

**COVER SHEET**

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(Company's Full Name)

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

|                             |
|-----------------------------|
| <b>Ms. Catherine L. Ong</b> |
|-----------------------------|

(Contact Person)

|                  |
|------------------|
| <b>636-54-11</b> |
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(Company Telephone Number)

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*Month Day*

(Calendar Year)

**17-Q**

(Form Type)

**September 30, 2019**

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*Month Day*

(Annual Meeting)

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| <b>Broker</b> |
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(Secondary License Type, If Applicable)

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Dept. Requiring this Doc.

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| <b>Not Applicable</b> |
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Amended Articles  
Number/section

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| <b>33</b> |
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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

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To be accomplished by SEC Personnel concerned

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**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q**

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

1. For the quarterly period ended: **September 30, 2019**
2. Commission identification number **A199910065**
3. BIR Tax Identification No. **203-523-208-000**
4. Exact name of issuer as specified in its charter: **COL FINANCIAL GROUP, INC.**
5. Province, country or other jurisdiction of incorporation or organization: **Pasig City,  
Philippines**
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office: **2401-B East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas  
Center, Pasig City** Postal Code: **1605**
8. Issuer's telephone number, including area code: **(632) 636-5411**
9. Former name, former address and former fiscal year, if changed since last report: **Not  
Applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the  
RSA:

| Title of each Class | Number of shares of common stock<br>outstanding and amount of debt outstanding |
|---------------------|--|
| <b>Common</b>       | <b>476,000,000 shares</b>  |

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

Yes [  ] No [  ]

12. Indicate by check mark whether the registrant:

- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [  ] No [  ]

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

Yes [  ] No [  ]

## **PART I – FINANCIAL INFORMATION**

### **Item 1. Financial Statements.**

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

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

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

#### **Company Overview**

COL Financial Group, Inc., a publicly listed company in the Philippine Stock Exchange (PSE), is the leading online financial services provider in the Philippines. Incorporated on August 16, 1999, COL aims to be the most trusted wealth-building partner of every Filipino that provides practical and ethical financial products through value-driven and innovative solutions to help them achieve their financial goals.

After completing and passing the rigid regulatory requirements, COL launched in January 2001 its proprietary online trading platform. Through [www.colfinancial.com](http://www.colfinancial.com), COL offers real-time market information and execution, superior investing tools and functionalities, and comprehensive stock market research and analysis to guide independent investors make well informed investment decisions.

As part of COL’s commitment to provide more useful products and services to help its customers build genuine wealth, COL launched in July 2015 the COL Fund Source, the first and leading online mutual fund supermarket in the Philippines which provides investors access to a wide selection of mutual funds.

To provide investors with online access to the HK stock market, COL established on June 20, 2001 its wholly-owned foreign subsidiary COLHK. The access of the customers of COLHK to the global markets was further expanded when COLHK entered into a non-disclosed broker account with Interactive Brokers (IB) in August 2014 which allowed its customers to gain access and electronically trade global equity markets including but not limited to Japan, USA, Singapore, Germany and China (via Shanghai-Hong Kong Stock Connect).

#### **Business Model**

COL Financial derives a significant proportion of its revenues from its stock brokerage business in the Philippines. Most of the revenues generated from its Philippine operations include:

1) commission generated from stock trades, 2) interest income from margin financing, and 3) interest income made from short-term placements.

COL also derives revenues from the trail fees arising from its fund distribution business and from commissions earned by its stock brokerage business in HK through its wholly-owned subsidiary COLHK.

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

### **Industry and Economic Review**

The Philippine Stock Exchange Index (PSEi) had a very volatile performance during the first nine months of the year. After rising by as much as 9.1% to 8,144.16 in February, the PSEi reversed course and fell to a low of 7,475.16 in May. It once again rallied to 8,419.59 in July, its highest level for 2019, before falling back below 8,000 to close the first nine months of the year at 7,779.07, up by only 4.2% for the year to date period.

