Investing for Growth

CITISECONLINE 2011 ANNUAL REPORT

Vision

To provide unparalleled service to our customers by empowering them with knowledge, tools and wealth-building programs that will help them achieve their financial goals.

Mission

To empower individual investors to take control of their financial lives by delivering the most useful and ethical financial products and services driven by our core competence in technology and market expertise, and guided by our core values of customer focus, innovation, operating discipline and teamwork, thereby maximizing value for our shareholders.

Contents

ABOUT CITISECONLINE

CitisecOnline (COL) is the leading online stockbroker in the Philippines today. With over 28,000 customers and over Php17 Billion in customer assets, it has built itself as a formidable institution and a force to reckon with in the stockbrokerage industry.

Since 2008, it has ranked as the number 1 broker in the Philippines Stock Exchange in terms of number of transactions executed. In 2011, COL registered over 20% overall market share of trades executed, besting over 130 local and foreign brokers.

With its customer-focused strategy, it aims to continually enhance its online trading platform and provide value-added services to further improve the customers' online trading experience and empower them to make better-informed investment decisions.

Committed to provide Value, Innovation, Trust and Service, COL is well-positioned to capitalize both on the anticipated development of the capital markets as well as the vast opportunities of increasing the retail investor base in the Philippines.

On February 21, 2012, the Securities and Exchange Commission (SEC) approved the corporate change in name from CitisecOnline.com, Inc. to COL Financial Group, Inc. As the former name has its legal limitations which prevents it from offering its customers a wider range of products and services, COL Financial Group, Inc. will now be able to expand within its expertise in the stockbrokerage industry, and continue to create the best value for its customers.

CHAIRMAN’S MESSAGE

DEAR FELLOW SHAREHOLDERS,

It is with enthusiasm and pride that I present to you COL›s 2011 Annual Report. With another successful year behind us, we expect nothing less than positive changes in 2012, those geared towards improvements, enhancements and progress both in our market environment and in our Company.

In my previous annual letters, I have often encouraged everyone to develop a habit of disciplined saving and steady investing in quality businesses because I am convinced it is the best strategy to achieve long-term financial success. That to us is the one essential belief that will never change. However, with approximately 95% of cash still in fixed income today and global funds flowing into Southeast Asia as our capital markets continue to grow at an increasing pace, the time to invest in stocks has never been better. While geopolitical problems stretching across the Western continents would have been a cause to be wary before, they now create significant opportunities in our local market to purchase promising companies at bargain prices. The improving shift in our economic landscape and a government that has slowly been getting its act together can attribute to the ability of our index to persist and rally strong. I truly feel that as emerging markets continue to expand and stabilize on their own, we can now take advantage of our economic resilience and find new and healthy investment prospects for this year.

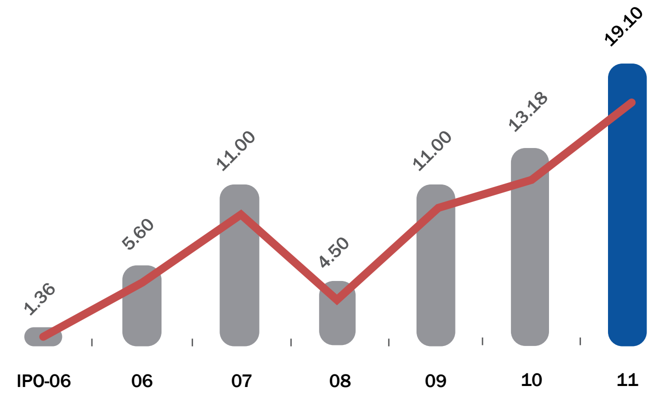
I am also eager to share with you that some of the best changes that will happen in 2012 are internal ones. From a small office composed of less than 100 clients in 1999, our business has rapidly multiplied into tens of thousands within a decade. Admittedly, we did not anticipate such a tremendous response from the public. Therefore, I would like to thank each and every one of you for your patience and resolve to maintain your relationship with us while we were going through the necessary transitions to accommodate such a heavy growth in our user base. We are well aware that the success of COL today revolves around three main values - our shareholder value, our human resource value and our customer value. Our closing share price for 2011 and our Company earnings, which have undoubtedly outperformed the index, are evidences of our commitment to our shareholders to relentlessly achieve excellence and provide wise corporate decisions in the best interest of COL. It is without question that our greatest assets are our employees who work tirelessly and are willing to dedicate themselves to the infallible performance of our daily operations. I am proud to be in the presence of my management team and members of the board and I am confident that together, we are ready to focus more on delivering the most optimal level of service and products that we can provide to our customers. We are making it our highest priority to ensure that COL will remain as valuable to you, our loyal investor, as you have been to our Company because it is our firm belief that you deserve nothing less.

God bless you all!

EDWARD K. LEE
Founder and Chairman
CitisecOnline.com, Inc.

As emerging markets continue to expand and stabilize on their own, we can now take advantage of our economic resilience and find new and healthy investment prospects for this year.

COL STOCK PRICE



PRESIDENT'S REPORT

DEAR VALUED SHAREHOLDERS,

I am pleased to present to you our Company's performance in 2011. Since we officially launched our service in 2006, our number one priority was to empower the Filipino investor to achieve financial freedom. Since then, our successful growth has been driven by our focus on our customers. And as shareholders, I am sure you are very pleased with the performance of your Company, as our success has been reflected in our stock price.

Today, your Company is a force to reckon with as we have consistently been the # 1 Online Stockbroker in the Philippines in the past three years. Our unprecedented growth is a testament of our customer's trust and confidence in COL.

Today, we are the market leader in the Philippine Stock Exchange

- We ranked number 1 in terms of number of transactions executed, accounting for over 20% of all transactions traded in the Philippine Stock Exchange.
- We are also the leader in number of online accounts and continue to be the fastest-growing brokerage firm in the Philippines with almost 28,000 customers.
- As of December 2011, we were ranked # 8 in value turnover accounting for close to 5% market share.
- Lastly, we continue to grow our customer equity base ending the year with almost Php17 billion in customer assets.

Our numbers and our reputation together with the strength of our brand reflect that we have become the online broker of choice for the Filipino investor.

FINANCIAL HIGHLIGHTS

Throughout 2011, we continued to successfully grow our business, further enhanced the Company's earning power, and delivered attractive returns in the midst of challenging market conditions. COL was able to register a 34% improvement in revenues over last year to Php659 million on account of increased trading activities in our Philippine operations.

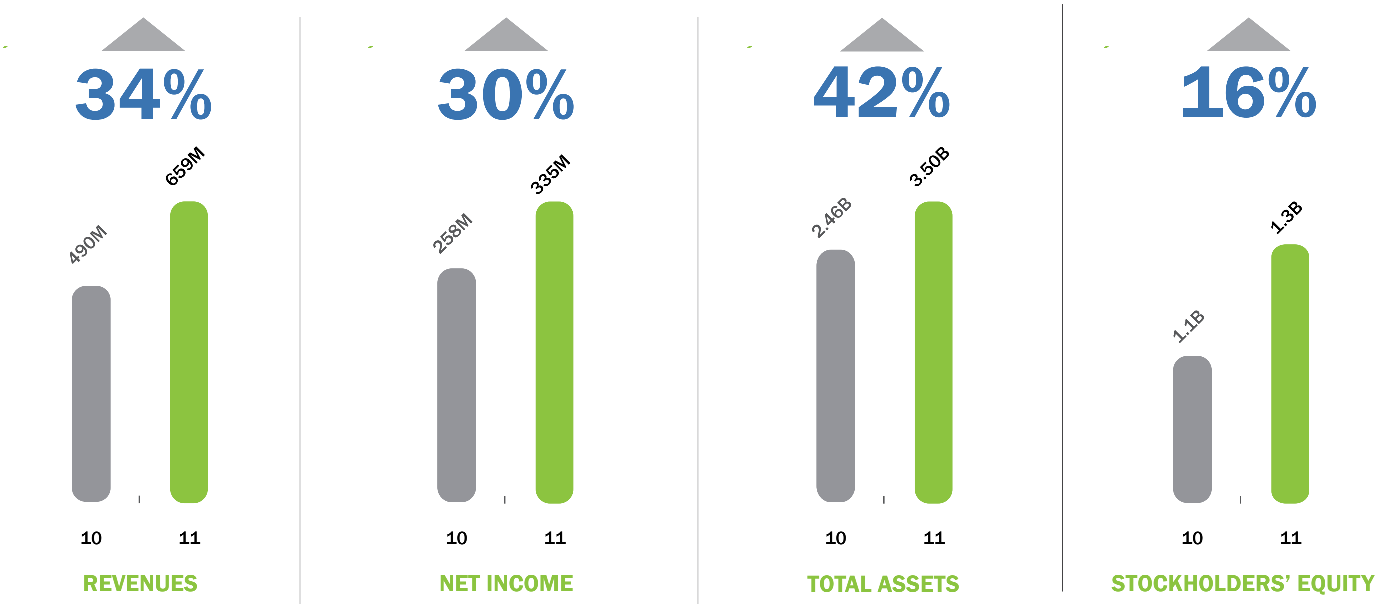
Philippine commissions grew by 89% Y/Y, now accounting for 50% of our total revenues from only 35% in the previous year. Meanwhile, interest on margins grew by 77% Y/Y and now accounts for 22% of our revenues from 17% in 2010. Overall, our Philippine operations now account for 82% of our total revenues versus 60% in 2010.

Expenses, on the other hand, increased by 37% Y/Y to Php257 million from Php188 million, primarily due to the increase in the cost of services which include commissions, personnel costs, stock exchange charges and communication fees. All other expense accounts that are not directly related to trading are kept at their budgeted levels as the Company continued to focus on its operating discipline in order to maximize profitability.

Net Income hit a record level in 2011, growing by 30% Y/Y from Php258 million a year ago to Php335 million. The record earnings was primarily driven by the strong growth in our trading revenues as we cornered a higher share of the local market to 4.3% from only 2.8% the prior year. Our net profit margin remains high at 51%.

As of end-2011, consolidated net assets stood at Php3.5 billion, posting an increase of 42% Y/Y or Php1.1 billion versus 2010's Php2.4 billion. Asset growth is driven primarily by an increase in cash and trading activities of our clients.

And lastly, our stockholders' equity expanded by 16% Y/Y to Php1.3 billion but given the faster growth in net income, our ROE improved further to 28% from 25% in 2010.



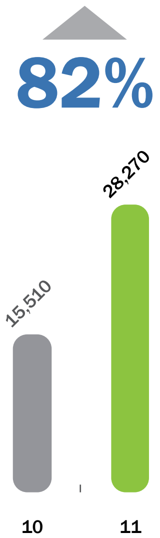
OPERATING HIGHLIGHTS

Over the past year, we continued to make significant investments in enhancing the quality of our customers' overall trading experience, broadened our services to expand our reach to a diverse client population, and stepped up our educational campaign to meet the growing demands of the investing public. We believe that these initiatives will lay the foundation for a sustained organic growth in our existing business.

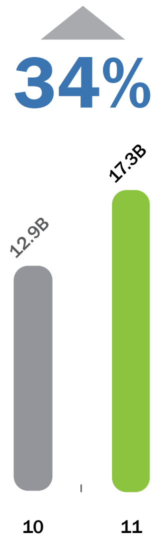
As a result of our efforts, our customer base grew by 83% Y/Y to 28,000 from 15,000 in 2010. This strong growth is a testament of our customers' increasing trust and confidence in our services particularly, as 40% of our new customers were generated from referrals. We also continued to expand our market base as 90% of our new customers were first time investors in the stock market.

Our annual turnover value grew by 80% Y/Y to Php123 billion, which is faster than the 18% Y/Y growth registered by the entire local market. As a result, our market share among the trading participants in the PSE grew by 54%, while our overall ranking rose to number 8 from 10 in 2010. A critical contribution to our improved trading volume stemmed from our drive to diversify our client base and engage the use of the Private Clients Group. In 2011, the Private Clients Group accounted for 25% of our total turnover.

We are proud to say that we executed over 1.7 million transactions, which is a growth of 91% Y/Y. With the new more powerful trading system implemented by the PSE as well as the upgrade of our own facilities, the number of transactions we now handle is over 20% of the total daily transactions of the local market.



NUMBER OF CUSTOMERS



TOTAL CLIENT EQUITY

Our total client equity rose by 34% Y/Y to Php17.3 billion as we grew our new customers and as existing customers added more funds to their COL accounts. We have made it more convenient for our customers to fund their online accounts and provided them with relevant and timely research to guide them in their investment decisions. The strong growth in our client equity is a solid proof of our customers' growing trust in COL and in their ability to be self-directed investors.

2012 AND BEYOND

As we look ahead in 2012 and beyond, we will aim to do the following:

- We will scale our business to respond to the needs of all types of investors by making stock market investing accessible to all.
- We will innovate in the way we do things by improving the overall online trading experience and keep to our tradition of personal service and expertise in the stock market.
- We will continue to strengthen the knowledge base of our customers because ultimately, their success is our success.

All these initiatives and priorities will allow us to focus on what matters most and drive shareholder value over the long-term.

I would also like to mention that the SEC has approved our change in name from CitisecOnline.com, Inc. to COL Financial Group, Inc. last February 21, 2012. COL Financial Group, Inc. will now be able to expand its products and services within our expertise in the stockbrokerage industry, as we continue to create the best value for our customers.

