

# BEYOND MEANINGFUL PURPOSE



**COL FINANCIAL**

PHILIPPINES

2013 Annual Report

# Vision

To be the best and most trusted financial service provider for Filipino investors.

# Mission

1. To provide the ultimate investing customer experience that will result in sustainable wealth creation for our customers.
2. To provide the most conducive and rewarding work environment for our employees.
3. To provide our shareholders a sustainable return on capital.

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A vision that unites an organization inspires meaningful purpose. COL Financial believes that in today's challenging world, this is the bare minimum. We must move beyond our safe zones and pursue active stewardship that seeks to influence the world around us.

While we continue to be a pioneer in online investing and wealth building solutions, COL Financial itself is a solid company, committed to continuous growth and innovation. Our leadership in stock trading has earned us the trust and support of our stakeholders and customers — all of whom we are committed to — because an investment in COL Financial is an investment in the future.

As we move in step with Philippine progress, we are reminded that the road to success, while challenging, is full of endless possibilities. Everything we do is focused on building better and richer lives. On hindsight, this has been the most rewarding aspect of our business. We're proud to say that our peers, through the awards and recognition that COL Financial has received over the years, have generously validated our efforts, and this continues to inspire us to act decisively beyond meaningful purpose and contribute actively to uplifting lives and driving positive change.





As we move forward into a promising 2014, we look back on the previous year with a sense of accomplishment, achievement and purpose. Our progress and yours has always been consistently founded on a shared belief—that a deep and solid understanding of financial independence fuels consistent, sustainable and compounded growth.

## Dear Fellow Shareholders,

With global markets continuously expanding and fast changes occurring in the economic landscape, I find that it is all the more relevant today, to go back to the fundamentals of financial security and self-sufficiency. I have always been a purveyor of two basic tenets—disciplined saving and smart investing. The power of compound has always been a compelling and effective strategy; enabling our clients and ourselves to establish the independence we seek.

# CHAIRMAN'S MESSAGE

Since the company's beginnings, it has been our objective to deliver this message to the Filipino people. In 2013, the nation's youth was a strong focus for COL's move towards better financial education. At a very young age, the miracle of compound yields more potential and power—the young Filipino people, and the country as a whole, have much to gain from an early-established understanding of financial independence.

Our investor education program and related campaigns to educate the youth have been a reliable platform for the company over the years. This year, we have seen a steady and significant percentage of non-customers opening accounts after attending our seminars. We foresee a steady growth in conversion over the next few months. The power of compound works consistently—not just with monetary savings, dividends and investments, but also with the growth of our client base and our shareholder value. Driven by our focus on each customer, service and relationship integrity, we believe that not just the individual, but the collective whole acquires the financial wealth they aspire for.

The challenge we face as educators is a resistance to investment, whether due to a tainted history, inherent mistrust, or a shaky political landscape. These misconceptions are what we dispel through our programs and seminars—instilling in the youth and in these potential small investors that participating and taking a proactive role in your financial independence is good for the Filipino people. The loss of trust has led the 10 million Filipino people to leave the country, and it is this large group of people that has begun to infuse our economy with power. Volatility no longer becomes the issue it used to be as we establish a greater trust in the middle class. With BPOs bringing in Php 30 million a year, it has become a Php 16 billion industry, turning the country into a store of human resources.

These figures plant seeds that help grow the belief that the Filipino—most especially the Filipino youth—can. It is this confidence that allows us to drive our business with meaningful purpose.

This mindset opens up the company to a wealth of possibilities—taking an established faith in the country and using it to move outwards and expand into the global financial market. COL's 12-year presence in Hong Kong is just the launch pad that will bring us access to the world. But global investment can only begin with education, with trust, and with strong assurance that the Filipino can.

Our investor education program and related campaigns to educate the youth have been a reliable platform for the company over the years.



**EDWARD K. LEE**  
Founder and Chairman  
COL Financial Group, Inc.



“We remained the most trusted leader in online investing as we ranked number one in terms of number of transactions in the Philippine Stock Exchange with a 23% market share.”



# Dear Valued Shareholders,

I am pleased to present to you our performance for the year 2013. The last 12 months continued to portray the overwhelming trust and confidence of our expanding customer base and the robust growth in their assets. COL delivered another set of record operating performance due to our continued efforts to build on our customer relationships.

## The Operating Environment in 2013

Last year's market performance can be described as challenging as it swung from one end to the other. At the beginning of the year, the market surged to an all-time high almost weekly, peaking with the PSEi at 7,403 in May—a growth of over 27% from the start of the year, as foreign investors scrambled for better returns amidst a low interest rate environment. However, as we entered the second half, foreign flows reversed as the Fed Chairman raised the possibility of “tapering” amidst an improving US economic outlook. The Peso weakened and bond yields started to rise. In addition, Typhoon Yolanda wreaked its havoc on Southern Philippines, further weakening investor sentiment. All these events led the market to fall by 20% from the peak and ended the year flat.

## 2013: A Year of Meaningful Progress

As the market fluctuated, we honed our customer focus by improving our delivery of services and making stock investing simpler and easier for everyone. As such, I can say that 2013 was a year of meaningful progress at COL.

We managed to increase our customer base by 70% and customer assets by 39% as we reaped the benefits of the strong client relationship that we have painstakingly built and protected in the past 14 years. At the same time, we began to reap the benefits of our investments in technology and operating infrastructure that allowed us to better serve our rapidly expanding customer base and enhance the quality of the customer experience.

We remained the most trusted leader in online investing as we ranked number one in terms of number of transactions in the Philippine Stock Exchange with a 23% market share. We are in the list of top 10 brokers in terms of value turnover with a 3.6% overall market share and a 7.5% market share among local trading participants.



14%

CONSOLIDATED  
REVENUES  
Y/Y to Php741 million



17%

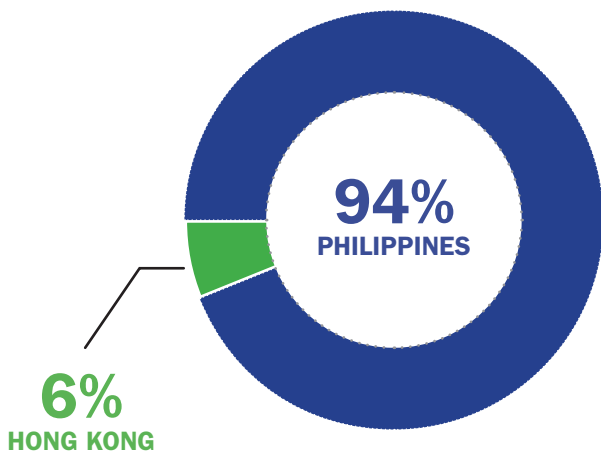
COMMISSION  
REVENUES  
Y/Y to Php540 million

8%

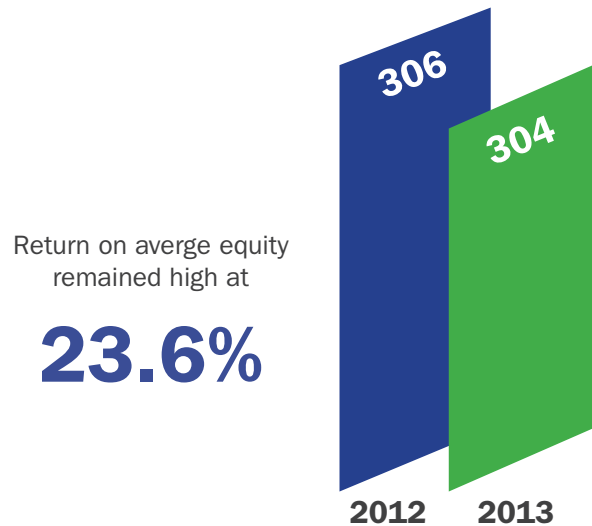
IMPROVEMENT

INTEREST INCOME  
to Php199 million

## Revenue Share



## Net Income



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## Financial Highlights





## Financial Highlights

Consolidated revenues grew by 14% Y/Y to Php741 million as a result of the 17% Y/Y increase in commission revenues to Php540 million and the 8% improvement in interest income to Php199 million. On the other hand, net income for 2013 was flat due to the normalization of the company's effective tax rate.

Philippine operations accounted for 94% of total revenues. Revenues grew by 17%, driven by a 22% Y/Y increase in commissions and a 8% Y/Y increase in interest income. Interest income primarily increased due to higher utilization of COL's margin facility and the growth in our cash position. Average margin loans expanded by 29% Y/Y, while COL's cash position increased by 24%.

Meanwhile, Hong Kong now accounts for a mere 6% of revenues as commissions were down by 22% Y/Y.

## Operating Discipline

Having completed the necessary investments in technology and infrastructure in 2012, COL managed to keep expenses in check, which was up 14% Y/Y. Excluding variable costs of commissions and exchange fees, however, operating expenses was up only 8% Y/Y versus a 14% revenue growth. This 600bps gap between revenue and operating expense growth is reflective of management's commitment towards maintaining operating discipline.

## Operating Profit at all-time high

Our consolidated operating profits grew by 14% Y/Y to Php386 million. Operating profits for the Philippine business grew by 17% Y/Y to a record Php369 million, which is an all-time high, exceeding the previous record of Php321 million that the company earned in 2011.

## Stable Net Income

Net profit for the year was flat at Php304 million as we normalized our effective tax rate from 10% in 2012 to 21% in 2013. Nevertheless, ROE remained high at 24%.

## Strong Balance Sheet

Moving on to our balance sheet, total assets grew by 13% Y/Y to Php4.8 billion as our cash balance increased by 24% to Php3.2 billion. Our stockholders' equity was up a mere 2% as we paid out Php295 million in cash dividends, equivalent to a payout of 92% of 2012's net income.

We remained debt free given our minimal capital expenditure requirements and the volatile nature of the equity market.

## 2013 Milestones

I would like to move on to highlighting the key milestones that COL has achieved in 2013. Each year, we at COL, strive to become an even more meaningful wealth-building partner to our clients. Their best interest remains to be the cornerstone that drives our business.

## Strength in Numbers

We continued to make significant inroads in client momentum. As of December 2013, COL reported a record Php48.1 billion in customer assets, up 39% Y/Y from Php34.6 billion in 2012. The Php13.5 billion increase in customer assets was purely due to net new asset inflows from our existing and new customers, which increased by 60% Y/Y to over Php19.7 billion, as they continue to entrust their assets to COL. We believe these numbers are testament to the investing public's growing level of trust in COL, which ultimately leads to growth.

## **Strength in Number**

The strong growth in customer assets was made possible as COL's total customer base reached 82,472 up by 79% Y/Y from only 46,166 in 2012. More importantly, 37% of our new customers were generated from referrals, while 99.3% are first time investors in the stock market. This is a result of our unwavering commitment to educate and expand the retail investor base.

## **Advisory and Institutional Business**

2013 was another banner year for the advisory and agency group. Customer assets of the group grew by 54% Y/Y to Php21.9 billion as of end 2013 as they deepened their client relationships. Commission revenues from this business grew by 35% to Php190 million and now accounts for 38% of our consolidated commission revenues versus 35% the previous year.

The advisory and agency services division has become the fastest-growing segment of our business in terms of revenues and customer assets. The team from both the private clients' group and the independent financial advisory group now consists of over 20 investment professionals. They are responsible for servicing the needs of our high net worth individuals and institutional clients through their discretionary and advisory services.

## **Enhanced Overall Customer Experience**

Moving on to another important milestone, 2013 marked our success on the online sphere. With the stability of our technological infrastructure we have created a reliable system that has managed to push the envelope in terms of record numbers of unique users daily.

Our systems handled 20,231 average daily unique users in 2013, an increase of 65% Y/Y. The highest number logged-in in a single day in 2013 was 26,492 in May, representing a 63% Y/Y increase in peak log-in levels in 2012, all of which was achieved at a 99.5% system reliability as the investments in IT infrastructure we made in 2012 paid off.

Furthermore, in terms of number of accounts opened in a single month, we hit a record 5,030 new accounts in May 2013, more than double the 1,798 new accounts in the peak of 2012. The seamless processing of account opening applications was aided by a new facility that enables new customers to fill-up their account opening forms online, which brought down our turnaround processing time to just 30 minutes.