The local market's strong performance during the start of the year was driven by numerous factors, led by the peaking of inflation. Recall that in 2018, the Bangko Sentral ng Pilipinas (BSP) raised rates by a total of 175 basis points after inflation reached a high of 6.7% in October. Nevertheless, after peaking in the fourth quarter, inflation has been on a downtrend, largely due to lower food and oil prices. This in turn paved the way for the BSP to cut rates thrice by a total of 75 basis points and banks' reserve requirement ratio by 400 basis points. The 10-year bond rate also fell back below 5% as a result of falling inflation and the BSP's monetary easing policies after hitting a peak of 8.3% in 2018.

Despite the improving outlook of the local economy, appetite for Philippines and other emerging market equities deteriorated as foreign investors focused on the escalation of the U.S.-China trade war and its potential impact on the global economy. Recall that in May, U.S. president Trump said that the U.S. would increase tariffs on US\$200 billion worth of Chinese imports from 10% to 25% after initially agreeing to delay the increase indefinitely. He also said he would impose a 25% tariff on all remaining Chinese imports. China in turn retaliated by imposing tariffs on US\$60 billion worth of imports from the U.S.

Aside from escalating trade tensions, the rebalancing of the MSCI emerging market index in favor of Chinese stocks also contributed to the sell-off of Philippine stocks in May and August.

Occasionally, rallies materialized on increasing hopes that the U.S. Fed would cut rates given the deteriorating outlook of the U.S. economy. The Fed has cut rates twice during the first nine months of the year after initially planning to continue raising rates this year.

Average daily value turnover in the Philippine Stock Exchange (PSE) increased by 8.1% to ₱7.6 billion during the first nine months of the year.

Like the Philippine stock market, the HK stock market had a volatile performance during the first nine months of 2019. After rallying strongly during the first four months of the year on increasing hopes that trade negotiations between the U.S. and China would have a favorable outcome, investors were taken by surprise after U.S. President Trump announced in May that he would impose higher tariffs on a large number of Chinese imports. This resulted to the steep

sell-off of HK stocks. The escalation of protests against the extradition bill further hurt sentiment for HK stocks. The said developments caused the three major HK indices - The Hang Seng index (HSI), the Hang Seng China Affiliate Corp. Index (HSCCI), and the Hang Seng China Enterprise Index (HSCEI) – to end the first nine months of the year hardly changed after rising by as much as 17.2%, 14.9% and 17.4%, respectively.

Average daily value turnover fell significantly, by 20.6% to HKD90.7 billion.

## **Business Review**

### **Key Performance Indicators**

COL is committed to maximize profitability through the efficient use of its resources with the ultimate objective of increasing shareholder value. Consequently, COL regularly monitors and reviews the effectiveness of its corporate activities and key performance indicators which are considered important in measuring the success of implemented financial and operating strategies and concomitant action plans. Set out below are some of its key performance indicators:

|                                     | <b>September 2019</b> | <b>September 2018</b> |
|-------------------------------------|-----------------------|-----------------------|
| Number of Customer Accounts         | 325,201               | 283,773               |
| Customers' Net Equity (in millions) | ₱76,380               | ₱72,288               |
| Revenues (in millions)              | ₱898,257              | ₱870,745              |
| Annualized Return on Equity         | 35.7%                 | 38.2%                 |
| Risk Based Capital Adequacy Ratio*  | 546%                  | 647%                  |
| Liquid Capital** (in millions)      | HKD30.0               | HKD40.4               |

\* Parent Company only

\*\*HK Subsidiary

During the first nine months of 2019, COL's **revenues** increased by 3.2% to ₱898.3 million. Although commission revenues fell, coming from a high base last year, this was more than offset by the significant increase in interest income from margin lending and cash placements and higher trailer fees from the fund distribution business.

Total expenses increased by 2.1% to ₱291.1 million while taxes increased by 9.4% to ₱147.3 million. Coupled with higher revenues, net income was up by 2.0% to ₱459.8 million.