As we begin a new phase in our corporate history, I would like to start with a sense of gratitude to our customers, shareholders and employees. To our customers, for entrusting us with your business. To our shareholders, for investing in our commitment to empower the Filipinos to achieve financial freedom. And to our employees, for your hard work and passion in serving our customers.

While we celebrate our success and take pride in our achievements, they, more importantly, fuel our desire, drive, and passion to do even better so we can continue to deliver the best value to our customers, employees and, ultimately, our shareholders in the years ahead.

Thank you very much.

Very truly yours,

CONRADO F. BATE
President & CEO
COL Financial Group Inc.

2011 Milestones

2011's milestones were all about "Investing for Growth". As we saw our customers' momentum build over the past 12 months, we continued to make significant investments in enhancing the quality of the customers' trading experience. These investments were necessary to lay the foundation for our long-term growth.

Upgrading INFRASTRUCTURE

up 80%

Internet Bandwidth

up 207%

Maximum Trades Capacity per Day

up 210%

Maximum Order Capacity per Day

We dedicated our focus and substantial resources in getting the basics right with regard to our online trading platform. We focused our efforts on capacity-building, as well as strengthening the reliability and security of our systems infrastructure, not only to cover current demand and short-term requirements but to build the necessary infrastructure to support future growth in the medium to long term.

In 2011, our Management team and our IT group dedicated their time in upgrading our systems. We invested heavily but competently in our infrastructure and upgraded our servers to top of the line servers. We also doubled our bandwidth and hastened our order entry mechanism to speed up our trades as they pass through the PSE system.

We set-up our Data Center in Makati - at the Ayala Tower, where the PSE is located. Locating the Data Center in the same building as the PSE allows us to be in a position of immediate access that should minimize the risk of downtime and address a number of connectivity problems.

Not only are we doing what we can in terms of systems infrastructure, we are also focusing on our operations, particularly in delivering better service to our customers. We opened up more phone lines and fielded more Customer Service agents to support our Hotlines.

Emphasizing
TRANSPARENCY AND CONVENIENCE

We continued to make online investing easy and convenient as we worked with the top banks in the country, such as BDO, Metrobank and BPI in making bank transfers and funding of accounts even simpler.

We also took steps to go beyond the aspect of convenience by ensuring transparency and security for the movement of funds. As such, notices on deposits, withdrawals and dividends are now sent within the same business day via email to ensure more transparency in the customers' accounts.

Broadening
OUR COMMUNICATION CHANNELS

Improving our communications and reach to our larger customer base continued to be a key priority in 2011. We conducted two market briefings in critical times of the year and moved our Market Briefing venue from the PSE Auditorium to the 1,100-seater Meralco Theater. We also began publishing our briefings via webinars and video presentations on our YouTube channel.

Expanding OUR CUSTOMER BASE

28,270

total customers

Php17B or **45%**

increase

83%

increase in total customers

We continued to see the positive results of our marketing activities and investor education campaigns as evidenced by a considerable growth of 83% increase in our customer base. More significantly, our own customers continued to be the source of new customers, referring friends, relatives and associates to begin investing through COL. Another strong source of new customers were our regular seminars as we continued to increase the frequency and coverage of our seminars.

In 2010, we had established the Private Clients Group, with its offering of a full brokerage service and equity advisory services, to address the needs of the high net worth individuals. This service has been well received and has significantly contributed to our revenue model as it served a distinct market need. We not only cater to the self-directed investor but also to the more mature and affluent market that requires a more personalized service and advice.

Changing Lives

THROUGH INVESTOR EDUCATION

over **14,000**

seminar attendees nationwide

Finally, we continued to remain faithful to our Chairman's mission–to educate and equip Filipinos with the knowledge, the skill set, and more importantly, the discipline to make them successful investors in the stock market, not just for short-term gains, but to provide them with a long-term, lifelong practice of investing intelligently and successfully.

We spent a lot of our time and resources in investor education. We continue to host three times a week seminars at our new and larger COL Training Center and educated over 14,000 Filipinos in 2011. We expanded our seminar offerings to cover Fundamental analysis and the Easy Investment Program, to strengthen knowledge in the different aspects of stock market investing. In 2011, we worked with a team to put together a 13-episode mainstream TV show on GMA News TV on personal financing called Pesos and Sense, which can now be viewed on YouTube as well.

Today, we can rightfully claim that we are the champion of the retail investor. We believe that we have earned the trust and confidence of our customers and that of the investing public because of our continuous effort to protect and serve their interests.

CHIEF FINANCIAL OFFICER'S MESSAGE

The year 2011 was another banner year for your company CitisecOnline.com, Inc. (COL), as it posted record-breaking profits, driven by the strong performance of its Philippine operations. Consolidated net income jumped by 30% to Php335 million. Revenues grew by 34% Y/Y to Php659 million as COL's Philippine operations posted an 89% Y/Y rise in commissions resulting from increased trading activity. Philippine commissions now account for 50% of total revenues versus only 35% last year. Interest on margin loans also grew by 77% Y/Y and now accounts for 22% of revenues from only 17% in 2010. Our Philippine operations now account for 82% of our total revenues versus 60% in 2010.

We attribute our strong performance of our local business to the rapid growth of our customer base. Last year, our client base increased by 83% to over 28,000 customers as more Filipinos sought higher returns on their funds given the continuous drop in interest rates.

The strong growth in our client base allowed us to improve our position in terms of number of transactions traded in the PSE. In 2011, COL accounted for over 20% of the total number of trades executed into the PSE. We also cornered a higher market share in terms of value turnover of 4.3% from 2.8% in 2010. COL's ranking in the Philippine Stock Exchange in terms of size also improved from 10th in 2010 to 8th in 2011.

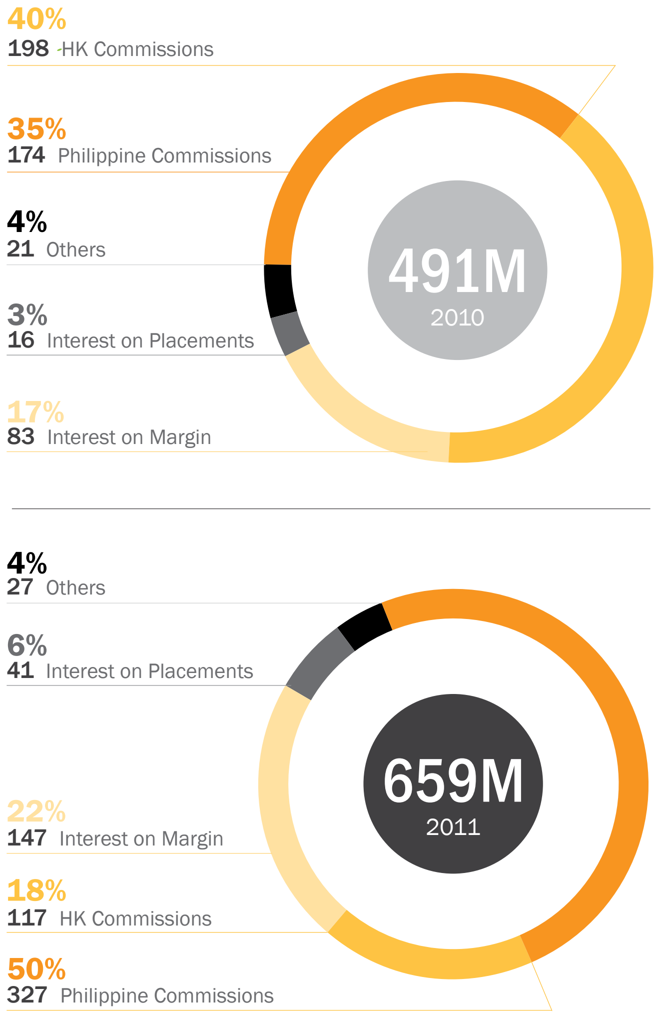
We are also proud to say that because of our good results, we will be giving out Php0.60/share in cash dividends to you, our shareholders. This is a 50% increase year on year.

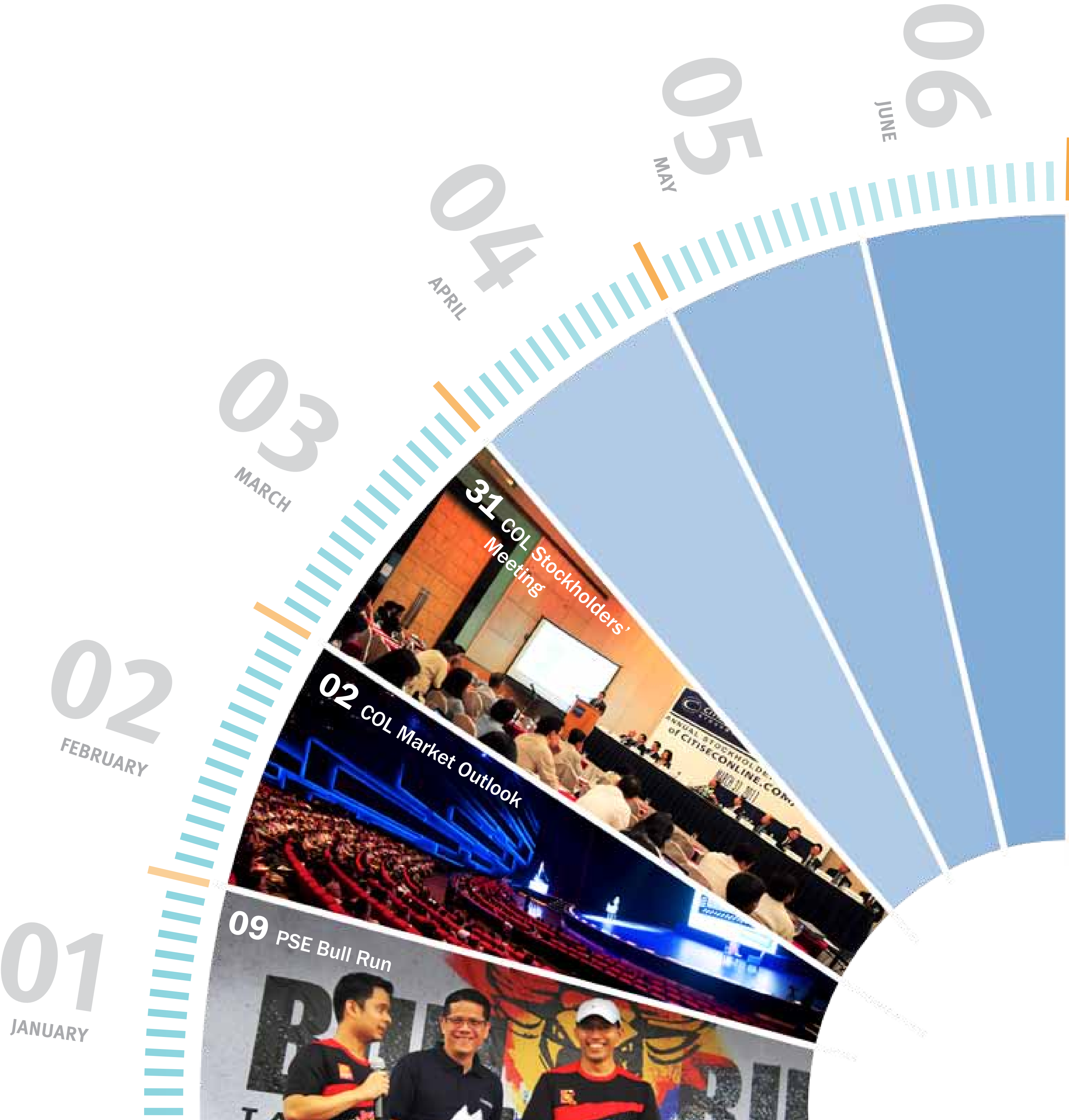
While 2011 was a banner year, we are confident that 2012 will continue to be an exciting year for COL. We will continue to expand the business by keeping our tradition and expertise in stock market as well as maintaining the discipline of managing our expenses and effective capital management.

CATHERINE L. ONG
Chief Financial Officer

As emerging markets continue to expand and stabilize on their own, we can now take advantage of our economic resilience and find new and healthy investment prospects for this year.

REVENUE BREAKDOWN (IN PHP MILLION)




06
JUNE
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MAY
04
APRIL
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MARCH
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FEBRUARY
01
JANUARY
31 COL Stockholders' Meeting
02 COL Market Outlook
09 PSE Bull Run

2011 YEAR HIGHLIGHTS

07 JULY

22-23 Money Summit & Wealth Expo Manila

08 AUGUST

01 COL Mid-Year Market Briefing

09 SEPTEMBER

03 First Episode: Pesos & Sense (entire sponsored season)

15 Richmond Hotel (Focus Group Discussion – Part 1)

30 Financial Literacy for Our Children (lecture by Rose Fres Fausto)

30 Money Summit & Wealth Expo, Cebu

10 OCTOBER

05 COL Stockholders' Meeting (for approval of change of company name)

11 NOVEMBER

18-20 Kerygma Conference

21 Crowne Plaza Hotel (Focus Group Discussion – Part 2)

12 DECEMBER

Board of DIRECTORS

EDWARD K. LEE
Founder and Chairman

Edward K. Lee, 56, Filipino, is concurrently the Chairman of the Board of CitisecOnline and CitisecOnline.com Hong Kong, Ltd. as well as Citisecurities, Inc. In addition, he is the Chairman and Chief Executive Officer of the CWC Group of Companies which include CWC Development, Inc., Barrington Carpets, Inc., Citimex, Inc., and CWC International, Inc. for 30 years now. Mr. Lee previously served as a Governor of the Philippine Stock Exchange and was the Chairman of the Computerization Committee of the Manila Stock Exchange. He went on to become a member of the Board of Directors of A. Soriano Corporation serving for two terms. Mr. Lee was also a Finalist to the 2007 Entrepreneur of the Year Philippines by Ernst & Young.