## **Global Reach for the Global Filipino**

We have taken steps to access a broader and underserved market, while at the same time staying true to our mission of helping the Filipino investor achieve financial independence. In December 2013, COL signed a memorandum of agreement with iRemit, the largest non-bank, Filipino-owned remittance company, giving access to close to three million overseas Filipinos in 27 countries around the world. This partnership will enable overseas Filipinos to invest in Philippine stocks through the COL platform and enjoy the same benefits COL customers have been receiving.

In year-end 2013, COL forged another memorandum of agreement with BPI Asset Management and Sun Life Asset Management that will allow our customers to invest in a variety of professionally managed funds in a single online platform. In this initiative, COL will not only be an independent source of various funds but will also provide the right tools and information for customers to confidently make investment decisions in selecting the right funds for their portfolio.

## **Advocacy and Online Learning**

As part of our commitment to educate the Filipino investor, we have dedicated more resources to our investor education campaign through online educational and walk-through videos. We have increased our library of tutorials, briefings, and seminars online, which allows us to extend our reach and provide investor education access through a more cost-effective channel. We now have over 10 tutorial videos on our COL YouTube channel covering a range of topics.

### **Integrity and Excellence in Corporate Governance**

Since we started COL 14 years ago, we have built this business cemented on trust with all our stakeholders. We have taken great strides to ensure we comply with the rigorous requirements of the PSE and other government agencies as part of our commitment to adhere to a high level of corporate governance. Ultimately our goal is to realize long-term shareholder value while taking into account the interest of all stakeholders.

As testament to our unwavering commitment towards corporate governance, I am proud to say that in 2013, COL has been given the Bell Awards for the second consecutive year, a feat that no other trading participant thus far has accomplished.

### **Best Interest of our Customer in Mind**

The strength in our leadership is based firmly upon the relationships we have built and have protected with our customers, employees, and shareholders. Today, COL continues to innovate, striving to deliver more ways to serve our customers and to build genuine wealth in the stock market while maintaining a high level of operating efficiency. We have proven in 2013 that we can deliver growth amidst a challenging market environment.

As we grow this business in 2014 and beyond, our strategy remains consistent. Our customer focus will remain the cornerstone of our quest to build a more meaningful partnership with our stakeholders. We will continue to be the champion of the retail investors in helping them meet their financial goals.

As testament to our unwavering commitment towards corporate governance, I am proud to say that in 2013, COL has been given the Bell Awards for the second consecutive year, a feat that no other trading participant thus far has accomplished.



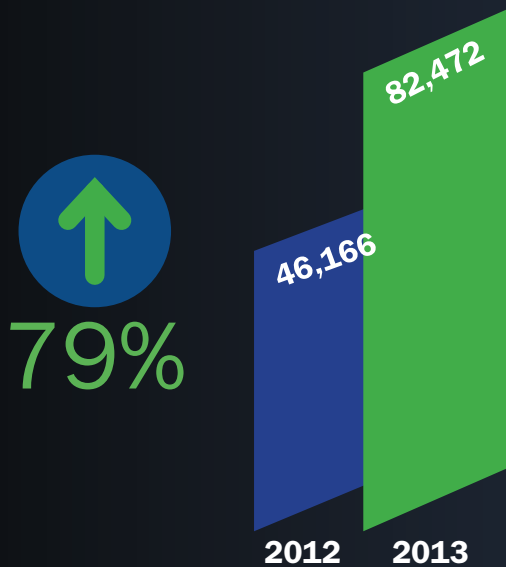
**CONRADO F. BATE**  
**President & CEO**  
COL Financial Group Inc.



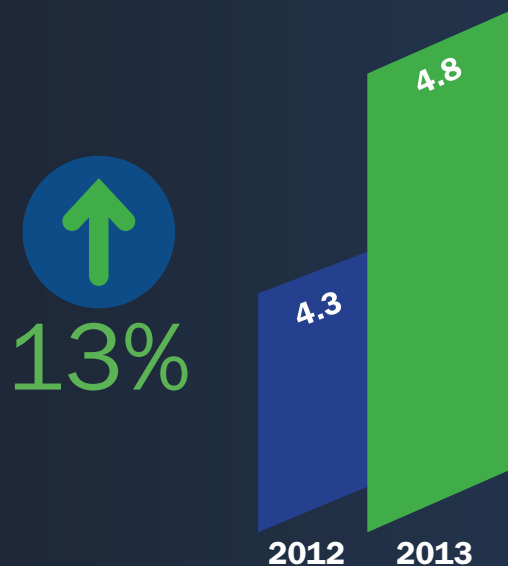
# OPERATIONAL HIGHLIGHTS



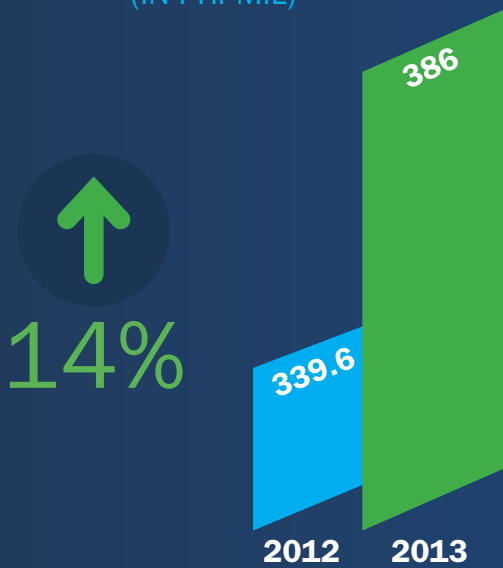
## Number of Customers



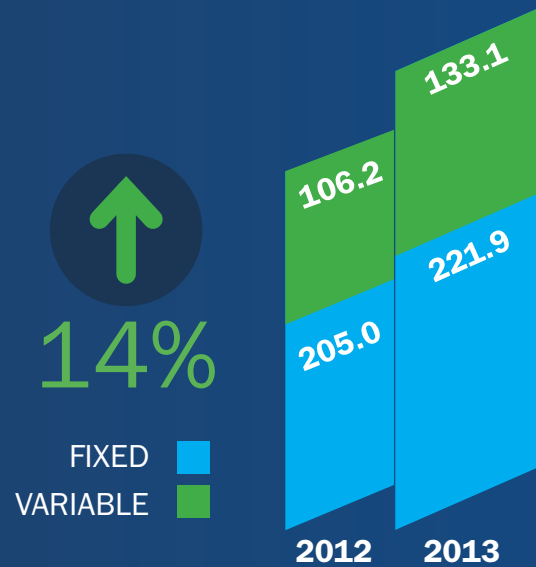
## Advisory and Institutional Business TOTAL ASSETS (IN PHPBIL)



## Operating Profit (IN PHPMIL)



## Operating Discipline EXPENSES (IN PHPBIL)



## Enhanced Overall Customer Experience



65%

20,231

Unique users daily 65% y/y



63%

26,492

Highest number of log-ins



99.5%

SYSTEM RELIABILITY



As a result of the significant increase in our revenues and the controlled growth of our fixed operating expenses, operating income from the Philippines jumped 17% to a new record high of Php369 million.



# M E S S A G E O F T H E C H I E F F I N A N C E O F F I C E R

While it may not seem obvious, 2013 was another banner year for COL.

Although our net income for 2013 seems unexciting as it was flat at Php304 million, focus should be on the details of our operating results which continue to show the blossoming of our Philippine operations.

Consolidated revenues increased by 14% Y/Y to Php741 million. Revenues grew mainly due to the strong performance of the Philippines which saw revenues jumped by 17% Y/Y to a new high of Php696 million.

Our Philippine operations continued to benefit from the strong growth of our loyal client base. In 2013, we ended the year with 82,472 customers, up 79% Y/Y from 46,166 in 2012. The growth of our client base was faster than that of the industry which only saw an 11% growth in number of accounts. Moreover, we are proud to share that around 37% of our new customers were referred by existing customers, and that seven out of every 10 retail investors that opened an online account in 2013 chose to do it with COL! As a result, we ended the year with a 64.6% market share among online stock brokers, up significantly from 59.4% in 2012.

Together with the substantial growth in our client base, we saw the size of our client's portfolio expand to Php49.4 billion as of end 2013 from Php34.9 billion as of end 2012. This growth was achieved despite the flat performance of the stock market during the said year, implying that more clients have set aside more funds for investments.

The strong growth in our client base and the expansion of their investment portfolio allowed us to grow our commission revenues in the Philippines by 22% to Php496 million and our interest income by 8% to Php199 million, which in turn were largely responsible for the 17% increase in our Philippine revenues.

Despite the strong growth in revenues, we continued to exercise discipline in our operating expenses. In 2013, fixed operating expenses increased by only 8%, much slower than the 14% growth in revenues.

As a result of the significant increase in our revenues and the controlled growth of our fixed operating expenses, operating income from the Philippines jumped 17% to a new record high of Php369 million.

Admittedly, our HK operations continued to suffer from the poor performance of the Chinese market. Revenues fell by 23% to Php45 million while operating profits dropped by 29% to only Php17 million. However, the impact of HK on COL's consolidated operating result was only minimal as it merely accounted for 6% of the consolidated revenues in 2013, down from a high of around 70% in 2009.

On a consolidated basis, COL's operating profits ended the year higher by 14% to Php386 million.

Although our profits for 2013 were flat at Php304 million, this was merely due to the normalization of our effective tax rate from 10% in 2012 to 21% in 2013. Meanwhile, our strong operating numbers show us that our commitment to create value for all our stakeholders – our customers, employees and shareholders – continues to bear fruit.

To close, I would like to thank you all for the trust and encouragement we have received from you over the years and for working together with us in achieving our business objective of being the champion of the Filipino investor. We look forward to more fruitful years ahead as we continue to find ways to become more relevant to more Filipino investors to help them achieve financial freedom.



**CATHERINE L. ONG**  
**Chief Financial Officer**  
COL Financial Group Inc.



**EDWARD K. LEE**



**ALEXANDER C. YU**



**CONRADO F. BATE**



**KHOO BOO BOON**



**MANUEL S. ESTACION**



**WELLINGTON C. YU**

# BOARD OF DIRECTORS

**Edward K. Lee**  
**Founder and Chairman**

Edward K. Lee, 59, Filipino, is concurrently the Founder and Chairman of the Board of COL since 1999, COL Securities (HK) Limited since 2001, and Citisecurities, Inc. since 1986. He has also been 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 the past 36 years. Mr. Lee served as a nominee of Citisecurities, Inc. to the Manila Stock Exchange and presently to the Philippine Stock Exchange. He was elected as one of the Governors of the Philippine Stock Exchange and was the Chairman of the Computerization committee of the Manila Stock Exchange and PSE in 1994. He went on to become a member of the Board of Directors of A. Soriano Corporation serving for two terms. Mr. Lee was also nominated to the 2007 Entrepreneur of the Year Philippines by Ernst & Young.

**Alexander C. Yu**  
**Vice-Chairman**

Alexander C. Yu, 58, Filipino, is currently the Vice Chairman of COL since 1999 and the Vice Chairman and Treasurer of Citisecurities, Inc. since 1986. He is also currently a Director of COL Securities (HK) Limited since 2001 and also of Winner Industrial Corp. for more than 10 years. He is the proprietor of Trans-Asia General Merchandise and in 1997, served as a Director of A. Soriano Corporation.

**Conrado F. Bate**  
**President and Chief Executive Officer**

Conrado F. Bate, 51, Filipino, is currently the President and Chief Executive Officer of COL. He has extensive experience in the Philippine stock brokerage and fund management industry. Prior positions that he held include: Vice President of JP Morgan Philippines in 2002; President and CEO of Abacus Securities Corporation from 1995-1997; and Vice President of Fund Management Division of Philamlife Insurance Company from 1990 to 1995. Mr. Bate was a member of the Board of Directors of the Philippine Stock Exchange (2005-2006) and served as its Chairman of the Investor Education Committee and Member of the Legislative Committee. He was an independent director of the ATR Kim Eng Asset Management from 2005 to 2010 and serves in the same capacity for Corston-Smith Asset Management Sdn. Bhd. from February 2009 to present.

**Khoo Boo Boon**  
**Independent Director**

Khoo Boo Boon, 55, Malaysian, has extensive experience in commodities trading, stock trading, advertising, marketing research and corporate management and has held senior executive positions in the Asean region. He currently runs his own management consulting firm, Knowledge-Based Business Intelligence and Consulting (KBBIC) and sits on the Board of Directors of GTF Worldwide Philippines, and Geka Property Holdings Inc., Bethel Home Holdings Inc. Mr. Khoo is an alumnus of the Asian Institute of Management where he earned a Masters degree in Development Management in 1990 as Canadian International Development Agency (CIDA) Fellow.

