	<b>P1,112,743,070</b>	
<b>Financial Liabilities</b>							
Payable to customers	P8,514,470,683	P-	P8,514,470,683	P41,933,844	P-	P8,472,536,839	
Payable to clearing house	336,664,863	-	336,664,863	-	-	336,664,863	
	<b>P8,851,135,546</b>	<b>P-</b>	<b>P8,851,135,546</b>	<b>P41,933,844</b>	<b>P-</b>	<b>P8,809,201,702</b>	

#### **December 31, 2015 (Audited)**

Financial Instruments Recognized at End of Reporting Period by Type	Gross Carrying Amounts (Before Offsetting)	Gross Amounts Offset in Accordance with the Offsetting Criteria	Net Amount Presented in Statements of Financial Position [a-b]	Effect of Remaining Rights of Set-Off (Including Rights to Set Off Financial Collateral) that do not Meet PAS 32 Offsetting Criteria			
				Financial Instruments	Fair Value of Financial Collateral		Net Exposure
					[d]	[e]	
	[a]	[b]	[c]	[d]	[e]	[e] = [c-d]	
<b>Financial Assets</b>							
Receivable from customers	P846,028,233	P-	P846,028,233	P10,223,347	P-	P835,804,886	
Receivable from clearing house	96,016,120	-	96,016,120	58,684,378	-	37,331,742	
	<b>P942,044,353</b>	<b>P-</b>	<b>P942,044,353</b>	<b>P68,907,725</b>	<b>P-</b>	<b>P873,136,628</b>	
<b>Financial Liabilities</b>							
Payable to customers	P6,479,279,657	P-	P6,479,279,657	P10,223,347	P-	P6,469,056,310	
Payable to clearing house	59,868,655	-	59,868,655	58,684,378	-	1,184,277	
	<b>P6,539,148,312</b>	<b>P-</b>	<b>P6,539,148,312</b>	<b>P68,907,725</b>	<b>P-</b>	<b>P6,470,240,587</b>	

## 22. Fair Value Measurement

The following table shows the carrying values and fair values of the Group's assets and liabilities, whose carrying values does not approximate its fair values as at September 30, 2016 and December 31, 2015:

	Carrying Values		Fair Values	
	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
<b>Financial Assets</b>				
Loans and receivables:				
Refundable deposits	<b>₱7,699,428</b>	₱7,118,855	<b>₱6,706,453</b>	₱6,200,755

The carrying amounts of cash and cash equivalents, cash in a segregated account, trade receivables, other receivables, trade payables and other current liabilities, which are all subject to normal trade credit terms and are short-term in nature, approximate their fair values. The carrying amount of long-term time deposits approximate their fair values as at September 30, 2016.

### *Financial Assets at FVPL*

The Group's financial assets at FVPL are carried at their fair values as at September 30, 2016 and December 31, 2015. Fair value of financial assets at FVPL is based on the closing quoted prices of stock investments published by the PSE and the mutual fund providers, respectively.

### *Refundable Deposits*

The fair value of the refundable deposits is based on the present value of the future cash flows discounted using credit adjusted risk-free rates for a similar type of instrument using 2.8% to 3.33% as at September 30, 2016 and December 31, 2015, respectively. There are no changes in the valuation techniques in 2016 and 2015.

### Fair Value Hierarchy

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy as follows:

#### September 30, 2016 (Unaudited)

	Level 1	Level 2	Level 3
<i>Asset measured at fair value:</i>			
<b>Financial assets at FVPL</b>	<b>₱2,083,488</b>	<b>₱-</b>	<b>₱-</b>
<i>Asset for which fair values are disclosed:</i>			
<b>Refundable deposits</b>	<b>-</b>	<b>-</b>	<b>6,706,453</b>

#### December 31, 2015 (Audited)

	Level 1	Level 2	Level 3
<i>Asset measured at fair value:</i>			
Financial assets at FVPL	₱1,673,427	₱-	₱-
<i>Asset for which fair values are disclosed:</i>			
Refundable deposits	-	-	6,200,755

For the period ended September 30, 2016 and the year ended December 31, 2015, there were no transfers among levels 1, 2 and 3 of fair value measurements.

## 23. Contingency

As discussed in Note 7, on April 21, 2014, a Decision in favor of the Group was issued by the Court of Tax Appeals (CTA) granting the Group's Petition for the refund and/or issuance of tax credit certificate (TCC) in the amount of ₱8,960,245. On May 8, 2014, the CIR filed its Motion for Review which was later denied for lack of merit in CTA's Resolution dated June 2, 2014. On July 5, 2014, the CIR filed a Petition for Review with the CTA En Banc requesting said Court to reconsider, reverse, and set aside the Decision dated April 15, 2014 and Resolution dated June 2, 2014. On December 15, 2015, the CTA En Banc denied the motion for reconsideration filed by the Commissioner of Internal Revenue (CIR). On April 6, 2016, the Supreme Court (SC) Third Division likewise denied the CIR's petition for review on certiorari. On August 1, 2016, the SC Third Division issued a decision denying with finality the CIR's motion for reconsideration, effectively affirming the Decision of the Court of Tax Appeals Third Division ordering the CIR to issue a tax credit certificate in favor of the Parent Company in the amount of ₱8,960,245.