CONRADO F. BATE
Director/President and
Chief Executive Officer

Conrado F. Bate, 48, Filipino, is currently COL's President and CEO and its Nominee to the Philippine Stock Exchange. He has extensive experience in the Philippine stock brokerage and fund management industry with prior positions as Vice President of JP Morgan Securities Philippines from 2000-2002. Mr. Bate was a member of the Board of Directors of the PSE (2005–2006) and served as its Chairman of the Investor Education Committee and Member of the Legislative Committee. He also serves as a member of the Board of Directors of ATR Asset Management formerly The Mutual Fund Management Company of the Philippines from 2005 up to present and Corston-Smith Asset Management in Malaysia from 2009 up to present.

ALEXANDER C. YU
Vice Chairman

Alexander C. Yu, 55, Filipino, is the Vice Chairman of COL since 1999 and the Vice Chairman and Treasurer of Citisecurities, Inc. since 1986. He is also a Director of CitisecOnline.com Hong Kong, Ltd. since 2001.

CAESAR A. GUERZON

Senior Vice President/Corporate Secretary and Head of Legal Department and Human Resources and Administration Department

Caesar A. Guerzon, 60, Filipino, was a Director of COL from 1999 to 2006. He is the Corporate Secretary of Citisecurities, Inc. since 1986 and the CWC Group of Companies since 1984. He is concurrently a Director of CitisecOnline.com, Hong Kong, Ltd. and the Chairman of the Rural Bank of Sta. Maria, Ilocos Sur, Inc.

PAULWELL HAN

Director

Paulwell Han, 52, Chinese, is a graduate of Business Finance at San Francisco State University, USA. He is currently the Director and General Manager of different corporations located in Hong Kong namely: Dai Heng Pharmaceutical Co., Ltd., Yee Ting Tong Company Limited, Tecworld Investment Co., Ltd., Silver Jubilee Co., Ltd., Sunning Restaurant and Etta Trading Company Limited.

CATHERINE L. ONG

Director/Senior Vice President/ Chief Financial Officer and Treasurer

Catherine L. Ong, 58, is the President of Citisecurities, Inc. and Executive Vice President and Treasurer of CWC Group of Companies for more than ten years now.

WELLINGTON C. YU
Director

Wellington C. Yu, 67, Filipino, was the Senior Vice President of Tropical Rent-A-Car in Hawaii from 1986 to 1990 and President of Suntrips, Inc. of San Jose, California. He was also conferred the title of Dean Emeritus in the College of Business and Economics in De La Salle University.

RAYMOND C. YU
Director

Raymond C. Yu, 56, Filipino, is currently the President of Winner Industrial Corporation and a Director of more than 15 years of the following corporations: Citisecurities, Inc., CWC Development, Inc., Barrington Carpets, Inc., Citimex, Inc., and CWC International, Inc.

HERNAN G. LIM
Director

Hernan G. Lim, 58, Filipino, is currently the President of Hoc Po Feeds Corporation and the Executive Vice President of Philstar Marketing & Development Corporation and HGL Development Corporation for more than 5 years now. He is also a Director of Citimex Inc., Citisecurities, Inc., CWC Development, Inc., Barrington Carpets, Inc. and CWC Industries, Inc. for more than ten years.

JOEL LITMAN

Director/Independent Director of the Company

Joel Litman, American, 41, was elected as Director on August 12, 2011. Litman is currently Managing Director of Equity Analysis & Strategy, Inc. headquartered in New York City, and Chairman of the Board of Directors of the EAS Group, which includes the Institute of Strategy & Valuation, EAS Digital, and other private holdings. Previously, he held Director/Manager positions at Credit Suisse First Boston, Deloitte Consulting, and American Express. He is co-author of the book, DRIVEN: Business Strategy, Human Actions, and the Creation of Wealth and has published in Harvard Business Review. Professor Litman teaches and is on faculty at multiple business schools for strategy and valuation courses and has lectured at Harvard Business School and other top universities. He is also Chairman of the Foundation for Socioeconomic Advancement focused on philanthropic efforts in underdeveloped communities. He is a Certified Public Accountant in the United States, a member of the Global CFA Institute, received his B.S. Accountancy at DePaul University and his MBA/MM from the Kellogg Graduate School of Management at Northwestern University.

KHOO BOO BOON

Director/Independent Director of the Company

Khoo Boo Boon, 52, Malaysian, has extensive experience in international trading, advertising, market research and corporate management. He is currently the President and Chief Executive Officer of GTF Worldwide Philippines, Inc. He is also a shareholder and sits on the Board of Directors of GEKA Property Holdings, Inc.

MANUEL ESTACION

Director/Independent Director of the Company

Manuel S. Estacion, 65, Filipino, is presently engaged by The Hong Kong and Shanghai Banking Corporation (HSBC) as the Bank Representative in the remaining labor-related cases pending in court. He previously served HSBC in various capacities and was Vice President- Human Resources from 1996 to 1999 after which he acted as a Consultant to HSBC prior to his present engagement. Mr. Estacion also served as a Director and Vice President of the Rotary Club of Ortigas Center for the Rotary Year 2007-2008.

JUAN G. BARREDO
Vice President and Head of Customer Service and Sales Department

Juan "Juanis" G. Barredo, 43, Filipino, Vice President and Head of Customer Service and Sales Department of COL, manages the day-to-day operations of the Business Center, Customer Service and Customer Relations Groups and support personnel. He spearheads the COL Investor Seminar Series, the flagship investor education program of the Company.

CONRADO F. BATE
Director/President and Chief Executive Officer

APRIL LYNN C. LEE-TAN, CFA
Vice President and Head of Research Department

April Lynn C. Lee-Tan, 35, Filipino, has been with CitisecOnline's research team since 1999. She is a Certified Securities Representative and a Chartered Financial Analyst (CFA) holder. She has been elected and currently serves as the President of the Certified Financial Analysts Association of the Philippines.

CATHERINE L. ONG
Director/Senior Vice President/ Chief Financial Officer and Treasurer

CAESAR A. GUERZON
Senior Vice President/Corporate Secretary and Head of Legal Department and Human Resources and Administration Department

NIKOS J. BAUTISTA
Vice President and Chief Technology Officer

Nikos J. Bautista, 42, Filipino, is the Chief Technology Officer of COL. He is also a consultant for the New Trading System Project of the Philippine Stock Exchange and for the various projects of the PDEx.

MANAGEMENT Team

JOHN GATMAYTAN

Head, Private Clients Group

John Gatmaytan, 47, Filipino, is currently the Joint-Head of the Private Clients Group of COL. He has extensive institutional experience in the fields of stock broking, investment banking, fund raising, distribution and portfolio management, having organized and led successful teams in various top-tier financial services companies. Prior to COL, he was a Vice President of ATR-Kim Eng Securities Philippines from 2000 to 2009; Vice President and Head of Sales of DBP-Daiwa Securities Philippines Inc. from 1995-1997; Vice President and Head of Sales of Philippine Asia Equity Securities Inc. (formerly First Pacific Securities) from 1992-1995. John has 25 years of experience behind him, having started with the firm Citicorp Vickers in 1986.

GEORGE WONG

Head, Private Clients Group

George Wong, 40, Filipino, is currently the Joint-Head of the Private Clients Group of COL. He has extensive institutional experience in the fields of stock broking, equity sales, fund raising, and portfolio management. Prior to COL, he was an AVP of JP Morgan Securities Philippines from 1999 to 2003, and its forerunner company Jardine Fleming Exchange Capital Securities Inc. from 1997 to 1999; Assistant Vice President of DBP-Daiwa Securities Philippines Inc, from 1995-1997. George has 20 years of equities experience behind him, having started with the firm First Pacific Securities Philippines in 1992. He was rated by Asiamoney magazine in 1999 as one of the Philippines' Best in Equity Sales for that year.

GERALD T. CHUA

General Manager,
CitisecOnline.com Hong Kong, Ltd.

Gerald Chua, 34, Filipino, is currently the General Manager of CitisecOnline.com Hong Kong, Ltd. In 2001, he was part of the team who set up the COL Hong Kong office and until today manages its day-to-day operations.

LORENA E. VELARDE

Vice President
and Financial Controller

Lorena C. Espino-Velarde, 41, Filipino was appointed as Financial Controller of COL in 2010 after having served as the Company's Head of Accounting from 2001-2009. She is concurrently the Compliance Officer of Citisecurities, Inc.

MELISSA NG

Assistant Vice President
and Head of Operations Department

Melissa O. Ng, 39, Chinese, graduated with a degree of Bachelor of Science Degree in Applied Economics and a Bachelor of Science Degree in Business Management from De La Salle University. She earned her MBA (Silver Medalist) from De La Salle University in 2000. She has been with the Company since 2007 and has previous banking experience from Security Bank and Union Bank of the Philippines.

CORPORATE GOVERNANCE

CitisecOnline adheres to the principles and best practices of good corporate governance. It believes that corporate governance is a necessary component of what constitutes sound strategic business management. It is expected that all its directors and employees act with honesty, integrity, transparency, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization. COL believes that corporate governance is a reflection of its culture, policies, and relationship with its customers, employees and shareholders, and commitment to these values.

The Company's Manual on Corporate Governance institutionalizes the principles of good corporate governance and serves as a guide in the attainment of the company's goals. The Manual also defines the responsibilities of the Board of Directors and all the committees.

BOARD OF DIRECTORS

BOARD OF DIRECTORS

NOMINATION COMMITTEE
CHAIRMAN:
KHOO BOO BOON
MEMBERS:
ALEXANDER C. YU
CAESAR A. GUERZON

AUDIT COMMITTEE
CHAIRMAN:
MANUEL S. ESTACION
MEMBERS:
RAYMOND C. YU
HERNAN G. LIM

COMPENSATION COMMITTEE
CHAIRMAN:
WELLINGTON C. YU
MEMBERS:
ALEXANDER C. YU
CATHERINE L. ONG
MANUEL S. ESTACION

BOARD COMPOSITION

COL's Board consists of eleven (11) directors, three (3) of whom are independent directors. All 11 directors are registered owners of at least one (1) share of the capital stock of the Company. Each director has a term of one (1) year and serves until his/her successor is elected and qualified. The following is an overview of the membership and responsibilities of the nomination, audit, and compensation committees of the Board of Directors.

Nomination Committee

The Nomination Committee's key objective is to review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board. It may provide assessment on the Board's effectiveness in directing the process of renewing and replacing Board members. It is composed of at least three (3) members, one (1) of whom is an independent director.

Audit Committee

The Audit Committee is composed of at least three (3) members, one (1) of whom is an independent director. Its functions include:

- Checking all financial reports against their compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements.
- Performing oversight financial management functions.
- Pre-approving audit plans, scope and frequency.
- Performing direct interface functions with the internal and external auditors.

Compensation Committee

The Compensation Committee is responsible for establishing formal and transparent procedures for the development of a policy on executive remuneration or determination of remuneration of directors and officers to ensure that their compensation is consistent with the Company's culture, strategy and the business environment in which it operates. It is composed of at least three (3) members, one (1) of whom is an independent director.

BOARD OF DIRECTORS

The direction and control of COL's business affairs as well as the preservation of its assets are in the hands of its Board of Directors.

It shall be the Board's responsibility to foster the long-term success of the Company and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Company, its shareholders and other shareholders.

The Board's specific responsibilities include installing a process of selection to ensure a mix of competent directors and officers; ensuring the Company's compliance with relevant laws, regulations and codes of best business practices; identifying and monitoring with due diligence key risk areas and key performance indicators; and developing and implementing an investor relations program or shareholder communications policy for the Company.

SHAREHOLDER RELATIONS

Corporate information is regularly released by COL to its stockholders including changes in its corporate profile, corporate governance disclosures, financial reports, stock market updates, and other related news in compliance with and strict adherence to the highest standards of transparency and disclosure.

COL faithfully complies with the financial reporting and disclosure requirements of the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE). Likewise, the Company's quarterly financial results are promptly disclosed to the SEC and the PSE.

The principal manner of communication with our shareholders is via the annual report and through the Annual Stockholders' Meeting of COL attended by all the Company's Directors. It is also a time when all shareholders present are given the opportunity to address questions to the Chairman, the Board members as well as the Chairpersons of the Audit, Compensation and Nomination Committees.

The Company holds the annual stockholders' meetings at a pre-determined venue scheduled on any day in March of each year. Special stockholders' meetings can be called at any time by the President, or by order of the Board of Directors at its own instance, or at the written request of the stockholders representing a majority of the outstanding capital stock.

Notice of any regular or special meeting of the stockholders is sent by mail or personal delivery at least two (2) weeks prior to the scheduled date of the meeting. In all regular or special meeting, quorum shall, unless otherwise provided by law, constitute the presence either in person or by proxy of stockholders representing a majority of the outstanding capital stock of the Company.

CORPORATE SOCIAL RESPONSIBILITY

Investor education remains to be the advocacy of COL as it extended the access to its free seminars beyond its Training Center at the corporate headquarters. 2011 saw a significant increase in interest in financial literacy, particularly in stock market investing, as leaders of companies, special interest groups and educational institutions are recognizing the importance of educating their employees, staff and officers in managing and securing their financial future.