**Manuel S. Estacion**  
**Independent Director**

Manuel S. Estacion, 69, Filipino, is a Bachelor of Science in Commerce graduate of San Beda College. He 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 is a Charter Member and a Director of the Rotary Club of Ortigas Center for the Rotary Year 2013-2014 and a Director of Vynex Signs Philippines, Inc.

**Wellington C. Yu**  
**Director**

Wellington C. Yu, 70, Filipino, finished his BS Chemical Engineering at De La Salle University in 1965 and his MBA and MS Chemical Engineering from the University of Pittsburgh. From 1973 to 1985, he was the Dean of the College of Business and Economics of De La Salle University and of the Graduate School of Business from 1981 to 1984. He was conferred the title of Dean Emeritus in the College of Business and Economics. He was the Senior Vice President of Tropical Rent-A-Car in Hawaii from 1986 to 1990 & President of Suntrips, Inc. of San Jose, California from 1990 to 1997. In 2012, Xavier School San Juan awarded the "Exemplary Alumnus" title to Dean Yu. He is presently the Dean of the College at Philippine Cultural College in Manila.





**RAYMOND C. YU**



**HERNAN G. LIM**



**PAULWELL HAN**



**JOEL LITMAN**



**CATHERINE L. ONG**

# BOARD OF DIRECTORS

**Raymond C. Yu**  
**Director**

Raymond C. Yu, 60, Filipino, is a Bachelor of Science in Commerce graduate of De La Salle University in 1974. He is currently the President of Winner Industrial Corporation and a Director of more than 16 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, 61, Filipino, is currently the President of Hoc Po Feeds Corporation and the Executive Vice President of HGL Development Corporation. He has also been a Director of Citimex, Inc., Citisecurities, Inc., CWC Development, Inc., Barrington Carpets, Inc. and CWC Industries, Inc. for more than 10 years now. He holds a Bachelor of Science degree in Electronics and Communications Engineering from the University of Santo Tomas. He also took the Basic Management Course at the Asian Institute of Management.

**Paulwell Han**  
**Director**

Paulwell Han, 54, 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: Etta Trading Company Limited, Yee Ting Tong Company Limited, Tecworld Investment Co., Ltd., Silver Jubilee Co., Ltd., and Sunning Restaurant.

**Joel Litman**  
**Director**

Joel Litman, 43, was elected as director on August 12, 2011. Litman is currently Chief Investment Strategist and Managing Director of Valens Securities, Inc. headquartered in New York City. He serves as Chairman and CEO of Valens Credit LLC, Valens Equities, and the Institute of Strategy & Valuation. Previously, he held Director/Manager positions at Credit Suisse First Boston, Deloitte Consulting, and American Express. He is co-author of the book, DRIVEN: Business Strategy, Human Actions, and the Creation of Wealth and has published in Harvard Business Review. Professor Litman is on faculty at Hult International Business School and has lectured at Harvard and other MBA programs. He is Chairman of the Foundation for Socioeconomic Advancement focused on philanthropic efforts, particularly in the Philippines. He is a Certified Public Accountant in the United States, a member of the Global CFA Institute, received his B.S. Accountancy at DePaul University and his MBA/MM from the Kellogg Graduate School of Management at Northwestern University.

**Catherine L. Ong**  
**Director, Senior Vice President, Chief Financial Officer and Treasurer**

Catherine L. Ong, 62, is the President of Citisecurities, Inc. and Executive Vice President and Treasurer of CWC Group of Companies, which includes CWC Industries, Inc., Barrington Carpets, Inc., Citimex, Inc. and CWC International Corporation. She has held the latter position for more than 20 years now. She has extensive experience in banking, having held various positions in Metropolitan Bank and Trust Company (Metrobank). She was an Assistant Vice President and Area Supervisor of Metrobank and served as a Director of Metrobank's subsidiary, Pan Philippines Life Insurance Corp. (now known as Philippine Axa Life). Ms. Ong graduated from the Philippine Women's University with a Bachelor of Science Degree in Business Administration, Major in Accounting.





**CAESAR A. GUERZON**



**JUAN G. BARREDO**



**NIKOS J. BAUTISTA**



**LORENA E. VELARDE**



**APRIL LYNN L. TAN**



**MELISSA O. NG**

# EXECUTIVE OFFICERS

**Caesar A. Guerzon**  
**Corporate Secretary, SVP and Head of Compliance,**  
**Legal, Human Resource and Administration**  
**Departments**

Caesar A. Guerzon, 64, Filipino, is concurrently a Director of COL Securities (HK) Limited and the Corporate Secretary of Citisecurities, Inc. and the CWC Group of Companies. Presently, he serves as the Chairman of the Board of the Rural Bank of Sta. Maria, Ilocos Sur, Inc., a member of the Board of Trustees of COG - Makati, Inc. and Secretary to the Sangguniang Barangay of Bel-Air, Makati City. He served as a member of the Governance Committee of the Philippine Stock Exchange and the Legislative Committee of the Philippine Association of Securities Brokers & Dealers, Inc. Mr. Guerzon is a Certified Securities Representative and a member of the Integrated Bar of the Philippines.

**Juan G. Barredo**  
**Vice President for Sales and Customer Support**

Juan "Juanis" G. Barredo, 46, Vice President of Sales & Customer Support for COL, manages the day-to-day operations of COL's Business Center, its Sales division as well as its Customer Service division. He also spearheads the COL Investor Seminar Series, the flagship investor education program of the Company, geared to empower COL customers and the investing public to build their knowledge base through a series of progressive stock market training sessions so that they can confidently invest in the Philippine Stock Market. He has addressed an audience of over 50,000 people nationwide in the last five years with topics ranging from the basics of stock market investing to introductory and advanced technical analysis seminars. Mr. Barredo holds a Bachelor of Arts degree in Philosophy from De La Salle University in 1990 and is a Certified Securities Representative.

**Nikos J. Bautista**  
**Vice President and Chief Technology Officer**

Nikos J. Bautista, 45, Filipino, is the Chief Technology Officer of COL. He is also a consultant and a committee member for the New Trading System Project of the PSE which was launched successfully mid-2010 and for various projects of the PDEX. He was with the I.T. Department of the PSE as manager, in charge of all the I.T.-related activities of the Exchange from 1993-1997. In 1997, he joined Computershare, an Australian-based software development Company specializing in trading systems wherein he took charge of all technical aspects of the business. In 2000, he put up a software development company, FINATECHS, INC., where he served as its President and Chief Executive Officer until 2003. Mr. Bautista is a graduate of De La Salle University with a Bachelor of Computer Science Degree and Masteral Courses in Computer Science.

**Lorena E. Velarde**  
**Vice President and Financial Controller**

Lorena E. Velarde, 43, Filipino, was appointed as Financial Controller of COL in 2010 after having served as the Company's Head of Accounting from 2001 to 2009. She is concurrently the Compliance Officer of Citisecurities, Inc. She was previously the Accounting Department Head of Citisecurities, Inc. and Citisec Asset Management, Inc., the fund manager for Citisec Growth and Income Fund, Inc. Before that, she was a Senior Associate in-charge at SyCip Gorres Velayo & Co. which provided her extensive training in tax, accounting and financial reporting. Ms. Velarde graduated from the University of Santo Tomas with a Bachelor of Science Degree in Commerce Major in Accounting in 1991 and became a Certified Public Accountant on the same year.

**April Lynn L. Tan**  
**Vice President and Head of Research Department**

April Lynn L. Tan, 38, has been the head of COL's Research Team since 2003. She has been doing equities research since 1996 when she joined the research team of Citisecurities, Inc. Ms. Tan holds a Bachelor of Science Degree in Management Engineering from the Ateneo de Manila University. She is a Certified Securities Representative and in 2000, earned the right to use the Chartered Financial Analyst (CFA) designation. She is currently the President of the CFA Society of the Philippines and the Chair of its Investment Research Challenge committee.

**Melissa O. Ng**  
**Assistant Vice President and Head of Operations**  
**Department**

Melissa O. Ng, 41, Chinese, graduated with a degree of Bachelor of Science 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.



# YEAR HIGHLIGHTS

## **JANUARY** PSE Bull Run January 13, 2013

COL joined the PSE Annual running event and key market education project that enables the PSE to promote economic awareness and investing in the stock market. PSE Bullrun 2013, themed as Takbo Para sa Ekonomiya which aims to usher the year 2013 with a bullish and hopeful beginning.



## **JULY** Two-Year Sponsorship of the Save the La Mesa Watershed Project of ABS-CBN Foundation July 27, 2013

ABS-CBN Foundation held an environmental awareness lecture, demonstrated vermicomposting to participants, and culminated the day with a tree planting activity.



## **OCTOBER**

### **COL Corporate Briefing October 29, 2013**



COL Financial hosted its 3rd Annual Corporate Day at the Newport Performing Arts Theater in Newport City. The Corporate Day's theme is about "The Filipino Consumers".

COL's Corporate Days have been highly successful, with over 1,300 attendees annually. Hosting seminars and briefings, such as this Corporate Day, is in line with company's mission to grow the retail investor market by educating and empowering Filipino investors to make well-informed investment decisions.

## NOVEMBER

### PSE Bell Awards November 19, 2013

Integrity and Excellence in Corporate Governance. Since we started COL 8 years ago, we have built this business cemented on trust with all our stakeholders. We have taken great strides to ensure we comply with the rigorous requirements of the PSE and other government agencies as part of our commitment to adhere to a high level of corporate governance. Ultimately our goal is to realize long-term shareholder value while taking into account the interest of all stakeholders.



### Kerygma Conference November 21-24, 2013

COL yearly sponsors a two-day Catholic inspirational annual event inspired by lay preacher Bo Sanchez, which brought together 2,000 people from Metro Manila and outlying provinces.

## DECEMBER

### i-REMIT – Global Reach for the Global Filipino December 2013



We have taken steps to access a broader and underserved market, while at the same time staying true to our mission of helping the Filipino investor achieve financial independence. In December 2013, COL signed a memorandum of agreement with iRemit, the largest non-bank, Filipino-owned remittance company, giving access to close to three million overseas Filipinos in 27 countries around the world. This partnership will enable overseas Filipinos to invest in Philippine stocks through the COL platform and enjoy the same benefits COL customers have been receiving.

In year-end 2013, COL forged another memorandum of agreement with BPI Asset Management and Sun Life Asset Management that will allow our customers to invest in a variety of professionally managed funds in a single online platform. In this initiative, COL will not only be an independent source of various funds but will also provide the right tools and information for customers to confidently make investment decisions in selecting the right funds for their portfolio.

# CORPORATE GOVERNANCE

COL Financial Group, Inc. (“COL” or the “Company”) adheres to the principles and best practices of good corporate governance. The Company believes that good corporate governance is integral to, and goes hand-in-hand with, sound strategic business management. COL expects all its directors and employees to act with honesty, integrity, transparency, responsibility and accountability, mutual respect, and commitment to do what is best for 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.

Pursuant thereto, the Company has designed its Manual on Corporate Governance (“Manual”) to institutionalize the principles of good corporate governance and to serve as a guide in the attainment of the Company’s goals. As a testimony of its advocacy and strong adherence to these principles, COL was recognized and given an award by the Philippine Stock Exchange in the 1st PSE Bell Awards for Corporate Governance in the Large Trading Participant Category.

The Manual defines the responsibilities of the Board of Directors, the Board Committees, and Management to the Company’s stockholders.

## **Board of Directors**

The Board of Directors (“Board”) is responsible for the direction and control of COL’s business affairs as well as the preservation of its assets.

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 stakeholders.

The Board’s specific responsibilities include, among others, 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.

## **Board Composition**

COL’s Board of Directors consists of eleven directors, two of whom are independent directors. In compliance with the Corporation Code, each director has at least one share of the capital stock of the Company registered to his name.

Each director shall hold office for a term of one year and until his/her successor is duly elected and qualified.

## **Board Committees**

To help the Board with its task of maintaining good corporate governance, the Board constituted three (3) committees, namely: the Nomination Committee, the Audit Committee, and the Compensation or Remuneration Committee.

Below is an overview of the membership and responsibilities of each of the committees.

### ***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 likewise provides assessment on the Board’s effectiveness in directing the process of renewing and replacing Board members.

The Nomination Committee is composed of at least three members, one of whom is an independent director.