As of September 30, 2016, the Parent Company is yet to receive the notice of entry of final judgement from the SC.

## 24. EPS Computation

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Net income	<b>₱316,926,401</b>	₱246,401,844
Weighted average number of shares for basic earnings per share	<b>475,500,000</b>	474,775,000
Dilutive shares arising from stock options	–	1,000,000
Adjusted weighted average number of shares of common shares for diluted earnings per share	<b>475,500,000</b>	475,775,000
Basic earnings per share	<b>₱0.67</b>	₱0.52
Diluted earnings per share	<b>₱0.67</b>	₱0.52

## 24. Segment Information

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

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

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

### September 30, 2016 (Unaudited)

	Philippines	Hong Kong	Elimination	Total
Revenue from external customers:				
Commissions	₱483,443,877	₱7,406,001	₱–	₱490,849,878
Interest	164,501,901	1,443	–	164,503,344
Others	2,405,606	971,556	–	3,377,162
Inter-segment revenue	21,835,886		(21,835,886)	–
Segment revenue	672,187,270	8,379,000	(21,835,886)	658,730,384
Cost of services	(138,888,200)	(13,255,832)	–	(152,144,032)
Operating expenses	(76,298,203)	(29,132,489)	21,766,322	(83,664,370)
Depreciation	(13,205,431)	(19,590)	–	(13,225,021)
Total expenses	(228,391,834)	(42,407,911)	21,766,322	(249,033,423)
Income (loss) before income tax	443,795,436	(34,028,911)	(69,564)	409,696,961
(Provision for) benefit from income tax	(98,384,767)	5,614,207	–	(92,770,560)
Net income (loss)	<b>₱345,410,669</b>	<b>(₱28,414,704)</b>	<b>(69,564)</b>	<b>₱316,926,401</b>

	Philippines	Hong Kong	Elimination	Total
Segment assets	9,875,811,270	613,658,631	(137,245,316)	₱10,352,224,585
Segment liabilities	8,733,556,595	221,769,937	(2,424,446)	8,952,902,086
Capital expenditures:				
Tangible fixed assets	37,811,612	32,902	–	37,844,514
Cash flows arising from:				
Operating activities	2,530,692,606	(10,800,204)	–	2,519,892,402
Investing activities	(237,804,467)	(32,903)	–	(237,837,370)
Financing activities	(236,500,000)	–	–	(236,500,000)

December 31, 2015 (Audited)

	Philippines	Hong Kong	Elimination	Total
Revenue from external customers:				
Commissions	₱456,763,490	₱30,119,942	₱–	₱486,883,432
Interest	233,164,336	73	–	233,164,409
Others	16,222,006	767,745	–	16,989,751
Inter-segment revenue	45,923,814	–	(45,923,814)	–
Segment revenue	752,073,646	30,887,760	(45,923,814)	737,037,592
Cost of services	(180,581,144)	(16,072,670)	–	(196,653,814)
Operating expenses	(150,058,761)	(56,752,790)	45,768,514	(161,043,037)
Depreciation and amortization	(17,492,178)	(36,536)	–	(17,528,714)
Income (loss) before income tax	403,941,563	(41,974,236)	(155,300)	361,812,027
Benefit from (provision for) income tax	(106,044,448)	6,925,763	–	(99,118,685)
Net income (loss)	₱297,897,115	(35,048,473)	(155,300)	₱262,693,342
Segment assets	₱7,411,524,095	₱680,109,210	(₱138,802,287)	7,952,831,018
Segment liabilities	6,374,148,517	265,647,180	(3,955,697)	6,635,840,000
Capital expenditures:				
Tangible fixed assets	25,626,480	486,856	–	26,113,336
Cash flows arising from:				
Operating activities	2,257,704,153	(141,354,690)	–	2,116,349,463
Investing activities	(25,625,404)	(486,856)	–	(26,112,260)
Financing activities	(236,825,000)	–	–	(236,825,000)



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

	<b>September 30, 2016</b>	September 30, 2015
Profitability ratios:		
Return on assets	<b>3%</b>	3%
Return on equity (annualized)	<b>31%</b>	26%
Net profit margin	<b>48%</b>	42%
Solvency and liquidity ratios:		
Current ratio	<b>1.12:1</b>	1.17:1
Debt to equity ratio	<b>6.59:1</b>	5.56:1
Quick ratio	<b>1.12:1</b>	1.17:1
Asset to equity ratio	<b>7.62:1</b>	6.57:1