Below is a list of some of the companies and organizations who enlisted in the COL Investor Seminar Series:

- Accenture
- ACM Land Holdings
- ADMU
- Ateneo
- Bureau of Jail;
- Chevron
- College of St. Benilde – DLSU
- Cradle of Joy
- Dell
- Delos Santos Medical Center
- DLSU
- EDC
- ESA
- FTI consulting
- GLOBE
- HSBC-Alabang
- HSBC-Fort
- I-plus Intelligent network
- IBM
- Indra Philippines
- International Flavours & Fragrance
- Logica-MKH and Logica-Makati
- MAERSK
- Magsaysay Institute
- Napocor
- PAF
- PBA
- People's Credit & Finance Corpation
- PhilamLife
- PhilArmy
- PNOC
- PSE-University
- PUP
- Rotary Club
- Shell
- Stradcom
- Subic Bay Management Authority
- Team Manila
- Tower Watsons
- TRION Trading
- Unilab
- Wi-Tribe

We were also invited as the resource person for successful stock investing in events that focus on financial education and literacy such as Brother Bo Sanchez's Truly Rich Financial Coaching Program held every quarter. This 2-day event convened expert speakers on various investment or business topics to teach participants how to improve their ability to generate income – whether actively or passively.

And finally, 2011 focused on our ability to provide a wider access for our educational campaigns through digital channels such as webinars and research reports published on our YouTube channel and Facebook as well as mainstream television through GMA TV's Pesos and Sense TV show which featured 13 episodes on stock market investing.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of CitisecOnline.com, Inc. and Subsidiary (the Group) is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2011 and 2010, including the additional components attached therein, in accordance with accounting principles generally accepted in the Philippines. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Edward K. Lee
Chairman of the Board

Conrado F. Bate
President and Chief Executive Officer

Catherine L. Ong
Senior Vice President and Chief Financial Officer

Signed this 1st day of March 2012.

SGV & Co
Ernst & Young

SyCip Gorres Velayo & Co.
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1226 Makati City
Philippines

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www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
CitisecOnline.com, Inc.

We have audited the accompanying consolidated financial statements of CitisecOnline.com, Inc. and Subsidiary, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

SGV & Co
Ernst & Young

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CitisecOnline.com, Inc. and Subsidiary as at December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with accounting principles generally accepted in the Philippines.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-2 (Group A),
March 18, 2010, valid until March 17, 2013
Tax Identification No. 102-096-009
BIR Accreditation No. 08-001998-72-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174591, January 2, 2012, Makati City

March 1, 2012

CITISECONLINE.COM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31					
	2011			2010		
		Security Valuation			Security Valuation	
	Money Balance	**Long**	**Short**	Money Balance	Long	Short
ASSETS						
Current Assets						
Cash and cash equivalents (Note 4)	**₱2,188,940,069**			₱796,209,875		
Financial assets at fair value through profit or loss (FVPL; Note 5)	**1,313,282**	**₱1,313,282**		779,800	₱779,800	
Trade receivables (Note 6)	**1,160,690,295**	**4,359,793,839**		1,420,745,451	4,111,767,365	
Other receivables (Note 6)	**8,130,814**			7,475,523		
Prepayments	**2,206,021**			1,438,151		
Total Current Assets	**3,361,280,481**			2,226,648,800		
Noncurrent Assets						
Held-to-maturity investment (HTM; Note 7)	–			102,456,071		
Property and equipment (Note 8)	**41,731,847**			26,674,510		
Intangibles (Note 9)	**23,027,647**			22,989,686		
Deferred income tax assets - net (Note 17)	**75,178,490**			79,806,548		
Other noncurrent assets (Note 10)	**8,626,513**			6,915,945		
Total Noncurrent Assets	**148,564,497**			238,842,760		
TOTAL ASSETS	**₱3,509,844,978**			₱2,465,491,560		
Securities in box, in Philippine Depository and Trust Corporation and Hong Kong Securities Clearing Company, Limited			**₱15,793,197,812**			₱12,474,285,648

(Forward)

	December 31					
	2011			2010		
		Security Valuation			Security Valuation	
	Money Balance	**Long**	**Short**	Money Balance	Long	Short
LIABILITIES AND EQUITY						
Current Liabilities						
Trade payables (Note 11)	**₱2,133,524,943**	**₱11,432,090,691**		₱1,271,907,127	₱8,361,738,483	
Other current liabilities (Note 12)	**75,193,971**			62,019,014		
Income tax payable	**–**			9,190,638		
Total Current Liabilities	**2,208,718,914**			1,343,116,779		
Noncurrent Liability						
Retirement obligation (Note 16)	**6,152,980**			3,134,824		
Total Liabilities	**2,214,871,894**			1,346,251,603		
Equity (Notes 13 and 16)						
Capital stock	**458,550,000**			442,650,000		
Capital in excess of par value	**44,899,024**			35,539,024		
Cost of share-based payment	**63,541,685**			71,073,568		
Accumulated translation adjustment	**(26,007,546)**			(26,873,680)		
Retained earnings:						
Appropriated	**45,004,197**			26,881,330		
Unappropriated	**708,985,724**			569,969,715		
Total Equity	**1,294,973,084**			1,119,239,957		
TOTAL LIABILITIES AND EQUITY	**₱3,509,844,978**	**₱15,793,197,812**	**₱15,793,197,812**	₱2,465,491,560	₱12,474,285,648	₱12,474,285,648

See accompanying Notes to Consolidated Financial Statements.

CITISECONLINE.COM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2011	2010	2009
REVENUES			
Commissions	**₱444,675,036**	₱371,348,657	₱401,487,503
Others:			
Interest (Notes 4, 6, 7 and 14)	**187,261,774**	105,980,093	57,958,949
Gain on financial assets at FVPL - net (Note 5)	**16,027,838**	7,717,255	2,404,116
Foreign exchange gains - net	**109,526**	765,431	321,722
Others	**10,582,399**	4,413,181	1,254,642
	658,656,573	490,224,617	463,426,932
COST OF SERVICES			
Commission expense (Note 18)	**57,202,457**	22,152,678	448,560
Personnel costs - operations (Note 15)	**55,347,373**	45,283,387	34,231,431
Stock exchange dues and fees	**9,576,859**	5,998,073	4,168,792
Central depository fees	**4,043,001**	2,141,568	960,442
Research	**2,851,166**	–	–
Others:			
Communications	**14,256,059**	11,846,735	10,351,532
Others (Note 8)	**1,972,874**	994,717	–
	145,249,789	88,417,158	50,160,757
GROSS PROFIT	**513,406,784**	401,807,459	413,266,175
OPERATING EXPENSES			
Administrative expenses:			
Personnel costs (Note 15)	**24,340,576**	22,826,347	18,060,588
Professional fees (Note 18)	**21,325,506**	20,211,730	20,591,261
Management bonus	**15,335,034**	8,018,720	3,672,720
Rentals (Note 19)	**8,447,671**	5,347,721	4,616,672
Stock option expense (Notes 16 and 18)	**5,980,000**	2,275,000	1,846,000
Advertising and marketing	**3,811,116**	3,423,586	4,311,636
Taxes and licenses	**3,003,449**	1,840,027	1,230,565
Power, light and water	**2,845,011**	2,486,321	1,747,150
Security and messengerial services	**1,836,737**	1,457,227	1,168,980
Insurance and bonds	**1,740,489**	838,187	716,142
Office supplies	**1,577,809**	1,609,568	839,437
Representation and entertainment	**1,563,858**	504,431	500,947
Condominium dues	**1,548,890**	921,958	738,203
Transportation and travel	**1,399,065**	848,154	248,326
Trainings, seminars and meetings	**1,132,792**	756,780	655,745
Bank charges	**971,057**	402,999	84,530
Repairs and maintenance	**859,177**	528,281	543,320
Directors' fees	**775,000**	605,000	735,000
Membership fees and dues	**602,913**	543,211	271,500
Communications	**544,890**	1,297,798	1,214,919
Others	**1,343,133**	1,385,677	1,600,698
	100,984,173	78,128,723	65,394,339
Depreciation and amortization (Note 8)	**10,159,215**	8,147,917	11,468,435
Interest expense	**426,667**	1,284,722	–
Provision for credit losses (Note 6)	**120,995**	11,907,240	343,514
Provision for impairment losses on other noncurrent assets (Note 10)	**–**	–	5,524,200
	111,691,050	99,468,602	82,730,488
INCOME BEFORE INCOME TAX	**401,715,734**	302,338,857	330,535,687
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)			
Current	**67,025,552**	45,921,682	61,491,267
Deferred	**(108,694)**	(1,469,384)	(164,220)
	66,916,858	44,452,298	61,327,047
NET INCOME	**₱334,798,876**	₱257,886,559	₱269,208,640

See accompanying Notes to Consolidated Financial Statements.

CITISECONLINE.COM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2011	2010	2009
NET INCOME	**₱334,798,876**	₱257,886,559	₱269,208,640
OTHER COMPREHENSIVE INCOME (LOSS)			
Translation adjustments - net of tax effect of ₱371,200 in 2011, ₱7,292,313 in 2010 and ₱3,180,347 in 2009	**866,134**	(17,015,398)	(7,420,809)
TOTAL COMPREHENSIVE INCOME	**₱335,665,010**	₱240,871,161	₱261,787,831
Earnings Per Share (Note 24)			
Basic	**₱0.74**	₱0.59	₱0.62
Diluted	**₱0.72**	₱0.55	₱0.57

See accompanying Notes to Consolidated Financial Statements.

CITISECONLINE.COM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 and 2009

	Capital Stock	Capital In Excess of Par Value	Cost of Share-Based Payment	Accumulated Translation Adjustment	Retained Earnings Appropriated	Retained Earnings Unappropriated	Total
Balances at January 1, 2009	₱433,000,000	₱34,759,024	₱21,926,438	(₱2,437,473)	₱8,649,725	₱191,366,121	₱687,263,835
Cost of share-based payment (Note 16)	–	–	42,895,708	–	–	–	42,895,708
Declaration of cash dividend	–	–	–	–	–	(43,300,000)	(43,300,000)
Net income	–	–	–	–	–	269,208,640	269,208,640
Other comprehensive loss	–	–	–	(7,420,809)	–	–	(7,420,809)
Total comprehensive income (loss) for the year	–	–	–	(7,420,809)	–	269,208,640	261,787,831
Appropriation of retained earnings	–	–	–	–	5,083,872	(5,083,872)	–
Balances at December 31, 2009	433,000,000	34,759,024	64,822,146	(9,858,282)	13,733,597	412,190,889	948,647,374
Issuance of shares upon exercise of stock options (Note 16)	9,650,000	780,000	–	–	–	–	10,430,000
Cost of share-based payment (Note 16)	–	–	6,251,422	–	–	–	6,251,422
Declaration of cash dividend (Note 13)	–	–	–	–	–	(86,960,000)	(86,960,000)
Net income	–	–	–	–	–	257,886,559	257,886,559
Other comprehensive loss	–	–	–	(17,015,398)	–	–	(17,015,398)
Total comprehensive income (loss) for the year	–	–	–	(17,015,398)	–	257,886,559	240,871,161
Appropriation of retained earnings (Note 13)	–	–	–	–	13,147,733	(13,147,733)	–
Balances at December 31, 2010	442,650,000	35,539,024	71,073,568	(26,873,680)	26,881,330	569,969,715	1,119,239,957
Issuance of shares upon exercise of stock options (Note 16)	15,900,000	9,360,000	–	–	–	–	25,260,000
Cost of share-based payment (Note 16)	–	–	(7,531,883)	–	–	–	(7,531,883)
Declaration of cash dividend (Note 13)	–	–	–	–	–	(177,660,000)	(177,660,000)
Net income	–	–	–	–	–	334,798,876	334,798,876
Other comprehensive income	–	–	–	866,134	–	–	866,134
Total comprehensive income for the year	–	–	–	866,134	–	334,798,876	335,665,010
Appropriation of retained earnings (Note 13)	–	–	–	–	18,122,867	(18,122,867)	–
Balances at December 31, 2011	**₱458,550,000**	**₱44,899,024**	**₱63,541,685**	**(₱26,007,546)**	**₱45,004,197**	**₱708,985,724**	**₱1,294,973,084**

See accompanying Notes to Consolidated Financial Statements.