### ***Audit Committee***

The Audit Committee is composed of at least three members, one of whom must be an independent director. In compliance with the Revised Code of Corporate Governance, the chair of the Audit Committee shall be the independent director.

The Committee performs, among others, the following functions:

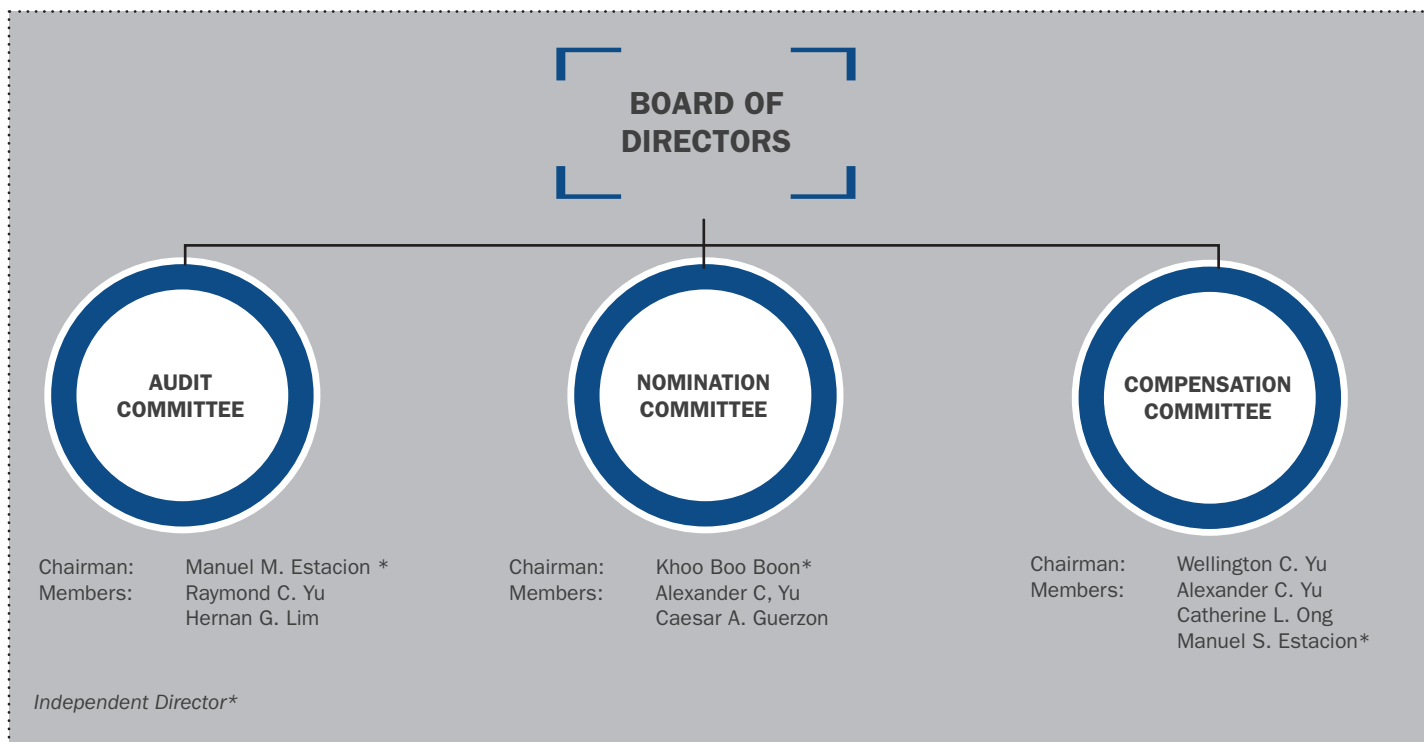
- Checking all financial reports against their compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements;
- Performing oversight financial management functions;
- Pre-approving audit plans, scope and frequency; and
- Performing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

### Compensation or Remuneration Committee

The Compensation or Remuneration Committee is responsible for establishing formal and transparent procedures for the development of policies concerning 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.

The Committee is composed of at least three members, one of whom is an independent director.

Below is a chart showing the chair and respective members of the Board Committees, as elected by the Board of Directors during the organizational meeting held on 31 March 2013:



### Shareholder Relations

COL regularly shares material corporate information to its stockholders. Such information includes 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 Company’s principal manner of communication with its shareholders is through the annual report and the Annual Stockholder’s Meeting. During the Annual Stockholder’s Meeting, all Company directors are present and shareholders are given the opportunity to address questions to the Chairman, the Board members as well as the Chairpersons of the different Board Committees.

The Company holds the Annual Stockholders’ Meeting at a pre-determined venue on any day in March of each year as provided in its By-laws. For this year, however, the Board approved the holding of the Annual Stockholders’ Meeting on April 12, 2013, due to the timing of Holy Week which will fall on the last week of March. 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 weeks prior to the scheduled date of the meeting. In all regular or special meetings, and unless otherwise provided by law, the presence either in person or by proxy of stockholders representing a majority of the outstanding capital stock of the Company shall constitute a quorum.



# CORPORATE SOCIAL RESPONSIBILITY

## Financial Literacy and Investor Education

COL believes in that the full potential of the Filipino can be even more expressed when given the right tools such as discipline, skills and proper education. With the superior wealth-building opportunities that the stock market provides, COL has spent a significant amount of its resources in providing easy-to-understand and simple-to-apply seminars, FREE-of-charge, from the basics of stock investing to the more meticulous methods of technical analysis, taught by the COL market experts.

Since 2006, COL has helped spur the growth of the retail investor base for stock market investing in the Philippines, having pioneered free financial literacy and investor education seminars to Filipinos nationwide and around the world. In 2013 alone, COL conducted over 200 seminars to more than 18,000 attendees here and around the world. It continues to provide free access to its seminars, market briefings and company reports through its social media channels on YouTube, Facebook and Twitter.

## Company Interests and Activities

The Company visited the La Mesa Watershed in Greater Lagro, Quezon City last July 27, 2013 as the company's two-year sponsorship and participation with the Save the La Mesa Watershed Project of ABS-CBN Foundation. The COL management team and employees attended the following activities; environmental awareness lecture, educational activity and demonstration through vermicomposting, nursing planting activity and a visit to the company-sponsored protected area.










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

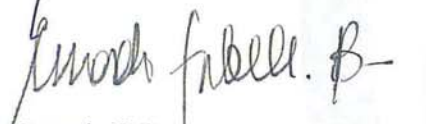
The management of COL Financial Group, Inc. (formerly CitisecOnline.com, Inc.) and Subsidiary (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2013 and 2012, including the additional components attached therein, in accordance with accounting principles generally accepted in the Philippines. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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



Edward K. Lee  
Chairman of the Board



Conrado F. Bate  
President and Chief Executive Officer



Catherine L. Ong  
Senior Vice President and Chief Financial Officer

Signed this 3<sup>rd</sup> day of March 2014.

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying consolidated financial statements of COL Financial Group, Inc. (formerly CitisecOnline.com, Inc.) and Subsidiary, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the Philippines as described in Note 2 to the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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

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

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



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of COL Financial Group, Inc. and Subsidiary as at December 31, 2013 and 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013 in accordance with accounting principles generally accepted in the Philippines as described in Note 2 to the consolidated financial statements.

SYCIP GORRES VELAYO & CO.



Eleanore A. Layug

Partner

CPA Certificate No. 0100794

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

August 9, 2012, valid until August 8, 2015

Tax Identification No. 163-069-453

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

January 11, 2012, valid until January 10, 2015

PTR No. 4225180, January 2, 2014, Makati City

March 3, 2014

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

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

	December 31, 2013			December 31, 2012 (As restated, Note 2)			January 1, 2012 (As restated, Note 2)		
	Money Balance	Security Valuation		Money Balance	Security Valuation		Money Balance	Security Valuation	
		Long	Short		Long	Short		Long	Short
<b>LIABILITIES AND EQUITY</b>									
<b>Current Liabilities</b>									
Trade payables (Note 12)	P3,398,766,516	P41,979,897,938		P2,883,309,878	P19,694,593,304	P2,150,392,622	P11,432,090,691		
Other current liabilities (Note 13)	64,581,008			64,867,074		75,193,971			
Income tax payable	13,804,483			11,658,004		–			
<b>Total Current Liabilities</b>	<b>3,477,152,007</b>			<b>2,959,834,956</b>		<b>2,225,586,593</b>			
<b>Noncurrent Liability</b>									
Retirement obligation (Note 17)	27,620,893			23,113,934		13,522,226			
<b>Total Liabilities</b>	<b>3,504,772,900</b>			<b>2,982,948,890</b>		<b>2,239,108,819</b>			
<b>Equity</b> (Notes 14 and 17)									
Capital stock	468,650,000			467,810,000		458,550,000			
Capital in excess of par value	47,499,024			47,499,024		44,899,024			
Cost of share-based payment	29,767,551			33,263,658		63,541,685			
Accumulated translation adjustment	(22,976,500)			(46,245,403)		(26,007,546)			
Loss on remeasurement of retirement obligation	(8,243,643)			(9,056,787)		(5,204,245)			
Retained earnings:									
Appropriated	107,520,383			75,458,201		45,004,197			
Unappropriated	680,802,693			704,524,482		709,031,496			
<b>Total Equity</b>	<b>1,303,019,508</b>			<b>1,273,253,175</b>		<b>1,289,814,611</b>			
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P4,807,792,408</b>	<b>P47,265,033,481</b>	<b>P47,265,033,481</b>	<b>P4,256,202,065</b>	<b>P33,182,350,977</b>	<b>P3,528,923,430</b>	<b>P15,793,197,812</b>	<b>P15,793,197,812</b>	<b>P15,793,197,812</b>

See accompanying Notes to Consolidated Financial Statements.

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

**CONSOLIDATED STATEMENTS OF INCOME**

	Years Ended December 31		
	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
<b>REVENUES</b>			
Commissions (Note 19)	<b>₱540,521,647</b>	₱463,303,501	₱444,675,036
Others:			
Interest income (Note 15)	<b>198,655,269</b>	184,089,165	187,261,774
Foreign exchange gains - net	<b>31,466</b>	-	109,526
Gain on financial assets at FVPL - net (Note 6)	<b>-</b>	1,766,368	16,027,838
Others (Notes 6, 7, and 8)	<b>1,752,223</b>	1,733,913	10,582,399
	<b>740,960,605</b>	650,892,947	658,656,573
<b>COST OF SERVICES</b>			
Commission expense (Note 19)	<b>111,551,863</b>	88,863,586	57,202,457
Personnel costs - operations (Note 16)	<b>65,446,518</b>	57,256,553	55,347,373
Stock exchange dues and fees	<b>12,331,228</b>	10,875,141	9,576,859
Central depository fees	<b>8,257,728</b>	5,613,808	4,043,001
Research	<b>975,429</b>	923,224	746,368
Others:			
Communications	<b>23,936,890</b>	22,521,749	16,360,857
Others (Note 9)	<b>1,184,374</b>	2,098,615	1,972,874
	<b>223,684,030</b>	188,152,676	145,249,789
	<b>517,276,575</b>	462,740,271	513,406,784
<b>GROSS PROFIT</b>			
<b>OPERATING EXPENSES</b>			
Administrative expenses:			
Personnel costs (Note 16)	<b>26,834,553</b>	29,782,288	23,648,802
Professional fees (Note 19)	<b>19,687,554</b>	22,758,613	21,325,506
Management bonus	<b>16,715,797</b>	13,021,051	15,335,034
Rentals (Note 20)	<b>10,820,260</b>	10,024,186	8,447,671
Advertising and marketing	<b>10,050,888</b>	4,846,634	3,811,116
Taxes and licenses	<b>4,059,154</b>	3,910,937	3,003,449
Security and messengerial services	<b>3,597,811</b>	2,465,215	1,836,737
Power, light and water	<b>3,578,703</b>	3,746,936	2,845,011
Bank charges	<b>3,527,755</b>	1,757,155	971,057
Office supplies	<b>2,615,328</b>	2,039,090	1,577,809
Insurance and bonds	<b>2,374,103</b>	2,198,516	1,740,489
Representation and entertainment	<b>2,305,722</b>	1,306,496	1,563,858
Condominium dues	<b>1,754,120</b>	1,755,246	1,548,890
Transportation and travel	<b>1,676,007</b>	710,934	1,399,065
Repairs and maintenance	<b>1,092,623</b>	883,137	859,177
Membership fees and dues	<b>936,294</b>	878,018	602,913
Directors' fees	<b>740,000</b>	690,000	775,000
Communications	<b>673,441</b>	658,124	544,890
Stock option expense (Notes 17 and 19)	<b>572,000</b>	1,742,000	5,980,000
Trainings, seminars and meetings	<b>557,316</b>	1,717,408	1,132,792
Others	<b>1,074,436</b>	971,488	1,343,133
	<b>115,243,865</b>	107,863,472	100,292,399
Depreciation and amortization (Note 9)	<b>14,534,422</b>	14,259,874	10,159,215
Interest expense (Note 17)	<b>1,433,064</b>	919,511	1,053,052
Provision for credit losses	<b>-</b>	-	120,995
Miscellaneous expense	<b>82,312</b>	82,781	-
	<b>131,293,663</b>	123,125,638	111,625,661
	<b>385,982,912</b>	339,614,633	401,781,123
<b>INCOME BEFORE INCOME TAX</b>			
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 18)</b>			
Current	<b>88,160,210</b>	37,260,181	67,025,552
Deferred	<b>(5,767,191)</b>	(3,822,538)	(89,078)
	<b>82,393,019</b>	33,437,643	66,936,474
<b>NET INCOME</b>	<b>₱303,589,893</b>	₱306,176,990	₱334,844,649

See accompanying Notes to Consolidated Financial Statements.



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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
<b>NET INCOME</b>	<b>₱303,589,893</b>	₱306,176,990	₱334,844,649
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>			
Item that may be reclassified subsequently to consolidated statements of income:			
Translation adjustments - net of tax effect of ₱9,972,387 in 2013, (₱8,673,367) in 2012 and ₱371,200 in 2011	<b>23,268,903</b>	(20,237,857)	866,134
Item that will not be reclassified to consolidated statements of income:			
Gain (loss) on remeasurement of retirement obligation - net of tax effect of ₱348,490 in 2013, (₱1,651,089) in 2012 and (₱821,894) in 2011 (Note 17)	<b>813,144</b>	(3,852,542)	(1,917,752)
	<b>24,082,047</b>	(24,090,399)	(1,051,618)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱327,671,940</b>	₱282,086,591	₱333,793,031
<b>Earnings Per Share (Note 25)</b>			
Basic	<b>₱0.65</b>	₱0.66	₱0.75
Diluted	<b>₱0.64</b>	₱0.64	₱0.71

*See accompanying Notes to Consolidated Financial Statements.*

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 and 2011**

	Capital Stock	Capital In Excess of Par Value	Cost of Share-Based Payment	Accumulated Translation Adjustment	Loss on Remeasurement of Retirement Obligation	Retained Earnings		Total
						Appropriated	Unappropriated	
Balances at January 1, 2013, as previously stated	P467,810,000	P47,499,024	P33,263,658	(P46,245,403)	P-	P75,458,201	P704,173,831	P1,281,959,311
Effect of adoption of revised PAS 19 (Note 2)	-	-	-	-	(9,056,787)	-	350,651	(8,706,136)
Balances at January 1, 2013, as restated	467,810,000	47,499,024	33,263,658	(46,245,403)	(9,056,787)	75,458,201	704,524,482	1,273,253,175
Issuance of shares upon exercise of stock options (Note 17)	840,000	-	-	-	-	-	-	840,000
Cost of share-based payment (Note 17)	-	-	(3,496,107)	-	-	-	-	(3,496,107)
Declaration of cash dividend (Note 14)	-	-	-	-	-	-	(295,249,500)	(295,249,500)
Net income	-	-	-	-	-	-	303,589,893	303,589,893
Other comprehensive income	-	-	-	23,268,903	813,144	-	-	24,082,047
Total comprehensive income	-	-	-	23,268,903	813,144	-	303,589,893	327,671,940
Appropriation of retained earnings (Note 14)	-	-	-	-	-	32,062,182	(32,062,182)	-
<b>Balances at December 31, 2013</b>	<b>P468,650,000</b>	<b>P47,499,024</b>	<b>P29,767,551</b>	<b>(P22,976,500)</b>	<b>(P8,243,643)</b>	<b>P107,520,383</b>	<b>P680,802,693</b>	<b>P1,303,019,508</b>

	Capital Stock	Capital In Excess of Par Value	Cost of Share-Based Payment	Accumulated Translation Adjustment	Loss on Remeasurement of Retirement Obligation		Retained Earnings		Total
					Share-Based Payment	Accumulated Translation Adjustment	Appropriated	Unappropriated	
Balances at January 1, 2012, as previously stated	P458,550,000	P44,899,024	P63,541,685	(P26,007,546)	P-	P45,004,197	P708,985,724	P1,294,973,084	
Effect of adoption of revised PAS 19 (Note 2)	-	-	-	-	(5,204,245)	-	45,772	(5,158,473)	
Balances at January 1, 2012, as restated	458,550,000	44,899,024	63,541,685	(26,007,546)	(5,204,245)	45,004,197	709,031,496	1,289,814,611	
Issuance of shares upon exercise of stock options (Note 17)	9,260,000	2,600,000	-	-	-	-	-	11,860,000	
Cost of share-based payment (Note 17)	-	-	(30,278,027)	-	-	-	-	(30,278,027)	
Declaration of cash dividend (Note 14)	-	-	-	-	-	-	(280,230,000)	(280,230,000)	
Net income	-	-	-	-	-	-	306,176,990	306,176,990	
Other comprehensive loss	-	-	-	(20,237,857)	(3,852,542)	-	-	(24,090,399)	
Total comprehensive income (loss)	-	-	-	(20,237,857)	(3,852,542)	-	306,176,990	282,086,591	
Appropriation of retained earnings (Note 14)	-	-	-	-	-	30,454,004	(30,454,004)	-	
<b>Balances at December 31, 2012, as restated</b>	<b>P467,810,000</b>	<b>P47,499,024</b>	<b>P33,263,658</b>	<b>(P46,245,403)</b>	<b>(P9,056,787)</b>	<b>P75,458,201</b>	<b>P704,524,482</b>	<b>P1,273,253,175</b>	
Balances at January 1, 2011, as previously stated	P442,650,000	P35,539,024	P71,073,568	(P26,873,680)	P-	P26,881,330	P569,969,714	P1,119,239,956	
Effect of adoption of revised PAS 19	-	-	-	-	(3,286,493)	-	-	(3,286,493)	
Balances at January 1, 2011, as restated	442,650,000	35,539,024	71,073,568	(26,873,680)	-	26,881,330	569,969,714	1,115,953,463	
Issuance of shares upon exercise of stock options (Note 17)	15,900,000	9,360,000	-	-	-	-	-	25,260,000	
Cost of share-based payment (Note 17)	-	-	(7,531,883)	-	-	-	-	(7,531,883)	
Declaration of cash dividend (Note 14)	-	-	-	-	-	-	(177,660,000)	(177,660,000)	
Net income	-	-	-	-	-	-	334,844,649	334,844,649	
Other comprehensive income (loss)	-	-	-	866,134	(1,917,752)	-	-	(1,051,618)	
Total comprehensive income (loss)	-	-	-	866,134	(1,917,752)	-	334,844,649	333,793,031	
Appropriation of retained earnings (Note 14)	-	-	-	-	-	18,122,867	(18,122,867)	-	
<b>Balances at December 31, 2011, as restated</b>	<b>P458,550,000</b>	<b>P44,899,024</b>	<b>P63,541,685</b>	<b>(P26,007,546)</b>	<b>(P5,204,245)</b>	<b>P45,004,197</b>	<b>P709,031,496</b>	<b>P1,289,814,611</b>	

See accompanying Notes to Consolidated Financial Statements.

**COL FINANCIAL GROUP, INC. AND SUBSIDIARY**  
**(Formerly CitisecOnline.com, Inc. and Subsidiary)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱385,982,912</b>	₱339,614,633	₱401,781,123
Adjustments for:			
Interest income (Note 15)	<b>(198,655,269)</b>	(184,089,165)	(187,261,774)
Depreciation and amortization (Note 9)	<b>15,718,796</b>	16,358,489	12,132,089
Retirement costs under 'Personnel costs' (Notes 16 and 17)	<b>4,235,529</b>	3,168,564	2,326,382
Interest expense (Note 17)	<b>1,433,064</b>	919,511	1,053,052
Stock option expense (Note 17)	<b>572,000</b>	1,742,000	5,980,000
Dividend income (Note 6)	<b>(156,803)</b>	(28,589)	(27,362)
Unrealized loss (gain) on financial assets at FVPL	<b>78,088</b>	(276,187)	161,642
Gain on disposal of property and equipment (Note 9)	-	(4,448)	-
Gain on disposal of held-to-maturity (HTM) investment (Note 8)	-	-	(3,974,316)
Operating income before working capital changes	<b>209,208,317</b>	177,404,808	232,170,836
Decrease (increase) in:			
Cash in a segregated account	<b>(48,393,050)</b>	113,980,196	(34,425,259)
Financial assets at FVPL	<b>(4,347,712)</b>	(1,139,651)	(695,124)
Trade receivables	<b>154,821,033</b>	(329,602,454)	246,296,092
Other receivables	<b>185,905</b>	38,974	1,963,720
Prepayments	<b>322,273</b>	(263,209)	(765,969)
Other noncurrent assets	<b>(10,713,428)</b>	(7,432,688)	(4,224,566)
Increase (decrease) in:			
Trade payables	<b>510,883,058</b>	743,606,378	878,145,693
Other current liabilities	<b>(3,668,816)</b>	(8,805,020)	11,709,168
Net cash generated from operations	<b>808,297,580</b>	687,787,334	1,330,174,591
Interest received	<b>196,715,802</b>	183,930,182	187,702,374
Income taxes paid	<b>(74,015,616)</b>	(15,293,190)	(76,674,630)
Dividends received	<b>156,803</b>	28,589	27,362
Interest paid	-	-	(426,667)
Net cash flows from operating activities	<b>931,154,569</b>	856,452,915	1,440,803,030
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of property and equipment (Note 9)	<b>(16,307,767)</b>	(13,446,556)	(27,212,887)
Proceeds from disposal of property and equipment (Note 9)	-	256,045	-
Proceeds from sale of HTM investment	-	-	106,474,792
Net cash flows from (used in) investing activities	<b>(16,307,767)</b>	(13,190,511)	79,261,905
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends declared and paid (Note 14)	<b>(295,249,500)</b>	(280,230,000)	(177,660,000)
Issuance of additional shares (Notes 14 and 17)	<b>840,000</b>	9,260,000	15,900,000
Payment of loan	-	-	(80,000,000)
Proceeds from availment of loan	-	-	80,000,000
Net cash flows used in financing activities	<b>(294,409,500)</b>	(270,970,000)	(161,760,000)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>620,437,302</b>	572,292,404	1,358,304,935
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,583,051,902</b>	2,010,759,498	652,454,563
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>₱3,203,489,204</b>	₱2,583,051,902	₱2,010,759,498

See accompanying Notes to Consolidated Financial Statements.



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

**(Formerly CitisecOnline.com, Inc. and Subsidiary)**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1. Corporate Information**

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

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

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

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

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

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

The accompanying consolidated financial statements of the Group as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 were authorized for issue by the BOD on March 3, 2014.

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

### Basis of Preparation

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

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

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

### Statement of Compliance

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

### Basis of Consolidation

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

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

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

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

### Changes in Accounting Policies and Disclosures

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

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

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

- PFRS 1, *First-time Adoption of International Financial Reporting Standards - Government Loans* (Amendments)  
The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, *Financial Instruments: Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Group.
- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)  
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
  - a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  - b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  - c) The net amounts presented in the statement of financial position;
  - d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    - ii. Amounts related to financial collateral (including cash collateral); and
  - e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

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

- *PFRS 10, Consolidated Financial Statements*  
 The Group adopted PFRS 10 in the current year. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The new standard is applicable but it has no impact to the Group since the Parent Company's subsidiary is wholly owned.
- *PFRS 11, Joint Arrangements*  
 PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removed the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The amendment does not have an impact on the Group since the Group has no related joint venture arrangement.
- *PFRS 12, Disclosure of Interests in Other Entities*  
 PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). The new standard has no impact to the Group since the Parent Company's subsidiary is wholly owned and the Group has no interests in joint arrangements, associates and structured entities.
- *PFRS 13, Fair Value Measurement*  
 PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

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

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



- PAS 19, *Employee Benefits* (Revised)

The revised standard includes a number of amendments that range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. On January 1, 2013, the Group adopted the revised standards retrospectively, with permitted exception on sensitivity disclosures for the defined benefit obligation for the comparative period which have not been provided.