CITISECONLINE.COM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱401,715,734**	₱302,338,857	₱330,535,687
Adjustments for:			
Interest income (Notes 4, 6, 7 and 14)	**(187,261,774)**	(105,980,093)	(57,958,949)
Depreciation and amortization (Note 8)	**12,132,089**	9,142,634	11,468,435
Stock option expense (Note 16)	**5,980,000**	2,275,000	1,846,000
Gain on disposal of HTM investment (Note 7)	**(3,974,316)**	–	–
Retirement expense (Note 16)	**3,018,156**	2,336,561	2,175,177
Interest expense	**426,667**	1,284,722	–
Unrealized loss (gain) on financial assets at FVPL	**161,642**	520,316	(633,013)
Provision for impairment losses on other noncurrent assets	**–**	–	5,524,200
Dividend income (Note 5)	**(27,362)**	(378)	(20,720)
Operating income before working capital changes	**232,170,836**	211,917,619	292,936,817
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Trade receivables	**263,163,770**	(1,053,522,736)	(252,927,532)
Other receivables	**1,963,720**	4,789,501	(246,483)
Financial assets at FVPL	**(695,124)**	1,085,099	(1,802,148)
Prepayments	**(765,969)**	1,053,875	(349,856)
Other noncurrent assets	**(4,224,566)**	(10,459,814)	(5,980,022)
Increase in:			
Trade payables	**861,278,015**	444,451,175	279,930,569
Other current liabilities	**11,709,168**	33,915,004	24,747,614
Net cash generated from (used in) operations	**1,364,599,850**	(366,770,277)	336,308,959
Interest received	**187,702,374**	107,229,245	58,141,904
Income taxes paid	**(76,674,630)**	(54,143,965)	(46,600,119)
Interest paid	**(426,667)**	(1,284,722)	–
Dividends received	**27,362**	378	20,720
Net cash flows from (used in) operating activities	**1,475,228,289**	(314,969,341)	347,871,464
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of HTM investment	**106,474,792**	–	–
Acquisition of property and equipment (Note 8)	**(27,212,887)**	(8,063,004)	(11,618,392)
Contribution to retirement fund (Note 16)	**–**	(5,188,281)	(1,527,705)
Net cash flows from (used in) investing activities	**79,261,905**	(13,251,285)	(13,146,097)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends declared and paid (Note 13)	**(177,660,000)**	(86,960,000)	(43,300,000)
Payment of loan	**(80,000,000)**	(100,000,000)	–
Proceeds from availment of loan	**80,000,000**	100,000,000	–
Issuance of additional shares (Notes 13 and 16)	**15,900,000**	9,650,000	–
Net cash flows used in financing activities	**(161,760,000)**	(77,310,000)	(43,300,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,392,730,194**	(405,530,626)	291,425,367
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**796,209,875**	1,201,740,501	910,315,134
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱2,188,940,069**	₱796,209,875	₱1,201,740,501

See accompanying Notes to Consolidated Financial Statements.

CITISECONLINE.COM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

CitisecOnline.com, Inc. (CitisecOnline, 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. CitisecOnline.com Hong Kong 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.

On July 12, 2006, the Parent Company completed its initial public offering (IPO) of 110,000,000 common shares (25.58% of the total outstanding common stock) through the Philippine Stock Exchange (PSE).

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

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

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

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

The accompanying consolidated financial statements of the Group as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 were authorized for issue by the BOD on March 1, 2012.

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

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

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

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

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS and Philippine Interpretations which were adopted as of January 1, 2011.

- Philippine Accounting Standards (PAS) 24, *Related Party Disclosures (Revised)*
  The revised standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. Furthermore, the revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard. The revised standard does not have an impact on the financial position or performance of the Group.

- PAS 32, *Financial Instruments: Presentation (Amendments) - Classification of Rights Issues*
  The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment has no impact on the consolidated financial statements of the Group after initial application.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 14, *Prepayments of a Minimum Funding Requirement (Amendments)*
  The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset.
  The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the consolidated financial statements of the Group.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
  Philippine Interpretation IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation has no effect on the consolidated financial statements of the Group.

- Improvements to PFRS 2010
  Improvements to PFRS are an omnibus of amendments to PFRS. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011.
  - PFRS 3, *Business Combinations (Measurement options available to noncontrolling interest)*
  - PFRS 3, *Business Combinations [Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008)]*
  - PFRS 3, *Business Combinations (Unreplaced and voluntarily replaced share-based payment awards)*
  - PFRS 7, *Financial Instruments: Disclosures*
  - PAS 1, *Presentation of Financial Statements*
  - PAS 27, *Consolidated and Separate Financial Statements*
  - Philippine Interpretation IFRIC 13, *Customer Loyalty Programme*

The new, revised, amended and improved standards and/or interpretations that have been adopted are deemed to have no impact on the financial position or performance of the Group.

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

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
  This interpretation, effective for annual periods beginning on or after January 1, 2015, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are

transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. Implementation of this Interpretation has been deferred until the final Revenue Standard is issued by the International Accounting Standards Board and after an evaluation on the requirements and guidance in the said standard vis-a-vis the practices and regulations in the Philippine real estate industry is completed.

Effective in 2012:

- PAS 12, *Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets*
  The amendment provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will, normally, be through sale.

- PFRS 7, *Financial Instruments: Disclosures (Amendments) - Transfers of Financial Assets*
  The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Effective in 2013:

- PAS 1, *Presentation of Financial Statements (Amendments) - Presentation of Items of Other Comprehensive Income*
  The amendments are effective for annual periods beginning on or after July 1, 2012. The amendments change the grouping of items presented in other comprehensive income. Items that would be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendments do not change the nature of the items that are currently recognized in other comprehensive income, nor do they impact the determination of whether items of other comprehensive income are classified through profit or loss in the future periods. The amendments will be applied retrospectively.

- PAS 19, *Employee Benefits (Revised)*
  The revised standard is effective for annual periods beginning on or after January 1, 2013. The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The significant changes include immediate recognition of actuarial gains or losses for defined benefit plans in other comprehensive income when they occur, new disclosure requirements including qualitative information of sensitivity of the defined benefit obligation, recognition of termination benefits and distinction between short-term and long-term employee benefits. The revised standard will be applied retrospectively.

- PAS 27, *Separate Financial Statements (Amendments)*
  As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 28, *Investments in Associates and Joint Ventures (Amendments)*
  The amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- PFRS 7, *Financial Instruments: Disclosures - Offsetting of Financial Assets and Financial Liabilities*
  The amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a) The gross amounts of those recognized financial assets and recognized financial liabilities;

  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;

  c) The net amounts presented in the statement of financial position;

  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:

     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and

     ii. Amounts related to financial collateral (including cash collateral); and

  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

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

- PFRS 10, *Consolidated Financial Statements*
  This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 10 replaces the portion of PAS 27, *Separate and Consolidated Financial Statements*, which addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC 12, *Consolidation - Special Purpose Entities*, resulting to SIC being withdrawn. It does not change the consolidation procedures. Rather, it changes whether an entity is consolidated by revising the definition of control. It also provides a number of clarifications in applying this new definition. The new standard will be applied retrospectively.

- PFRS 11, *Joint Arrangements*
  This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 introduces the definition of "joint control", for which the reference to "control" in "joint control" refers to the definition of "control" in PFRS 10. It also changes the accounting for joint arrangements by moving from three categories under PAS 31 to two categories, either joint operation or joint venture. Under this new classification, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either joint operation or a joint venture. Further, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances. In addition, PAS 28, *Investment in Associates*, was amended to include the application of the equity method to investments in joint ventures. PFRS 11 will be applied using modified retrospective approach.

- PFRS 12, *Disclosure of Interests in Other Entities*
  This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 12 applies to an entity that has an interest in subsidiaries, joint arrangements, associates and/or structured entities. The objective of the new disclosure requirements is to help the users of the financial statements to understand the effects of an entity's interests in other entities on its financial position, financial performance and cash flows and the nature of, and the risks associated with, the entity's interest in other entities. It also includes more extensive qualitative and quantitative disclosures. PFRS 12 will be applied retrospectively.

- PFRS 13, *Fair Value Measurement*
  This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 13 does not affect when fair value is used, but rather describes how to measure fair value where fair value is required or permitted by PFRS.

  Under PFRS 13, fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". Fair value as used in PFRS 2, *Share-based Payments*, and PAS 17, *Leases,* is excluded from the scope of PFRS 13. The standard also provides clarification on a number of areas. New disclosures related to fair value measurements are also required to help users understand the valuation techniques and inputs used to develop fair value measurement and the effect of fair value measurements on profit or loss. PFRS 13 is applied prospectively. Early application is permitted and must be disclosed.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation becomes effective for annual periods beginning on or after January 1, 2013 and applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

Effective in 2014:

- PAS 32, *Financial Instruments: Presentation - Offsetting of Financial Assets and Financial Liabilities*
  The amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Company, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective in 2015:

- PFRS 9, *Financial Instruments: Classification and Measurement*
  This standard is effective for annual periods beginning on or after January 1, 2015. It introduces new requirements on the classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in PAS 39, *Financial Instruments: Recognition and Measurement*. The approach in the new standard is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in PAS 39. The Group expects significant impact on its financial statements when it adopts this standard.

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

Summary of Significant Accounting Policies

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

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

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

Cash in Banks - Reserve Bank Account
Cash in banks - reserve bank account includes Parent Company's reserved cash in compliance with SRC Rule 49.2 covering customer protection and custody of securities and clients' monies maintained by COLHK with a licensed bank arising from its normal course of business.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of Recognition

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

Initial Recognition and Classification of Financial Instruments

All financial assets, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for securities valued at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, available-for-sale (AFS) investments, and loans and receivables. The classification depends on the purpose for which the financial instruments were acquired and whether they are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. The Group's financial assets are of the nature of financial assets at FVPL, HTM investments, and loans and receivables. As at December 31, 2011 and 2010, the Group has no AFS investments.

Also under PAS 39, all financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. Financial liabilities are classified as at FVPL or other financial liabilities. The Group's financial liabilities as at December 31, 2011 and 2010 are of the nature of other financial liabilities.

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

Financial Assets and Financial Liabilities at FVPL

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

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

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

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

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

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

As at December 31, 2011 and 2010, the Group has no financial assets and financial liabilities that have been designated as at FVPL.

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

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

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

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

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

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

As at December 31, 2011 and 2010, the Group has no bifurcated embedded derivatives.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of Financial Assets

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

Assets Carried at Amortized Cost

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

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

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

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

Offsetting

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

Property and Equipment

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

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

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

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

Category	Number of Years
Furniture, fixtures and equipment	3-10
Lease improvements	5 or term of lease, whichever is shorter

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

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

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

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

Input VAT is stated at its estimated net realizable values.

Impairment of Non-financial Assets
The Group assesses at each reporting date whether there is an indication that its property and equipment, intangibles and other noncurrent assets may be impaired. If any such indication exists or when the annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's value-in-use or its fair value less costs to sell. The fair value less costs to sell is the amount obtainable from the sale of an asset at an arm's-length transaction, while value-in-use is the present value of

estimate future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An impairment loss is recognized by a charge against current operations for the excess of the carrying amount of an asset over its recoverable amount in the year in which it arises.

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

Leases

Determination of Whether an Arrangement Contains a Lease

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

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or

(d) There is a substantial change to the asset.

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

Group as a Lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated 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 deducted from equity when they are approved by the Group's BOD and stockholders, respectively. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

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

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

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

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

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

Share-Based Payment Transactions

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

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

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

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

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

The Group has applied PFRS 2, only to equity-settled awards granted after November 7, 2002 that had not vested on or before January 1, 2005. Prior to January 1, 2005, the Group did not recognize any expense for share options granted but disclosed required information for such options (see Note 16).

Retirement Cost

The Parent Company has a noncontributory defined benefit retirement plan.

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

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

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

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

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

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

<u>Earnings Per Share (EPS)</u>
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.

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

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

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor the taxable income or loss.

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

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

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

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

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

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

3. Summary of Significant Accounting Judgments, Estimates and Assumptions

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

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

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

Classifying Financial Assets at FVPL
The Group classifies financial assets that are held for trading as financial assets at FVPL. These financial assets are held for the purpose of selling in the short term. As at December 31, 2011 and 2010, the Group has financial assets at FVPL amounting to ₱1,313,282 and ₱779,800, respectively (see Note 5).

Classifying HTM Investments
The Group follows the guidance of PAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for specific circumstances explained in PAS 39, it will be required to reclassify the whole amount as AFS investments. The investments would therefore be measured at fair value, not amortized cost. If the class of HTM investment is tainted, its fair value would change with a corresponding entry in the fair value reserve in equity. As at December 31, 2011 and 2010, the Group has HTM investment amounting to nil and ₱102,456,071, respectively (see Note 7).

Deferred Income Tax Assets
The Group reviews the carrying amounts of deferred income tax assets at each reporting date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax assets to be utilized. The Group has net deferred income tax assets amounting to ₱75,178,490 and ₱79,806,548 as at December 31, 2011 and 2010, respectively (see Note 17).

Estimating Contingencies
The Group evaluates legal and administrative proceedings to which it is involved based on analysis of potential results. Management and its legal counsels do not believe that any current proceedings will have material adverse effects on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings (see Note 23).

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

The management's impairment test for the Parent Company's exchange trading right is based on the available market value while COLHK's exchange trading right is based on value-in-use calculation that uses a discounted cash flow model. The cash flows are derived from the budget for the next five (5) years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used. The key assumptions used to determine the recoverable amount for the cash generating unit are further explained in Note 9. The Group does not intend to sell the exchange trading rights in the near future. As at December 31, 2011 and 2010, the carrying values of intangibles amounted to ₱23,027,647 and ₱22,989,686, respectively (see Note 9).

Estimating Useful Lives of Property and Equipment
The Group estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in the Group's estimates brought about by changes in the factors mentioned. Depreciation and amortization amounted to ₱12,132,089, ₱9,142,634 and ₱11,468,435 in 2011, 2010 and 2009, respectively. As at December 31, 2011 and 2010, the net book values of property and equipment amounted to ₱41,731,847 and ₱26,674,510, respectively (see Note 8).

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

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

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

- Significant negative industry or economic trends.

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

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

Based on management's assessment, there are no indications of impairment on the Group's property and equipment as at December 31, 2011 and 2010.

As at December 31, 2011 and 2010, allowance for impairment losses on other noncurrent assets amounted to ₱13,724,200.

No impairment loss was recognized in 2011, 2010 and 2009 for property and equipment. The net book values of property and equipment amounted to ₱41,731,847 and ₱26,674,510 as at December 31, 2011 and 2010, respectively (see Note 8).