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

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

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

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

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

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

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

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

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

#### *Change of Presentation*

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

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



### *Annual Improvements to PFRSs (2009-2011 cycle)*

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

- **PFRS 1, *First-time Adoption of PFRS - Borrowing Costs***  
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.
- **PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information***  
These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. As a result, the Group has not included a complete comparative information in respect of the opening consolidated statement of financial position as at January 1, 2012. The amendments affect presentation only and have no impact on the Group's financial position or performance.
- **PAS 16, *Property, Plant and Equipment - Classification of servicing equipment***  
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment is not relevant to the Group.
- **PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments***  
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment does not have any impact on the Group's financial position or performance.
- **PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities***  
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

## Standards and Interpretation Issued but not yet Effective

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

*Annual Improvements to PFRSs (2010-2012 cycle)*

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

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

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

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

- *PAS 24, Related Party Disclosures - Key Management Personnel*

The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- *PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*

The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b) The accumulated amortization is eliminated against the gross carrying amount of the asset.

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

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



*Annual Improvements to PFRSs (2011-2013 cycle)*

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

- **PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'***  
The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.
- **PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements***  
The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. These amendments are not relevant to the Group.
- **PFRS 13, *Fair Value Measurement - Portfolio Exception***  
The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. The amendment has no impact on the Group's financial position or performance.
- **PAS 40, *Investment Property***  
The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no impact on the Group's financial position or performance.
- **PFRS 9, *Financial Instruments***  
PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at FVPL. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at FVPL. For liabilities designated as at FVPL using the FVO, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for

financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

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

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

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

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

#### Summary of Significant Accounting Policies

##### Foreign Currency Translation

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

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

### Cash and Cash Equivalents

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

### Cash in a Segregated Account

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

### Financial Instruments - Initial Recognition and Subsequent Measurement

#### *Date of Recognition*

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

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

All financial assets, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for securities valued at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, available-for-sale (AFS) financial assets, and loans and receivables. The classification depends on the purpose for which the financial instruments were acquired and whether they are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at each end of the reporting period. The Group's financial assets are of the nature of financial assets at FVPL, and loans and receivables. As at December 31, 2013 and 2012, the Group has no HTM investments and AFS financial assets.

Also under PAS 39, all financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. Financial liabilities are classified as at FVPL or other financial liabilities. The Group's financial liabilities as at December 31, 2013 and 2012 are of the nature of other financial liabilities.

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

#### *Financial Assets and Financial Liabilities at FVPL*

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

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

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

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

As at December 31, 2013 and 2012, the Group has no financial assets and financial liabilities that have been designated as at FVPL. As at December 31, 2013 and 2012, the Group has financial assets which are held for trading purposes that are classified as financial assets at FVPL.

#### *HTM Investments*

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

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

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

#### *Loans and Receivables*

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



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

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

#### *Other Financial Liabilities*

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

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

#### *Fair Value Measurement*

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

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

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

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

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

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

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

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

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

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

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

#### Trade Receivables and Payables

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

#### Derecognition of Financial Instruments

##### *Financial Assets*

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

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

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

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

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

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

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

#### *Financial Liabilities*

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

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

#### Impairment of Financial Assets

The Group assesses at each end of the reporting period whether a financial asset or group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

#### *Assets Carried at Amortized Cost*

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

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

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

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

#### Offsetting of Financial Instruments

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

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

#### Input Value-added Taxes (VAT)

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



Input VAT is stated at its estimated net realizable values.

#### Prepayments and Other Noncurrent Assets

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

#### Property and Equipment

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

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

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

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

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

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

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

#### Intangibles

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

The Parent Company does not intend to sell its exchange trading right in the near future. COLHK's exchange trading right is a nontransferable right.

#### Impairment of Non-financial Assets

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

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

#### Leases

##### *Determination of Whether an Arrangement Contains a Lease*

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

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

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

##### *Group as a Lessee*

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

### Provisions

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

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

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

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

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

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

### Retained Earnings

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

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

### Revenue Recognition

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

### *Commissions*

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

### *Interest*

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

### *Dividend*

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

### *Other Income*

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

### Cost and Expenses

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

### Share-Based Payment Transactions

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

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

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

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, measured at the date of modification.



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

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

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

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

#### Retirement Costs

The Parent Company has a noncontributory defined benefit retirement plan.

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

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

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

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

### EPS

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

Diluted EPS is computed by dividing net income by the weighted average number of common shares outstanding during the year, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year, and adjusted for the effect of dilutive options.

Outstanding stock options will have a dilutive effect under the treasury stock method only when the average market price of the underlying common share during the period exceeds the exercise price of the option. Where the effect of the exercise of all outstanding options has anti-dilutive effect, basic and diluted EPS are stated at the same amount.

### Income Taxes

#### *Current Income Tax*

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

### *Deferred Income Tax*

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

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

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

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

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

Current income tax and deferred income tax relating to items recognized directly in equity is also recognized in equity and not in the consolidated statement of income. Deferred income tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

### Contingencies

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

### Segment Reporting

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

#### Events After the Reporting Period

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

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

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

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

#### Judgments

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

##### *Determining Functional Currency*

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

##### *Assessment on Whether an Agreement is a Finance or Operating Lease*

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

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

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

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

The Group classifies financial assets that are held for trading as financial assets at FVPL. These financial assets are held for the purpose of selling in the short-term. As at December 31, 2013 and 2012, the Group has financial assets at FVPL amounting to ₱7,210,678 and ₱2,729,120, respectively (see Note 6).



### Estimates and Assumptions

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

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

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

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

As at December 31, 2013 and 2012, the allowance for credit losses on other receivables amounted to ₱8,960,245. As at December 31, 2013 and 2012, the carrying amounts of other receivables amounted to ₱6,790,722 and ₱5,038,652, respectively (see Note 7).

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

The Group estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in the Group's estimates brought about by changes in the factors mentioned. There are no changes in useful lives as at December 31, 2013 and 2012. Depreciation and amortization amounted to ₱15,718,796, ₱16,358,489 and ₱12,132,089 in 2013, 2012 and 2011, respectively. As at December 31, 2013 and 2012, the net book values of property and equipment amounted to ₱39,066,499 and ₱38,397,201, respectively (see Note 9).

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

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

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

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

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

Based on management's assessment, there are no indications of impairment on the Group's prepayments, property and equipment and other noncurrent assets as at December 31, 2013 and 2012.

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

As at December 31, 2013 and 2012, the Group has no allowance for impairment losses on prepayments and property and equipment. The carrying amounts of prepayments amounted to ₱2,166,739 and ₱2,411,331 as at December 31, 2013 and 2012, respectively. The net book values of property and equipment amounted to ₱39,066,499 and ₱38,397,201 as at December 31, 2013 and 2012, respectively (see Note 9). As at December 31, 2013 and 2012, allowance for impairment losses on other noncurrent assets amounted to ₱13,724,200. The net book values of other noncurrent assets (excluding refundable deposits) amounted to ₱3,127,760 and ₱4,414,141 as at December 31, 2013 and 2012, respectively (see Note 11).

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

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

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

The key assumptions used to determine the recoverable amount of the Group's exchange trading rights are further explained in Note 10. The Parent Company does not intend to sell its exchange trading right in the near future. COLHK's right is nontransferable with an indefinite useful life. As at December 31, 2013 and 2012, the carrying values of intangibles amounted to ₱23,269,449 and ₱21,952,936, respectively (see Note 10).

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

The Group reviews the carrying amounts of deferred income tax assets at each end of the reporting period and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax assets to be utilized. The Group has net deferred income tax assets amounting to ₱53,303,732 and ₱61,523,324 as at December 31, 2013 and 2012, respectively (see Note 18).

#### *Estimating Contingencies*

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

#### *Determining Share-Based Payment*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment are disclosed in Note 17.

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

#### *Determining Retirement Obligation*

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

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

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

#### *Determining Fair Values of Financial Instruments*

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

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

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#### 4. Cash and Cash Equivalents

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

Cash in banks earn interest at the respective bank deposit rates. Short-term cash investments are made for varying periods of up to three (3) months depending on the Group's immediate cash requirements, and earn interest at 1.07% to 2.38% per annum in 2013, 1.30% to 4.56% per annum in 2012 and 1.60% to 4.56% per annum in 2011. Interest income of the Group from cash in banks amounted to ₱41,859,254, ₱60,342,514 and ₱39,522,787 in 2013, 2012, and 2011, respectively (see Note 15). The Parent Company has United States (US) dollar-denominated cash in banks amounting to US\$4,792 and US\$12,249 as at December 31, 2013 and 2012 (see Note 22).

In compliance with SRC Rule 49.2 covering customer protection and custody of securities, the Parent Company maintains special reserve bank accounts for its customers amounting to ₱2,800,523,622 and ₱2,306,326,701 as at December 31, 2013 and 2012, respectively. The Parent Company's reserve requirement is determined based on the SEC's prescribed computations. As at December 31, 2013 and 2012, the Parent Company's reserve accounts are adequate to cover its reserve requirements.

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#### 5. Cash in a Segregated Account

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

As at December 31, 2013 and 2012, cash in a segregated account for COLHK amounted to ₱112,593,425 and ₱64,200,375, respectively.

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#### 6. Financial Assets at FVPL

Financial assets at FVPL pertain to investments in shares of stock of companies listed in the PSE and major US Stock Exchanges. Net gain (loss) recognized from fair value changes of these financial instruments amounted to (₱82,312), ₱1,766,368 and ₱16,027,838 in 2013, 2012 and 2011, respectively. Dividend income included under other revenues amounted to ₱156,803, ₱28,589 and ₱27,362 in 2013, 2012 and 2011, respectively.

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



## 7. Trade and Other Receivables

	December 31, 2013	December 31, 2012 (As restated)	January 1, 2012 (As restated)
Trade receivables:			
Customers	<b>₱1,229,452,643</b>	₱1,118,451,342	₱973,491,524
Clearing house	<b>123,005,869</b>	350,413,704	203,136,849
Other brokers	<b>1,621,266</b>	2,378,798	4,799,766
	<b>1,354,079,778</b>	1,471,243,844	1,181,428,139
Less allowance for credit losses on receivable from customers	<b>2,225,955</b>	3,504,898	3,870,165
	<b>₱1,351,853,823</b>	₱1,467,738,946	₱1,177,557,974
Other receivables:			
Accrued interest	<b>₱3,338,285</b>	₱1,398,818	₱1,239,835
Others	<b>12,412,682</b>	12,600,079	15,851,224
	<b>15,750,967</b>	13,998,897	17,091,059
Less allowance for credit losses on other receivables	<b>8,960,245</b>	8,960,245	8,960,245
	<b>₱6,790,722</b>	₱5,038,652	₱8,130,814

The Parent Company has a credit line facility (involving margin accounts) for qualified customers with the outstanding balance subject to an interest rate ranging from 1.00% to 1.50% per month. Total credit line offered by the Parent Company amounted to ₱5,376,475,000 and ₱4,386,835,000 as at December 31, 2013 and 2012, respectively. Interest income from customers amounted to ₱156,796,015, ₱123,746,651 and ₱146,475,134 in 2013, 2012 and 2011, respectively (see Note 15).

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

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

Trade receivables from margin customers have no specific credit terms but customers are required to maintain the value of their collateral within a specific level. Once the value of the collateral falls down this level, customers may either deposit additional collateral or sell stock to cover their account balance. Meanwhile, receivables from post-paid customers are required to be settled on two (2) trading days' term for COLHK and three (3) trading days' term for the Parent Company. The receivable balances become demandable upon failure of the customer to duly comply with

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

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

Other receivables as at December 31, 2013 and 2012 include the amount of ₱8,960,245 representing additional corporate income tax paid under protest by the Parent Company for the taxable year 2009. For the first, second and third quarters of the taxable year 2009, the Parent Company used the itemized method of deduction in determining its income tax payable for the same period. In its final adjusted income tax return, it opted to use the forty percent (40%) optional standard deduction (OSD) to determine the final income tax payable for 2009, pursuant to Republic Act (RA) No. 9504 effective July 7, 2008, as implemented by Revenue Regulations (RR) No. 16-08 dated November 26, 2008 (see Note 18). However on March 14, 2010, RR No. 2-2010 became effective and amended Section 7 of RR No. 16-08, which required taxpayers to signify the election to claim either the OSD or itemized deduction during the filing of the first quarter income tax return which must be consistently applied for all succeeding quarterly returns and in the final income tax returns for the taxable year. Likewise, Revenue Memorandum Circular (RMC) No. 16-2010 was issued on February 26, 2010, giving retroactive application to RR No. 2-2010.