Provision for impairment losses on other noncurrent assets amounted to nil, nil and ₱5,524,200 in 2011, 2010 and 2009, respectively. The net book values of other noncurrent assets amounted to ₱8,626,513 and ₱6,915,945, respectively (see Note 10).

Share-based Payments
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payments are disclosed in Note 16. As at December 31, 2011 and 2010, cost of share-based payment in equity amounted to ₱63,541,685 and ₱71,073,568, respectively (see Note 16).

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

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting dates. As at December 31, 2011 and 2010, the retirement obligation of the Parent Company amounted to ₱6,152,980 and ₱3,134,824, respectively (see Note 16).

Estimating Impairment of Receivables and HTM Investment
The Group reviews its receivables and HTM investment at each reporting date to assess whether provision for impairment losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. The Group

individually assesses receivables when the value of the collateral falls below the management-set level. When no payment is received within a specified timeframe, the outstanding balance is deemed impaired. Collective assessment is based on the age of the financial assets and historical expected losses adjusted for current conditions.

As at December 31, 2011 and 2010, the allowance for credit losses on trade and other receivables amounted to ₱12,830,410 and ₱12,709,415, respectively. The carrying value of trade and other receivables as at December 31, 2011 and 2010 amounted to ₱1,168,821,109 and ₱1,428,220,974, respectively (see Note 6).

There is no allowance for impairment of HTM investment as at December 31, 2011 and 2010. The carrying value of HTM investment amounted to nil and ₱102,456,071 as at December 31, 2011 and 2010, respectively (see Note 7).

4. Cash and Cash Equivalents

Cash and Cash Equivalents

	2011	2010
Cash on hand and in banks	**₱586,526,418**	₱528,581,230
Short-term cash investments	**1,602,413,651**	267,628,645
	₱2,188,940,069	₱796,209,875

Cash in banks earn interest at the respective bank deposit rates. Short-term cash investments are made for varying periods of up to three (3) months depending on the Group's immediate cash requirements, and earn interest at 1.80% to 4.56% per annum in 2011, 1.50% to 4.25% per annum in 2010 and 3.70% to 5.80% per annum in 2009. Interest income of the Group from cash in banks amounted to ₱39,522,787, ₱17,318,452 and ₱17,968,876 in 2011, 2010, and 2009, respectively (see Note 14). The Parent Company has United States (US) dollar-denominated cash in banks as at December 31, 2011 and 2010 (see Note 21).

Cash in Banks - Reserve Bank Account
In compliance with SRC Rule 49.2 covering customer protection and custody of securities, the Parent Company maintains special reserve bank accounts for the exclusive benefit of its customers amounting to ₱1,663,501,898 and ₱327,053,167 as at December 31, 2011 and 2010, respectively. The Parent Company's reserve requirement is determined based on the SEC's prescribed computations. As at December 31, 2011 and 2010, the Parent Company's reserve accounts are adequate to cover its reserve requirements.

COLHK maintains segregated account with a licensed bank to hold clients' monies arising from its normal course of business. The Group has classified the clients' monies under the cash and cash equivalents in the consolidated statements of financial position and recognized a corresponding payable to customers on grounds that it is liable for any loss or misappropriation of clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

As at December 31, 2011 and 2010, cash in a segregated account for COLHK amounted to ₱178,180,571 and ₱143,755,312, respectively.

5. Financial Assets at FVPL

Financial assets at FVPL pertain to investments in shares of stocks of companies listed in the PSE and major US Stock Exchanges. Net gains recognized from fair value changes of these financial instruments amounted to ₱16,027,838 and ₱7,717,255 and ₱2,404,116 in 2011, 2010 and 2009, respectively. Dividend income amounted to ₱27,362, ₱378 and ₱20,720 in 2011, 2010 and 2009, respectively.

Financial assets at FVPL as at December 31, 2011 and 2010 amounted to ₱1,313,282 and ₱779,800, respectively.

6. Trade and Other Receivables

	2011	2010
Trade receivables:		
Customers	**₱965,366,128**	₱1,114,084,041
Clearing house	**194,394,567**	305,500,961
Other brokers	**4,799,765**	4,909,619
	1,164,560,460	1,424,494,621
Less allowance for credit losses on receivable from customers	**3,870,165**	3,749,170
	₱1,160,690,295	₱1,420,745,451

Other receivables:		
Accrued interest	**₱1,239,835**	₱1,680,435
Others	**15,851,224**	14,755,333
	17,091,059	16,435,768
Less allowance for credit losses on other receivables	**8,960,245**	8,960,245
	₱8,130,814	₱7,475,523

The Parent Company has a credit line facility (involving margin accounts) for qualified customers with the outstanding balance subject to an interest rate ranging from 1.00% to 1.50% per month. Total credit line offered by the Parent Company amounted to ₱4,011,540,000 and ₱3,102,065,000 as at December 31, 2011 and 2010, respectively. Interest income from customers amounted to ₱146,475,134, ₱82,774,097 and ₱34,141,951 in 2011, 2010 and 2009, respectively (see Note 14).

Other receivables as at December 31, 2011 and 2010 include the amount of ₱8,960,245 representing additional corporate income tax paid under protest by the Parent Company for the taxable year 2009. For the first, second and third quarters of the taxable year 2009, the Parent Company used the itemized method of deduction in determining its income tax payable for the same period. In its final adjusted income tax return, it opted to use the 40% optional standard deduction (OSD) to determine the final income tax payable for 2009, pursuant to Republic Act (RA) No. 9504 effective July 7, 2008, as implemented by Revenue Regulations (RR) No. 16-08 dated November 26, 2008 (see Note 17). However on March 14, 2010, RR No. 2-2010 became effective and amended Section 7 of RR No. 16-08, which 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. Pending the outcome of the payment under protest, a 100% allowance for impairment loss was set up.

Other receivables as at December 31, 2011 also include the amount of ₱3,576,644 and ₱2,298,151 representing overpayment of corporate income tax by the Parent Company and COLHK, respectively, for the taxable year 2011.

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

	2011		2010	
	Money Balance	**Security Valuation-Long**	Money Balance	Security Valuation-Long
Cash and fully secured accounts:				
More than 250%	**₱547,166,376**	**₱3,548,258,577**	₱705,634,047	₱3,421,549,419
Between 200% and 250%	**259,656,597**	**561,782,521**	218,784,229	505,599,160
Between 150% and 200%	**127,339,875**	**240,891,741**	54,021,731	102,098,358
Between 100% to 150%	**2,958,701**	**4,011,000**	4,714,382	5,272,000
Less than 100%	**4,904,963**	**4,850,000**	130,927,166	77,248,428
Unsecured accounts	**23,339,616**	**–**	2,486	–
	965,366,128	**4,359,793,839**	1,114,084,041	4,111,767,365
Less allowance for credit losses on receivable from customers	**3,870,165**	**–**	3,749,170	–
	₱961,495,963	**₱4,359,793,839**	₱1,110,334,871	₱4,111,767,365

Receivables from customers have no specific credit terms but customers are required to maintain the value of their collateral within a specific level. Once the value of the collateral falls down this level, customers may either deposit additional collateral or sell stocks to cover their account balance. The receivable balances become demandable upon failure of the customer to duly comply with these requirements. As at December 31, 2011 and 2010, ₱937,121,549 and ₱983,154,389, respectively, of the total receivable from customers are fully covered by collateral.

Receivables from clearing house as at December 31, 2011 and 2010 were fully collected subsequently in January 2011 and 2010, respectively.

Movements in the allowance for credit losses follow:

	2011			2010		
	Customers	**Others**	**Total**	Customers	Others	Total
Balances at beginning of year	**₱3,749,170**	**₱8,960,245**	**₱12,709,415**	₱802,175	₱–	₱802,175
Provisions for the year	**120,995**	**–**	**120,995**	2,946,995	8,960,245	11,907,240
Balances at end of year	**₱3,870,165**	**₱8,960,245**	**₱12,830,410**	₱3,749,170	₱8,960,245	₱12,709,415

7. Held-to-Maturity Investment

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

Interest income earned from this investment amounted to ₱1,249,961, ₱5,866,429 and ₱5,846,984 in 2011, 2010 and 2009, respectively (see Note 14).

As at December 31, 2011 and 2010, the amortized cost of HTM investment amounted to nil and ₱102,456,071, respectively.

8. Property and Equipment

2011

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

2010

	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost:			
At beginning of year	₱55,264,031	₱15,010,653	₱70,274,684
Additions	6,699,030	1,363,974	8,063,004
Translation adjustments	(823,391)	(48,348)	(871,739)
At end of year	61,139,670	16,326,279	77,465,949
Accumulated depreciation and amortization:			
At beginning of year	33,983,323	8,192,644	42,175,967
Depreciation and amortization for the year	6,500,169	2,642,465	9,142,634
Translation adjustments	(478,815)	(48,347)	(527,162)
At end of year	40,004,677	10,786,762	50,791,439
Net book values	₱21,134,993	₱5,539,517	₱26,674,510

9. Intangibles

Philippine Operations
On August 15, 2006, the Parent Company purchased the Trading Right of Mark Securities Corporation amounting to ₱5,000,000. As discussed in Note 1, on December 13, 2006, the BOD of the PSE, in its regular meeting, approved the application of the Parent Company as a PSE Corporate Trading Participant. As at December 31, 2011 and 2010, the market value of said exchange trading right amounted to ₱8,500,000 and ₱7,500,000, respectively.

Hong Kong Operations
COLHK's exchange trading right is carried at its cost of HK$3,190,000. The carrying value of the exchange trading right is reviewed annually to ensure that this does not exceed the recoverable amount, whether or not an indicator of impairment is present. The said exchange trading right is nontransferable and cannot be sold to any third party independent of the total assets and liabilities of COLHK. As at December 31, 2011 and 2010, the carrying value of COLHK exchange trading right in Philippine peso amounted to ₱18,027,647 and ₱17,989,686, respectively.

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

	2011	2010
At beginning of year	**₱22,989,686**	₱24,067,268
Translation adjustment	**37,961**	(1,077,582)
At end of year	**₱23,027,647**	₱22,989,686

10. Other Noncurrent Assets

	2011	2010
Deposit to CTGF	**₱13,724,200**	₱13,724,200
Refundable deposits:		
Rental deposits	**2,378,081**	1,829,045
Other refundable deposits	**2,939,697**	3,218,714
	5,317,778	5,047,759
Input VAT	**3,308,735**	1,868,186
	22,350,713	20,640,145
Less allowance for impairment losses on other noncurrent assets	**13,724,200**	13,724,200
	₱8,626,513	₱6,915,945

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

In addition to the collection of the initial contribution and as part of the build-up plan for the CTGF, SCCP collects a monthly contribution at the rate of 1/500 of 1.00% of the clearing member's gross trade value less block sales and cross transactions of the same flag.
Under SCCP Rule 5.2, the cash contributions made by the clearing members to the CTGF are nonrefundable. However, in consideration of the 100% increase in the CTGF contributions which took effect on August 1, 2007, the BOD of SCCP has approved the full refund of contributions to the CTGF upon cessation of the business of the clearing member and upon termination of its membership with SCCP. Such amendment has been submitted for the further approval of the SEC. Pending the approval of the SEC, the rule on nonrefundability still applies. In view of this, the Parent Company made a provision for impairment losses amounting to ₱5,524,200 in 2009.

11. Trade Payables

	2011		2010	
	Money Balance	**Security Valuation-Long**	Money Balance	Security Valuation-Long
Payable to customers:				
With money balances	**₱2,133,442,971**	**₱11,062,358,289**	₱1,239,346,027	₱8,059,410,037
No money balances	**–**	**369,732,402**	–	302,328,446
	2,133,442,971	**11,432,090,691**	1,239,346,027	8,361,738,483
Dividend payable - customer	**81,972**	**–**	9,300	–
Payable to clearing house and other brokers (see Note 18)	**–**	**–**	32,551,800	–
	₱2,133,524,943	**₱11,432,090,691**	₱1,271,907,127	₱8,361,738,483

Payable to customers with money balances amounting to ₱179,221,794 and ₱128,508,340 as at December 31, 2011 and 2010, respectively, were payable to COLHK's clients in respect of the trust and segregated bank balances received and held for clients in the course of the conduct of regulated activities. These balances are payable on demand (see Note 4).

12. Other Current Liabilities

	2011	2010
Accrued expenses (see Note 18)	**₱27,156,742**	₱25,767,217
Accrued management bonus	**26,575,192**	15,518,400
Due to Bureau of Internal Revenue	**17,388,880**	14,337,986
Trading fees	**3,862,395**	6,235,537
Others	**210,762**	159,874
	₱75,193,971	₱62,019,014

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

13. Equity

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

	2011		2010		2009	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Common Stock - ₱1 per share Authorized	**1,000,000**	**₱1,000,000**	1,000,000	₱1,000,000	1,000,000	₱1,000,000
Issued and Outstanding						
Balances at beginning of year	**442,650**	**442,650**	433,000	433,000	433,000	433,000
Issuance of common shares upon exercise of stock options (Note 16)	**15,900**	**15,900**	9,650	9,650	–	–
Balances at end of year	**458,550**	**₱458,550**	442,650	₱442,650	433,000	₱433,000

As at December 31, 2011 and 2010, the Parent Company has 38 and 35 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. Based on the audited net income of the Parent Company in 2009 amounting to ₱131,477,331, the appropriation for 2010 amounted to ₱13,147,733. In 2011, an appropriation of ₱18,122,867 was made based on the 2010 audited net income of the Parent Company of ₱181,228,667. Total unappropriated retained earnings amounted to ₱708,985,724 and ₱569,969,715 as at December 31, 2011 and 2010, respectively (see Note 20).

On March 13, 2009, the BOD declared a regular and a special dividend amounting to ₱0.02 per share held or ₱8,660,000 (433,000,000 shares multiplied by ₱0.02 cash dividend per share) and ₱0.08 per share held or ₱34,640,000 (433,000,000 shares multiplied by ₱0.08 cash dividend per share), respectively, to stockholders as of record date of March 27, 2009. These dividends were paid on April 27, 2009.

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, 2009.

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

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

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

On February 7, 2012, COLHK's BOD has proposed to pay a final dividend of HK$0.064 per share in scrip. The proposed dividend is not reflected in the financial statements, but will be reflected as an appropriation of retained earnings in the year ending December 31, 2012.

14. Interest

	2011	2010	2009
Customers (Note 6)	**₱146,475,134**	₱82,774,097	₱34,141,951
Banks - net of final tax (Note 4)	**39,522,787**	17,318,452	17,968,876
HTM investment - net of final tax (Note 7)	**1,249,961**	5,866,429	5,846,984
Others	**13,892**	21,115	1,138
	₱187,261,774	₱105,980,093	₱57,958,949

15. Personnel Costs

	2011	2010	2009
Salaries and wages	**₱71,112,084**	₱60,976,698	₱45,739,482
Retirement costs (see Note 16)	**3,265,441**	2,591,691	2,442,011
Other benefits	**5,310,424**	4,541,345	4,110,526
	₱79,687,949	₱68,109,734	₱52,292,019

16. Employee Benefits

Stock Options

On July 12, 2000 and July 3, 2006, the Group granted stock options (SOP) in favor of directors, senior managers and officers of the Group as well as other qualified individuals determined by a committee constituted by the BOD to administer the SOP. As at December 31, 2006, a total of 46,000,000 stock options were granted. The agreement provides for an exercise price of ₱1.00 per share. These options will be settled in equity once exercised. All options are exercisable one and a half (1½) years from July 12, 2006, the effective date of listing of the Parent Company's shares at the PSE, and will terminate ten (10) years from the said date. There was no new SOP granted in 2011, 2010 and 2009.

There have been no cancellations or modifications to the plan in 2011, 2010 or 2009.

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

	2011	2010	2009
Outstanding at beginning of year	**33,350,000**	43,000,000	43,000,000*
Exercised during the year	**(15,900,000)**	(9,650,000)	–
Outstanding at end of year	**17,450,000**	33,350,000	43,000,000

**27,250,000 of the total 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 ten (10) years. The weighted average remaining contractual life of options outstanding is 5.5 years, 6.5 years, and 7.5 years as at December 31, 2011, 2010 and 2009, respectively.

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

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

The assumptions used to determine the fair value of the 18,750,000 stock options granted on July 3, 2006 were (1) share price of ₱1.36 as the latest valuation of stock price at the time of the IPO; (2) exercise price of ₱1.00; (3) expected volatility of 24.00%; (4) option life of 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:

	2011	2010	2009
Balances at beginning of year	**₱71,073,568**	₱64,822,146	₱21,926,438
Cost of share-based payment recognized as capital in excess of par value	**(9,360,000)**	(780,000)	–
Stock option expense	**5,980,000**	2,275,000	1,846,000
Movement on deferred tax asset on intrinsic value of outstanding options	**(4,151,883)**	4,756,422	41,049,708
Movements during the year	**(7,531,883)**	6,251,422	42,895,708
Balances at end of year	**₱63,541,685**	₱71,073,568	₱64,822,146

Retirement Benefits

The Parent Company has a funded, non-contributory defined benefit retirement plan covering substantially all of its regular employees. The benefits are based on a certain percentage of the final monthly basic salary for every year of credited service of the employees. The defined retirement benefit obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement for the years ended December 31, 2011, 2010 and 2009.

The following tables summarize the components of the Parent Company's net retirement costs recognized in the consolidated statements of income and the amounts recognized in the consolidated statements of financial position:

Retirement costs:

	2011	2010	2009
Current service cost	**₱2,326,382**	₱1,630,445	₱1,527,705
Expected return on plan assets	**(457,726)**	(425,078)	(299,841)
Interest cost on benefit obligation	**1,149,500**	1,131,194	952,464
Net actuarial gain recognized	**–**	–	(5,151)
	₱3,018,156	₱2,336,561	₱2,175,177

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

	2011	2010
Retirement obligation at beginning of year	**₱3,134,824**	₱5,986,544
Retirement costs during the year	**3,018,156**	2,336,561
Actual contributions to the fund during the year	**–**	(5,188,281)
Retirement obligation at end of year	**₱6,152,980**	₱3,134,824

Retirement obligation:

	2011	2010
Present value (PV) of defined benefit obligation	**₱20,236,661**	₱14,368,751
Fair value of plan assets	**(6,714,435)**	(6,538,937)
Unrecognized actuarial loss	**(7,369,246)**	(4,694,990)
	₱6,152,980	₱3,134,824

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

	2011	2010
Opening PV of defined benefit obligation	**₱14,368,751**	₱12,568,812
Current service cost	**2,326,382**	1,630,445
Interest cost	**1,149,500**	1,131,194
Actuarial loss on obligation	**2,707,028**	4,113,250
Benefits paid	**(315,000)**	(5,074,950)
Closing PV of defined benefit obligation	**₱20,236,661**	₱14,368,751

Changes in the fair value of plan assets:

	2011	2010
Balances at beginning of year	**₱6,538,937**	₱6,072,538
Expected return on plan assets	**457,726**	425,078
Contributions	**–**	5,188,281
Benefits paid	**(315,000)**	(5,074,950)
Actuarial gain (loss) on plan assets	**32,772**	(72,010)
Balances at end of year	**₱6,714,435**	₱6,538,937

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

	2011	2010
Short-term cash investments	**99.96%**	100.00%
Cash in bank	**0.04%**	–
	100.00%	100.00%

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

	2011	2010	2009
Discount rate	**6.80%**	8.00%	9.00%
Expected rate of return on plan assets	**6.00%**	7.00%	7.00%
Future salary increases	**7.00%**	7.00%	7.00%

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

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

	2011	2010	2009	2008	2007
PV of defined benefit obligation	**₱20,236,661**	₱14,368,751	₱12,568,812	₱8,658,762	₱9,173,518
Fair value of plan assets	**(6,714,435)**	(6,538,937)	(6,072,538)	(4,283,447)	(2,929,959)
Unfunded status	**₱13,522,226**	₱7,829,814	₱6,496,274	₱4,375,315	₱6,243,559
Experience adjustments on plan liabilities	**₱170,425**	₱2,501,782	(₱465,365)	(₱897,195)	(₱274,458)
Change in assumptions on plan liabilities	**2,536,603**	1,611,469	1,895,246	(2,672,350)	–
Actual return on plan assets	**490,498**	353,068	261,386	73,202	61,577

As of March 1, 2012, the Parent Company has not yet reasonably determined the amount of the 2012 contributions to the retirement plan.

COLHK makes monthly contribution to a fund under the mandatory provident fund schemes ordinance enacted by the Hong Kong Government. The plan is a defined contribution retirement plan. Under the plan, COLHK should contribute five percent (5.00%) of the monthly relevant income of all its qualified employees. The contribution recognized as expense amounted to ₱247,285, ₱255,130 and ₱266,834 in 2011, 2010 and 2009, respectively.

17. Income Taxes

The Group's current provision for income tax represents the regular corporate income tax in 2011, 2010 and 2009.

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

	2011	2010
Cost of share-based payment	**₱58,965,685**	₱63,117,568
Accumulated translation adjustment	**11,146,092**	11,517,292
Accrued retirement costs	**2,450,637**	1,629,993
Stock option expense	**1,372,800**	2,386,800
Allowance for credit and impairment losses	**1,161,049**	1,124,751
Unrealized loss in the valuation of FVPL	**82,856**	34,388
Unrealized foreign exchange gains	**(629)**	(4,244)
	₱75,178,490	₱79,806,548

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 carryover period.

The Parent Company has temporary differences arising from allowance for impairment on deposit to CTGF amounting to ₱13,724,200 as at December 31, 2011 and 2010, for which no deferred income tax asset was recognized since management believes that it is probable that these temporary differences will not be realized in the future.

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

	2011	2010	2009
Income tax at statutory income tax rates	**₱120,514,721**	₱90,701,657	₱99,160,706
Additions to (reductions in) income tax resulting from:			
40% OSD	**(40,508,282)**	–	–
Nondeductible expenses	**28,329,550**	3,077,313	–
Exercise of stock option	**(23,143,800)**	(30,626,700)	–
Interest income subjected to final tax	**(12,231,824)**	(6,955,464)	(7,145,758)
Income of COLHK subject to income tax	**(10,892,488)**	(27,820,070)	(48,998,241)
Income tax expense of COLHK	**6,049,460**	16,075,675	25,596,154
Others	**(1,200,479)**	(113)	(7,285,814)
Provision for current income tax	**₱66,916,858**	₱44,452,298	₱61,327,047

On July 7, 2008, RA No. 9504 of the Philippines, which amended the provisions of the 1997 Tax Code, became effective. It includes provisions relating to the availment of the OSD. Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. A corporation must signify in its returns its intention to avail of the OSD. If no indication is made, it shall be considered as having availed of the itemized deductions. The availment of the OSD shall be irrevocable for the taxable year for which the return is made. In 2011, the Parent Company has availed of the OSD method in claiming its deductions. In 2010 and 2009, the Parent Company has availed of the itemized deductions method in claiming its deductions.

18. Related Party Disclosures

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

a. The Parent Company, in the ordinary course of business, executed done-through trading transactions of its customers through Citisecurities, Inc. (CSI), a related party through common stockholders. Total commission charged to operations amounted to ₱111,087, ₱20,300 and ₱448,560 in 2011, 2010 and 2009, respectively. As at December 31, 2011 and 2010, the Parent Company has a payable to CSI amounting to nil and ₱38,098, respectively.

b. Lancashire Management Services Limited (Lancashire), a company incorporated in Hong Kong and a related party of COLHK through a common director, provides COLHK accounting services. Total management fee included in professional fees amounted to ₱4,513,950, ₱3,720,645 and ₱5,800,231 in 2011, 2010 and 2009, respectively. COLHK has no payable balance to Lancashire as at December 31, 2011 and 2010 (see Note 12).

c. iGet.com, Limited (iGet), a company incorporated in British Virgin Islands and a related party of COLHK through common stockholders, provides COLHK financial advisory services including but not limited to research on local and overseas securities. Total financial advisory services fee included in professional fees amounted to ₱6,676,617 and ₱6,970,763 in 2011 and 2010, respectively. COLHK has no payable balance to iGet as at December 31, 2011 and 2010 (see Note 12).

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

	2011	2010	2009
Short-term employee benefits	**₱17,597,285**	₱41,919,082	₱29,236,542
Cost of share-based payment	**5,980,000**	2,275,000	1,846,000
Pension benefits	**100,149**	1,429,925	1,889,999
	₱23,677,434	₱45,624,007	₱32,972,541

The consolidated statements of financial position include the following amounts resulting from the above transactions with related companies and stockholders:

Related Parties		Payable to related party	Receivable from related party	Commission and referral expense	Professional fees
CSI	**2011**	**₱–**	**₱–**	**₱111,087**	**₱–**
	2010	38,098	–	20,300	–
	2009	–	1,994	448,560	–
Lancashire	**2011**	**–**	**–**	**–**	**4,513,950**
	2010	–	–	–	3,720,645
	2009	1,049,894	–	–	5,800,231
iGet	**2011**	–	**–**	**–**	**6,676,617**
	2010	–	–	–	6,970,763
	2009	3,073,459	–	–	7,376,302
Total	**2011**	**₱–**	**₱–**	**₱111,087**	**₱11,190,567**
Total	2010	₱38,098	₱–	₱20,300	₱10,691,408
Total	2009	₱4,123,353	₱1,994	₱448,560	₱13,176,533

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 ₱8,447,671, ₱5,347,721 and ₱4,616,672 in 2011, 2010 and 2009, respectively.

The future minimum lease payments are as follows:

	2011	2010
Within one (1) year	**₱12,271,336**	₱6,958,542
After one (1) year but not more than five (5) years	**5,668,997**	9,206,808
	₱17,940,333	₱16,165,350

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 years ended December 31, 2011, 2010 and 2009.

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 2.50% of aggregate indebtedness, whichever is higher, for broker dealers dealing only in proprietary shares and not holding securities, (b) to allow the SEC to set a different net capital requirement for those authorized to use the Risk-Based Capital Adequacy (RBCA) model, and (c) to require unimpaired paid-up capital of ₱100.0 million for broker dealers, which are either first time registrants or those acquiring existing broker dealer firms and will participate in a registered clearing agency; ₱10.0 million plus a surety bond for existing broker dealers not engaged in market making transactions; and ₱2.5 million for broker dealers dealing only in proprietary shares and not holding securities.

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

The Parent Company being a registered broker in securities is subject to the stringent rules of the SEC and other regulatory agencies with respect to the maintenance of specific levels of RBCA ratios. RBCA is a ratio that compares the broker or dealer's total measured risk to its liquid capital. As a rule, the Parent Company must maintain an RBCA ratio of at least 110% and a net liquid capital (NLC) of at least ₱5.0 million or five percent (5%) of its aggregate indebtedness, whichever is higher. Also, the Aggregated Indebtedness (AI) of every stockbroker should not exceed two thousand percent (2,000%) of its NLC. In the event that the minimum RBCA ratio of 110% or the minimum NLC is breached, the Parent Company shall immediately cease doing business as a broker and shall notify the PSE and SEC. As at December 31, 2011 and 2010, the Parent Company is compliant with the foregoing requirements.