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

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

Movements in the allowance for credit losses follow:

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

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

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## 8. Held-to-Maturity Investment

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

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

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

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## 9. Property and Equipment

### 2013

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

### 2012

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

The depreciation and amortization were distributed as follows:

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

## 10. Intangibles

### *Philippine Operations*

On August 15, 2006, the Parent Company purchased the Trading Right of Mark Securities Corporation amounting to ₱5,000,000. As discussed in Note 1, on December 13, 2006, the BOD of the PSE, in its regular meeting, approved the application of the Parent Company as a PSE Corporate Trading Participant. As at December 31, 2013 and 2012, the market value of the said exchange trading right amounted to ₱8,500,000.

### *Hong Kong Operations*

COLHK's exchange trading right is carried at its cost of HK\$3,190,000. The carrying value of the exchange trading right is reviewed annually to ensure that this does not exceed the recoverable amount, whether or not an indicator of impairment is present. The stock exchange trading right is a non-transferable right with an indefinite useful life. It is closely associated with COLHK's business activities to have a right to trade the shares in the HK Stock Exchange in its continuing operation. As at December 31, 2013 and 2012, the carrying value of COLHK exchange trading right in Philippine peso amounted to ₱18,269,449 and ₱16,952,936, respectively.

The recoverable amount of exchange trading rights of COLHK has been determined based on a VIU calculation. That calculation uses cash from projections based on a financial budget approved by management covering a five (5)-year period, and a discount rate ranging from 8.38% to 11.50%. Management believes that any reasonably possible change in the key assumptions on which the exchange trading rights' recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

Movements in exchange trading rights follow:

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



## 11. Other Noncurrent Assets

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

As mentioned in Note 1, as a prerequisite to its accreditation as a clearing member of SCCP, the Parent Company made an initial contribution of ₱8,200,000 on October 20, 2008 to the CTGF of the SCCP. The CTGF is a risk management tool of SCCP, whose primary purpose is to protect the settlement system from any default by a clearing member. The amount of contribution was computed based on the previous six (6) months trading data and a calculation for the ideal fund level using the Value-at-Risk Model. The said amount was recalculated after six (6) months based on the effective rate of eleven percent (11.00%) applied to the actual netted trade value of the clearing member. On August 20, 2009, the Parent Company made an additional contribution amounting to ₱5,524,200 to top-up the deficiency in the initial contribution.

In addition to the collection of the initial contribution and as part of the build-up plan for the CTGF, SCCP collects a monthly contribution at the rate of 1/500 of one percent (1.00%) of the clearing member's gross trade value less block sales and cross transactions of the same flag. Under SCCP Rule 5.2, the cash contributions made by the clearing members to the CTGF are nonrefundable. However, in consideration of the 100.00% increase in the CTGF contributions which took effect on August 1, 2007, the BOD of SCCP has approved the full refund of contributions to the CTGF upon cessation of the business of the clearing member and upon termination of its membership with SCCP. Such amendment has been submitted for the further approval of the SEC. Pending the approval of the SEC, the rule on nonrefundability still applies. In view of this, the Parent Company provided an allowance for impairment losses on other noncurrent assets amounting to ₱13,724,200 as at December 31, 2013 and 2012.

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

## 12. Trade Payables

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

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

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

Payable to customers with money balances amounting to ₱122,070,046 and ₱58,836,378 as at December 31, 2013 and 2012, respectively, were payable to COLHK's clients in respect of the trust and segregated bank balances received and held for clients in the course of the conduct of regulated activities. These balances are payable on demand (see Note 5).

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

### 13. Other Current Liabilities

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

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

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

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

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

## 14. Equity

### Capital Stock

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

	2013		2012		2011	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock - P1 per share						
Authorized	1,000,000	P1,000,000	1,000,000	P1,000,000	1,000,000	P1,000,000
Issued and Outstanding						
Balances at beginning of year	467,810	467,810	458,550	458,550	442,650	442,650
Issuance of common shares upon exercise of stock options (see Note 17)	840	840	9,260	9,260	15,900	15,900
Balances at end of year	468,650	P468,650	467,810	P467,810	458,550	P458,550

As at December 31, 2013 and 2012, the Parent Company has 33 and 31 stockholders, respectively.

### Retained Earnings

In compliance with SRC Rule 49.1 B Reserve Fund, the Parent Company is required to annually appropriate ten percent (10%) of its audited net income and transfer the same to appropriated retained earnings account. On December 11, 2006, the BOD approved the annual appropriation commencing on the year 2006.

In 2011, an appropriation of P18,122,867 was made based on the 2010 audited net income of the Parent Company of P181,228,667. In 2012, an appropriation of P30,454,004 was made based on the 2011 audited net income (as previously stated) of the Parent Company of P304,540,045. In 2013, an appropriation of P32,062,182 was made based on the 2012 audited net income (as previously stated) of the Parent Company of P320,621,815. Total unappropriated retained earnings amounted to P680,802,693 and P704,524,482 as at December 31, 2013 and 2012, respectively (see Note 21).

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

On March 31, 2011, the BOD declared a regular and a special dividend amounting to P0.07 per share held or P31,090,500 (444,150,000 shares multiplied by P0.07 cash dividend per share) and P0.33 per share held or P146,569,500 (444,150,000 shares multiplied by P0.33 cash dividend per share), respectively, to stockholders as of record date of April 14, 2011. These dividends were paid on April 29, 2011.

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

On March 30, 2012, the BOD declared a regular and a special dividend amounting to P0.12 per share held or P56,046,000 (467,050,000 shares multiplied by P0.12 cash dividend per share) and P0.48 per share held or P224,184,000 (467,050,000 shares multiplied by P0.48 cash dividend per share), respectively, to stockholders as of record date of April 18, 2012. These dividends were paid on May 14, 2012.

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

## 15. Interest Income

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

## 16. Personnel Costs

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

The above accounts were distributed as follows:

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

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

## 17. Employee Benefits

### Stock Options

On July 12, 2000 and July 3, 2006, the Group granted stock options (SOP) shares equal to 27,250,000 and 18,750,000, respectively, in favor of directors, senior managers and officers of the Group as well as other qualified individuals determined by a committee constituted by the BOD to administer the SOP. As at December 31, 2006, a total of 46,000,000 stock options were granted. The agreement provides for an exercise price of ₱1.00 per share. These options will be settled in equity once exercised. All options are exercisable one and a half (1½) years from July 12, 2006, the effective date of listing of the Parent Company's shares at the PSE, and will terminate ten (10) years from the said date. There was no new SOP granted in 2013, 2012 and 2011.



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

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

1st Tranche

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

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

2nd Tranche

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

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

All options have a contractual term of ten (10) years. The weighted average remaining contractual life of options outstanding is 3.5 years, 4.5 years, and 5.5 years as at December 31, 2013, 2012 and 2011, respectively.

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

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

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

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

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

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

#### Retirement Benefits

The Parent Company has a funded, non-contributory defined benefit retirement plan covering substantially all of its regular employees. The benefits are based on a certain percentage of the final monthly basic salary for every year of credited service of employees. The defined benefit obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement for the years ended December 31, 2013, 2012 and 2011.

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

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

Retirement costs (see Note 16):

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

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

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

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

Retirement obligation:

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

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

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

Changes in the fair value of plan assets follow:

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

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

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

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

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

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

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

	Increase (decrease) in significant assumptions	Increase (decrease) in defined benefit obligation
Discount rates	+0.50%	(P2,002,299)
	-0.50%	2,205,131
Future salary increases	+0.50%	2,014,923
	-0.50%	(1,854,558)
Mortality rate	+1 year	(87,480)
	-1 year	80,067

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

	<b>2013</b>	2012	2011	2010	2009
PV of defined benefit obligation	<b>P34,399,721</b>	P29,526,269	P20,236,661	P14,368,751	P12,568,812
Fair value of plan assets	<b>(6,778,828)</b>	(6,412,335)	(6,714,435)	(6,538,937)	(6,072,538)
Unfunded status	<b>P27,620,893</b>	P23,113,934	P13,522,226	P7,829,814	P6,496,274
Experience adjustments on plan liabilities	<b>(P3,166,302)</b>	P3,361,009	P170,425	P2,501,782	(P465,365)
Change in financial assumptions on plan liabilities	<b>1,970,727</b>	2,018,442	2,536,603	1,611,469	1,895,246
Change in demographic assumptions on plan liabilities	<b>77,119</b>	-	-	-	-
Actual return on plan assets	<b>440,743</b>	332,400	490,498	353,068	261,386

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



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

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

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

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

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

COLHK makes monthly contribution to a fund under the mandatory provident fund schemes ordinance enacted by the HK Government. The plan is a defined contribution retirement plan. Under the plan, COLHK should contribute five percent (5%) of the monthly relevant income of all its qualified employees. The contribution recognized as retirement costs under 'Personnel costs' amounted to ₱277,402, ₱261,788, and ₱247,285 in 2013, 2012 and 2011, respectively (see Note 16).

## 18. Income Taxes

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

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

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

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

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

The Parent Company has temporary difference arising from allowance for impairment on deposit to CTGF amounting to ₱13,724,200 as at December 31, 2013 and 2012, for which no deferred income tax asset was recognized since management believes that it is probable that these temporary difference will not be realized in the future (see Note 7).

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

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

In 2013 and 2011, the Parent Company availed of the OSD method in claiming its deductions. In 2012, the Parent Company availed of the itemized deductions method in claiming its deductions.

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## 19. Related Party Disclosures

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

Category	Commission income	Interest income	Commission expense	Professional fees	Trade payables	Trade receivables	Terms	Conditions
<b>Key management personnel</b>								
2013	<b>₱4,087,083</b>	<b>₱3,543,170</b>	<b>₱-</b>	<b>₱-</b>	<b>₱51,109,892</b>	<b>₱6,378,345</b>	3-day; noninterest-bearing/ Collectible or payable on demand; interest-bearing	Secured; no impairment; no guarantee
2012	₱3,733,575	₱1,033,467	₱-	₱-	₱56,709,837	₱15,284,711		
2011	₱3,689,717	₱1,262,386	₱-	₱-	₱18,233,314	₱41,426,781		
<b>Other related parties:</b>								
<b>Affiliates with common officers, directors and stockholders</b>								
2013	<b>29,858,696</b>	<b>1,390,621</b>	<b>279,710</b>	<b>4,516,537</b>	<b>18,464,495</b>	<b>7,560,697</b>	3-day; noninterest-bearing/ Collectible or payable on demand; interest-bearing/ Payable upon billing; noninterest-bearing	Secured; no impairment; no guarantee
2012	42,923,001	1,879,203	16,585	7,686,867	29,368,151	9,149,278		
2011	70,129,621	10,491,521	111,087	11,190,567	59,661,524	78,695,482		
<b>Directors</b>								
2013	<b>20,017,639</b>	<b>25,098</b>	<b>-</b>	<b>-</b>	<b>41,210,586</b>	<b>19,710,226</b>	3-day; noninterest-bearing/ Collectible or payable on demand; interest-bearing	Secured; no impairment; no guarantee
2012	22,487,994	528,747	-	-	23,310,923	34,325,740		
2011	51,179,621	2,574,980	-	-	7,334,016	28,714,284		
<b>Total</b>	<b>₱53,963,418</b>	<b>₱4,958,889</b>	<b>₱279,710</b>	<b>₱4,516,537</b>	<b>₱110,784,973</b>	<b>₱33,649,268</b>		
Total	₱69,144,570	₱3,441,417	₱16,585	₱7,686,867	₱109,388,911	₱58,759,729		
Total	₱124,998,959	₱14,328,887	₱111,087	₱11,190,567	₱85,228,854	₱148,836,547		

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

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

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

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

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

	2013	2012
Short-term cash investments	<b>99.96%</b>	99.96%
Cash in bank	<b>0.04%</b>	0.04%
	<b>100.00%</b>	100.00%

In 2013 and 2012, there were no transactions between the retirement fund and the Parent Company.