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

The RBCA ratio of the Parent Company as at December 31, 2011 and 2010 are as follows:

	2011	2010
Equity eligible for net liquid capital	**₱872,980,645**	₱724,115,625
Less ineligible assets	**192,910,902**	188,076,569
NLC	**₱680,069,743**	₱536,039,056
Position risk	**₱480,243**	₱4,278,927
Operational risk	**52,746,292**	40,011,909
Total Risk Capital Requirement	**₱53,226,535**	₱44,290,836
AI	**₱2,030,945,889**	₱1,182,677,032
5% of AI	**₱101,547,294**	₱59,133,852
Required NLC	**101,547,294**	59,133,852
Net Risk-Based Capital Excess	**₱578,522,449**	₱476,905,204
Ratio of AI to NLC	**299%**	221%
RBCA ratio	**1,278%**	1,210%

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

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

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

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

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

On May 28, 2009, the SEC approved the PSE's Rules Governing Trading Rights and Trading Participants, which supersede the Membership Rules of the PSE. Section 8(c) of Article III of the said rules requires trading participants to have a minimum unimpaired paid-up capital, as defined by the SEC, of ₱20 million effective December 31, 2009, and ₱30 million effective December 31, 2010 and onwards. In 2011 and, 2010, the Parent Company is compliant with the new capital requirement.

In addition, SRC Rule 49.1 (B), Reserve Fund of such circular, requires that every broker dealer shall annually appropriate a certain minimum percentage of its audited profit after tax and transfer the same to Appropriated Retained Earnings. Minimum appropriation shall be 30%, 20% and 10% of profit after tax for brokers/dealers with unimpaired paid up capital of ₱10 million to ₱30 million, between ₱30 million to ₱50 million and more than ₱50 million, respectively (see Note 13).

The Parent Company's regulated operations have complied with all externally-imposed capital requirements as at December 31, 2011 and 2010.

COLHK monitors capital using liquid capital as provided for under Hong Kong's Securities and Futures Ordinance (Cap. 571) and Securities and Futures (Financial Resources) Rules (Cap. 571N). COLHK's policy is to keep liquid capital at the higher of the floor requirement of HK$3,000,000 and computed variable required capital. As at December 31, 2011 and 2010, COLHK is compliant with the said requirement.

21. Financial Risk Management Objectives and Policies

The Group's principal financial instruments consist of cash and cash equivalents, cash in a segregated account, financial assets at FVPL, trade receivables, other receivables, trade payables and other current liabilities, which arise from operations. The Group also has HTM investment which is acquired for purposes of investing idle funds.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk, foreign currency risk, and equity price risk. The BOD reviews and agrees on the policies for managing each of these risks. A summary of which follows:

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 stocks identified by the Parent Company using a set of criteria.

Cash and cash equivalents are deposited to reputable banks duly approved by the BOD.

As at December 31, 2011 and 2010, ₱942,026,512 and ₱1,114,081,555 of total receivable from customers is secured by collateral comprising of cash and equity securities of listed companies with total market value of ₱4,359,793,839 and ₱4,111,767,365, respectively (see Note 6). Transactions through the stock exchange are covered by the guarantee fund contributed by member brokers and maintained by the clearing house.

There are no past due accounts as at December 31, 2011 and 2010.

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

As at December 31, 2011 and 2010, the Group's financial assets at FVPL are classified as high grade since the counter party has no history of default or late payment of interest.

The Group's exposure to credit risk arising from default of the counterparty has a maximum exposure equal to the carrying amount of the particular instrument plus any irrevocable loan commitment or credit facility (see Note 6).

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

	2011	2010
Cash and cash equivalents (see Note 4)	**₱2,188,916,901**	₱796,188,453
Financial assets at FVPL (see Note 5)	**1,313,282**	779,800
Trade receivables (see Note 6)	**1,160,690,295**	1,420,745,451
Other receivables (see Note 6)	**8,130,814**	7,475,523
HTM investment (see Note 7)	**–**	102,456,071
Refundable deposits (see Note 10)	**5,317,778**	5,047,759
	3,364,369,070	2,332,693,057
Unutilized margin trading facility	**3,114,681,139**	2,158,432,304
	₱6,479,050,209	₱4,491,125,361

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

Liquidity Risk

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

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

As at December 31, 2011 and 2010, all of the Group's financial liabilities are contractually payable on demand.

Correspondingly, the financial assets that can be used by the Group to manage its liquidity risk as at December 31, 2011 and 2010 consist of cash and cash equivalents, trade receivables and financial assets at FVPL.

Market Risk

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

Interest Rate Risk

The Group's interest rate risk originates primarily from its holdings of HTM investment, which is for a fixed rate and term (see Note 7). The Group's policy is to manage its interest income using fixed rate investments or a mix of fixed and variable rate investments. As at December 31, 2011 and 2010, the Group's investment is at a fixed rate of interest, thus, changes in market interest rates have no impact on the Group's profit and loss and equity.

Foreign Currency Risk

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

The Group's exposure to foreign currency exchange risk arises from its US dollar-denominated cash amounting to US$5,869 and US$3,898 as at December 31, 2011 and 2010, respectively.

Since the amount of US$-denominated cash in bank subject to foreign currency risk is immaterial relative to the consolidated financial statements, management believes that disclosure of foreign currency risk analysis for 2011 and 2010 is not significant.

Equity Price Risk

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

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

Since the carrying amount of financial assets subject to equity price risk is immaterial relative to the consolidated financial statements, management believes that disclosure of equity price risk sensitivity analysis for 2011 and 2010 is not significant.

22. Financial Instruments

Fair Values

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

Financial Instruments Whose Carrying Amount Approximate Fair Value

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

Financial Assets at FVPL

The Group's financial assets at FVPL are carried at their fair values as at December 31, 2011 and 2010. Fair value of financial assets at FVPL is based on quoted prices of stock investments published by the PSE and major US Stock Exchanges.

HTM Investment

The fair value of the fixed rate interest-bearing HTM investment is based upon quoted market price.

Categories of Financial Instruments

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

	Carrying Amount		Fair Value	
	2011	2010	**2011**	2010
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱2,188,940,069**	₱796,209,875	**₱2,188,940,069**	₱796,209,875
Trade receivables	**1,160,690,295**	1,420,745,451	**1,160,690,295**	1,420,745,451
Other receivables	**8,130,814**	7,475,523	**8,130,814**	7,475,523
Refundable deposits	**5,317,778**	5,047,759	**5,317,778**	5,047,759
	3,363,078,956	2,229,478,608	**3,363,078,956**	2,229,478,608
Financial assets at FVPL	**1,313,282**	779,800	**1,313,282**	779,800
HTM investment	**–**	102,456,071	**–**	125,857,471
	₱3,364,392,238	₱2,332,714,479	**₱3,364,392,238**	₱2,356,115,879
Financial Liabilities				
Other financial liabilities:				
Trade payables	**₱2,133,524,943**	₱1,271,907,127	**₱2,133,524,943**	₱1,271,907,127
Other current liabilities	**57,805,091**	47,681,028	**57,805,091**	47,681,028
	₱2,191,330,034	₱1,319,588,155	**₱2,191,330,034**	₱1,319,588,155

Fair Value Hierarchy

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

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

As at December 31, 2011 and 2010, the fair value of the financial assets at FVPL is the quoted market price at the close of the business (Level 1).

As at December 31, 2010, the fair value of HTM investment is quoted market bid price at the close of the business (Level 1).

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

23. Contingency

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

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

24. Earnings Per Share (EPS) Computation

	2011	2010	2009
Net income	**₱334,798,876**	₱257,886,559	₱269,208,640
Weighted average number of shares for basic earnings per share	**450,600,000**	437,825,000	433,000,000
Dilutive shares arising from stock options	**17,450,000**	33,350,000	43,000,000
Adjusted weighted average number of shares of common shares for diluted earnings per share	**468,050,000**	471,175,000	476,000,000
Basic EPS	**₱0.74**	₱0.59	₱0.62
Diluted EPS	**₱0.72**	₱0.55	₱0.57

25. Segment Information

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

2011

	Philippines	Hong Kong	Elimination	Total
Revenue from external customers:				
Commission	**₱327,237,064**	**₱117,437,972**	**₱–**	**₱444,675,036**
Interest	**187,247,882**	**13,892**	**–**	**187,261,774**
Others	**26,820,348**	**(100,585)**	**–**	**26,719,763**
Inter-segment revenue	**44,912,177**	**–**	**(44,912,177)**	**–**
Segment revenue	**586,217,471**	**117,351,279**	**(44,912,177)**	**658,656,573**
Cost of services	**(126,901,718)**	**(16,375,197)**	**–**	**(143,276,915)**
Operating expenses	**(83,991,556)**	**(62,423,967)**	**44,883,688**	**(101,531,835)**
Depreciation and amortization	**(9,916,754)**	**(2,215,335)**	**–**	**(12,132,089)**
Income before income tax	**365,407,443**	**36,336,780**	**(28,489)**	**401,715,734**
Provision for income tax	**(60,867,398)**	**(6,049,460)**	**–**	**(66,916,858)**
Net income	**₱304,540,045**	**₱30,287,320**	**(₱28,489)**	**₱334,798,876**

(Forward)

	Philippines	**Hong Kong**	**Elimination**	**Total**
Segment assets	**₱2,970,734,596**	**₱677,592,269**	**(₱138,481,887)**	**₱3,509,844,978**
Segment liabilities	**2,033,721,552**	**184,823,683**	**(3,673,341)**	**2,214,871,894**
Capital expenditures:				
Tangible fixed assets	**26,538,726**	**674,161**	**–**	**27,212,887**
Cash flows arising from:				
Operating activities	**1,420,727,251**	**54,501,038**	**–**	**1,475,228,289**
Investing activities	**79,936,066**	**(674,161)**	**–**	**79,261,905**
Financing activities	**(161,760,000)**	**–**	**–**	**(161,760,000)**

2010

	Philippines	Hong Kong	Elimination	Total
Revenue from external customers:				
Commission	₱173,510,163	₱197,838,494	₱–	₱371,348,657
Interest	105,958,978	21,115	–	105,980,093
Gain on financial assets at FVPL	7,055,241	662,014	–	7,717,255
Others	5,118,367	60,245	–	5,178,612
Inter-segment revenue	73,675,902	–	(73,675,902)	–
Segment revenue	365,318,651	198,581,868	(73,675,902)	490,224,617
Cost of services	(73,496,589)	(13,925,852)	–	(87,422,441)
Operating expenses	(74,333,546)	(91,029,059)	74,041,920	(91,320,685)
Depreciation and amortization	(7,883,225)	(1,259,409)	–	(9,142,634)
Income before income tax	209,605,291	92,367,548	366,018	302,338,857
Provision for income tax	(28,376,624)	(16,075,674)	–	(44,452,298)
Net income	₱181,228,667	₱76,291,874	₱366,018	₱257,886,559
Segment assets	₱1,975,650,015	₱641,657,368	(₱151,815,823)	₱2,465,491,560
Segment liabilities	1,183,245,133	180,132,099	(17,125,629)	1,346,251,603
Capital expenditures:				
Tangible fixed assets	7,823,241	239,763	–	8,063,004
Cash flows arising from:				
Operating activities	(147,531,343)	(167,437,998)	–	(314,969,341)
Investing activities	(13,011,522)	(239,763)	–	(13,251,285)
Financing activities	(77,310,000)	–	–	(77,310,000)

2009

	Philippines	Hong Kong	Elimination	Total
Revenue from external customers:				
Commission	₱83,480,176	₱318,007,327	₱–	₱401,487,503
Interest	57,957,811	1,138	–	57,958,949
Gain on financial assets at FVPL	587,772	1,816,344	–	2,404,116
Others	1,476,863	99,501	–	1,576,364
Inter-segment revenue	119,702,862	–	(119,702,862)	–
Segment revenue	263,205,484	319,924,310	(119,702,862)	463,426,932
Cost of services	(39,059,752)	(11,101,005)	–	(50,160,757)
Operating expenses	(50,261,035)	(140,877,253)	119,876,235	(71,262,053)
Depreciation and amortization	(11,187,310)	(281,125)	–	(11,468,435)
Income before income tax	162,697,387	167,664,927	173,373	330,535,687
Provision for income tax	(35,730,892)	(25,596,155)	–	(61,327,047)
Net income	₱126,966,495	₱142,068,772	₱173,373	₱269,208,640
Segment assets	₱1,243,378,059	₱774,783,106	(₱164,995,203)	₱1,853,165,962
Segment liabilities	561,923,268	372,842,535	(30,247,215)	904,518,588
Capital expenditures:				
Tangible fixed assets	5,225,647	6,392,745	–	11,618,392
Cash flows arising from:				
Operating activities	171,811,420	176,060,044	–	347,871,464
Investing activities	(6,753,352)	(6,392,745)	–	(13,146,097)
Financing activities	(43,300,000)	–	–	(43,300,000)

26. Reclassification

Certain accounts in 2010 and 2009 consolidated financial statements were reclassified to conform with the 2011 presentation in accordance with the Broker Dealer Chart of Accounts as approved by SEC effective as at January 1, 2011.

CONCEPT, CONTENT DESIGN, AND LAYOUT: K2 INTERACTIVE, INC.

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