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## 20. Leases

The Group leases its office premises under separate operating lease agreements expiring on various dates and whose lease terms are negotiated every one (1) to three (3) years. Rental costs charged to operations amounted to ₱10,820,260, ₱10,024,186 and ₱8,447,671 in 2013, 2012 and 2011, respectively.

The future minimum lease payments are as follows:

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

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## 21. Capital Management

The primary objective of the Group's capital management is to ensure that the Group maintains healthy capital ratios in order to support its business, pay existing obligations and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2013, 2012 and 2011.

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

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

The Parent Company being a registered broker in securities is subject to the stringent rules of the SEC and other regulatory agencies with respect to the maintenance of specific levels of RBCA ratios. RBCA is a ratio that compares the broker or dealer's total measured risk to its liquid capital. As a rule, the Parent Company must maintain an RBCA ratio of at least one hundred ten percent (110.00%) and a net liquid capital (NLC) of at least ₱5.0 million or five percent (5.00%) of its aggregate indebtedness, whichever is higher. Also, the Aggregated Indebtedness (AI) of every stockbroker should not exceed two thousand percent (2,000.00%) of its NLC. In the event that the minimum RBCA ratio of one hundred ten percent (110.00%) or the minimum NLC is breached, the Parent Company shall immediately cease doing business as a broker and shall notify the PSE and SEC. As at December 31, 2013 and 2012, the Parent Company is compliant with the foregoing requirements.

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

The RBCA ratio of the Parent Company as at December 31, 2013 and 2012 are as follows:

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



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

1. Ineligible assets  
These pertain to fixed assets and assets which cannot be readily converted into cash.
2. Operational risk requirement  
The amount required to cover a level of operational risk which is the exposure associated with commencing and remaining in business arising separately from exposures covered by other risk requirements. It is the risk of loss resulting from inadequate or failed internal processes, people and systems which include, among others, risks of fraud, operational or settlement failure and shortage of liquid resources, or from external events.
3. Position risk requirement  
The amount necessary to accommodate a given level of position risk which is the risk a broker dealer is exposed to and arising from securities held by it as a principal or in its proprietary or dealer account.
4. AI  
Total money liabilities of a broker dealer arising in connection with any transaction whatsoever, and includes, among other things, money borrowed, money payable against securities loaned and securities failed to receive, the market value of securities borrowed to the extent to which no equivalent value is paid or credited (other than the market value of margin securities borrowed from customers and margin securities borrowed from non-customers), customers' and non-customers' free credit balances, and credit balances in customers' and non-customers' account having short positions in securities subject to the exclusions provided in the said SEC Memorandum.

On May 28, 2009, the SEC approved the PSE's Rules Governing Trading Rights and Trading Participants, which supersede the Membership Rules of the PSE. Section 8(c) of Article III of the said rules requires trading participants to have a minimum unimpaired paid-up capital, as defined by the SEC, of ₱20 million effective December 31, 2009, and ₱30 million effective December 31, 2011 and onwards. In 2013 and 2012, the Parent Company is compliant with the new capital requirement.

In addition, SRC Rule 49.1 (B), Reserve Fund of such circular, requires that every broker dealer shall annually appropriate a certain minimum percentage of its audited profit after tax and transfer the same to Appropriated Retained Earnings. Minimum appropriation shall be 30.00%, 20.00% and 10.00% of profit after tax for brokers/dealers with unimpaired paid up capital of ₱10 million to ₱30 million, between ₱30 million to ₱50 million and more than ₱50 million, respectively (see Note 14).

The Parent Company's regulated operations have complied with all externally-imposed capital requirements as at December 31, 2013 and 2012.

COLHK monitors capital using liquid capital as provided for under Hong Kong's Securities and Futures Ordinance (Cap. 571) and Securities and Futures (Financial Resources) Rules (Cap. 571N). COLHK's policy is to keep liquid capital at the higher of the floor requirement of HK\$3,000,000 and computed variable required capital. As at December 31, 2013 and 2012, COLHK is compliant with the said requirement.

## 22. Financial Risk Management Objectives and Policies

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

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

### Credit risk

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

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

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

### 2013

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

## 2012

	Neither Past Due nor Specifically Impaired			Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade		
Loans and receivables:					
Cash and cash equivalents	₱2,583,051,902	₱-	₱-	₱-	₱2,583,051,902
Cash in a segregated account	64,200,375	-	-	-	64,200,375
Trade receivables	1,467,738,946	-	-	3,504,898	1,471,243,844
Other receivables	-	5,038,652	-	8,960,245	13,998,897
Refundable deposits	4,744,137	-	-	-	4,774,137
	4,119,735,360	5,038,652	-	12,465,143	4,137,269,155
Financial assets at FVPL	2,729,120	-	-	-	2,729,120
	₱4,122,464,480	₱5,038,652	₱-	₱12,465,143	₱4,139,998,275

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

### *Loans and Receivables*

#### High grade

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

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

Trade receivables from margin customers have no specific credit terms but customers are required to maintain the value of their collateral within a specific level. Once the value of the collateral falls down this level, customers may either deposit additional collateral or sell stock to cover their account balance. Meanwhile, receivables from post-paid customers are required to be settled on two (2) trading days' term for COLHK and three (3) trading days' term for the Parent Company. The receivable balances become demandable upon failure of the customer to duly comply with these requirements. As at December 31, 2013 and 2012, ₱1,209,742,416 and ₱1,084,125,602 of the total receivables from customers is secured by collateral comprising of cash and equity securities of listed companies with a total market value of ₱5,277,924,865 and ₱13,485,028,553, respectively (see Note 7). Transactions through the stock exchange are covered by the guarantee fund contributed by member brokers and maintained by the clearing house. There are no past due accounts as at December 31, 2013 and 2012.

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

#### Standard grade

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

### *Financial Assets at FVPL*

#### High grade

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

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

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

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

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

\*Excluding cash on hand

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

#### Liquidity Risk

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

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

As at December 31, 2013 and 2012, all of the Group's financial liabilities, which consist of trade payables and other current liabilities, are contractually payable on demand and up to sixty (60) days' term.

Correspondingly, the financial assets that can be used by the Group to manage its liquidity risk as at December 31, 2013 and 2012 consist of cash and cash equivalents, cash in a segregated account, financial assets at FVPL and trade receivables.

#### Market Risk

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

#### *Equity Price Risk*

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

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

Since the carrying amount of financial assets subject to equity price risk is immaterial relative to the consolidated financial statements, management believes that disclosure of equity price risk sensitivity analysis for 2013 and 2012 is not significant.

#### *Foreign Currency Risk*

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

The Group's exposure to foreign currency exchange risk arises from its US dollar-denominated cash in banks amounting to US\$4,792 and US\$12,249 as at December 31, 2013 and 2012, respectively.

Since the amount of US\$-denominated cash in bank subject to foreign currency risk is immaterial relative to the consolidated financial statements, management believes that disclosure of foreign currency risk analysis for 2013 and 2012 is not significant.

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## **23. Fair Value Measurement**

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

#### *Financial Instruments Whose Carrying Amount Approximate Fair Value*

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

#### *Financial Assets at FVPL*

The Group's financial assets at FVPL are carried at their fair values as at December 31, 2013 and 2012. Fair value of financial assets at FVPL is based on the closing quoted prices of stock investments published by the PSE and major US Stock Exchanges.

#### *Refundable Deposits*

The fair value of the refundable deposits is based on the present value of the future cash flows discounted using credit adjusted risk-free rates for a similar type of instrument using 2.37% and 1.30% as at December 31, 2013 and 2012, respectively. There are no changes in the valuation techniques in 2013 and 2012.



### Categories of Financial Instruments

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

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

\*Excluding due to BIR

### Fair Value Hierarchy

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

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

#### 2013

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

#### 2012

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

During the years ended December 31, 2013 and 2012, there were no transfers among levels 1, 2 and 3 of fair value measurements.

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## 24. Contingency

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

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

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

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## 25. EPS Computation

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

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## 26. Segment Information

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

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

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

### 2013

	Philippines	Hong Kong	Elimination	Total
<b>Revenue from external customers:</b>				
Commissions	P496,054,561	P44,467,086	P-	P540,521,647
Interest	198,655,269	-	-	198,655,269
Others	1,679,451	104,238	-	1,783,689
Inter-segment revenue	42,891,145	-	(42,891,145)	-
Segment revenue	739,280,426	44,571,324	(42,891,145)	740,960,605
Cost of services	(206,360,621)	(17,323,409)	-	(223,684,030)
Operating expenses	(106,771,560)	(52,642,954)	42,655,273	(116,759,241)
Depreciation and amortization	(14,332,569)	(201,853)	-	(14,534,422)
Income (loss) before income tax	411,815,676	(25,596,892)	(235,872)	385,982,912
Benefit from (provision for) income tax	(86,733,729)	4,340,710	-	(82,393,019)
Net income (loss)	P325,081,947	(P21,256,182)	(P235,872)	P303,589,893
Segment assets	P4,318,785,171	P627,600,640	(P138,593,403)	P4,807,792,408
Segment liabilities	3,340,514,991	167,980,551	(3,722,642)	3,504,772,900
Capital expenditures:				
Tangible fixed assets	16,307,767	-	-	16,307,767
Cash flows arising from:				
Operating activities	827,420,780	103,733,789	-	931,154,569
Investing activities	(16,307,767)	-	-	(16,307,767)
Financing activities	(294,409,500)	-	-	(294,409,500)

### 2012

	Philippines	Hong Kong	Elimination	Total
<b>Revenue from external customers:</b>				
Commissions	P406,497,833	P56,805,668	P-	P463,303,501
Interest	184,089,165	-	-	184,089,165
Others	2,464,445	1,035,836	-	3,500,281
Inter-segment revenue	42,441,634	-	(42,441,634)	-
Segment revenue	635,493,077	57,841,504	(42,441,634)	650,892,947
Cost of services	(169,284,763)	(18,867,913)	-	(188,152,676)
Operating expenses	(94,618,395)	(56,731,293)	42,483,924	(108,865,764)
Depreciation and amortization	(14,030,045)	(229,829)	-	(14,259,874)
Income (loss) before income tax	357,559,874	(17,987,531)	42,290	339,614,633
Benefit from (provision for) income tax	(36,633,180)	3,195,537	-	(33,437,643)
Net income (loss)	P320,926,694	P(14,791,994)	P42,290	P306,176,990
Segment assets	P3,873,049,401	P521,394,354	(P138,241,690)	P4,256,202,065
Segment liabilities	2,922,768,705	63,634,563	(3,454,378)	2,982,948,890
Capital expenditures:				
Tangible fixed assets	12,887,696	558,860	-	13,446,556
Cash flows arising from:				
Operating activities	931,127,533	(74,674,618)	-	856,452,915
Investing activities	(12,631,651)	(558,860)	-	(13,190,511)
Financing activities	(270,970,000)	-	-	(270,970,000)

2011

	Philippines	Hong Kong	Elimination	Total
Revenue from external customers:				
Commissions	₱327,237,064	₱117,437,972	₱–	₱444,675,036
Interest	187,247,882	13,892	–	187,261,774
Others	26,820,348	(100,585)	–	26,719,763
Inter-segment revenue	44,912,177	–	(44,912,177)	–
Segment revenue	586,217,471	117,351,279	(44,912,177)	658,656,573
Cost of services	(126,901,718)	(18,348,071)	–	(145,249,789)
Operating expenses	(83,926,167)	(62,423,967)	44,883,688	(101,466,446)
Depreciation and amortization	(9,916,754)	(242,461)	–	(10,159,215)
Income before income tax	365,472,832	36,336,780	(28,489)	401,781,123
Provision for income tax	(60,887,015)	(6,049,459)	–	(66,936,474)
Net income	₱304,585,817	₱30,287,321	(₱28,489)	₱334,844,649
Segment assets	₱2,989,813,048	₱677,592,269	(₱138,481,887)	₱3,528,923,430
Segment liabilities	2,057,958,477	184,823,683	(3,673,341)	2,239,108,819
Capital expenditures:				
Tangible fixed assets	26,538,726	674,161	–	27,212,887
Cash flows arising from:				
Operating activities	1,420,727,251	20,075,779	–	1,440,803,030
Investing activities	79,936,066	(674,161)	–	79,261,905
Financing activities	(161,760,000)	–	–	(161,760,000)

## 27. Reclassification

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

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

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

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

# Acknowledgments

Portrait Photography: Terence Ver Angsioco  
Concept and Design: K2 Interactive Inc.





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