Despite the higher net income, COL's **annualized return on average equity** (ROE) fell from 38.2% in the first nine months of 2018 to 35.7% during the period in review. This was a result of the reduction in COL's leverage as its stockholders' equity grew at a faster pace.

COL's client base continued to grow at a healthy pace, with the **number of customer accounts** for its Philippine operations increasing by 14.6% year-on-year to over 325,000 as of end September 2019. **Net equity** of retail customers also continued to increase, rising by 5.6% to ₱76.4 billion as of end September 2019, largely driven by net new flows amounting to ₱3.4 billion during the past twelve months.

During the first nine months of 2019, both the Parent Company and its HK subsidiary continued to meet the stringent rules of regulators in the Philippines and Hong Kong. As of end September 2019, the Parent Company's **Risk Based Capital Adequacy Ratio** (RBCA) reached 546%, well above the minimum requirement of 110%. Meanwhile, COL HK had HKD30.0 million of

**liquid capital.** This is also well above the minimum requirement of HKD3.0 million or 5% of adjusted liabilities.

### **Material Changes in Financial Condition (September 30, 2019 vs December 31, 2018)**

COL's asset base fell by 2.9% to ₱10.8 billion as of end September 2019 compared to its end 2018 level. This was due to several factors including the payment of ₱404.6 million in cash dividends, significant decline in the net cash inflows during the twelve-month period and withdrawal of funds of some customers of the HK Subsidiary which resulted to the 50.7% and 68.1% decline in cash in a segregated account to ₱66.0 million and short-term time deposits to ₱200.0 million, respectively, as of end September 2019. A big portion of the short-term time deposits amounting to ₱626.0 million was terminated upon maturity to fund the foregoing disbursements while the balance was rolled over at a shorter tenor which explains the slight increase in cash and cash equivalents to ₱9.1 billion.

Total trade receivables decreased by 8.4% to ₱742.8 million largely due to the withdrawal of customer funds of the HK Subsidiary from its account with Interactive Brokers.

Property and equipment increased by 21.1% to ₱92.0 million mainly because of additional capital expenditures on COL's data center and office renovations.

Trade payables also fell by 3.7% to ₱8.9 billion for the year to date period. This was due to the reduction of clients' cash position and the smaller value of buying transactions as of end September compared to end December, reducing the value of payables to the clearing house.

Other current liabilities went down 56.8% to ₱46.3 million primarily due to the release of the performance bonus given to officers and employees of the Parent Company which was booked in 2018 and the remittance to the BIR of the corresponding withholding taxes.

Income tax payable rose by 24.2% to ₱23.3 million due to the booking of higher amount of taxable income during the third quarter of 2019.

Stockholders' equity increased by 4.4% to ₱1.8 billion largely due to booking of ₱459.8 million in net income during the first nine months of 2019, partly offset by the payment of ₱404.6 million worth of cash dividends.

### **Material Changes in the Results of Operations (September 30, 2019 vs September 30, 2018)**

COL's consolidated revenues during the first nine months of 2019 increased by 3.2% to ₱898.3 million, as higher interest income and trailer fees more than offset the decline in commission revenues and other income. Cost of services fell by 8.9% to ₱131.9 million, largely driven by the double-digit drop of commission expenses and lower stock exchange dues and fees. Meanwhile, operating expenses, which are largely fixed in nature, rose by 13.3% to ₱159.2 million. Provision for income taxes increased by 9.4% to ₱147.3 million. Because of the foregoing movements, net income increased by 2.0% to ₱459.8 million in the first nine months of 2019.

COL's revenues increased largely due to the strong growth of interest income and trailer fees. Interest income grew by 47.7% to ₱433.7 million as COL benefited from the significant increase

in bank deposit yields given tight liquidity conditions during the start of the year. COL also benefited from the 14.9% increase in the average daily value of margin loans to ₱623.9 million during the first nine months of 2019.

Revenues from trailer fees increased by 20.3% to ₱13.0 million as the value of non-money market assets under administration (AUA) jumped by 15.0% to ₱2.9 billion as of end September 2019. The growth in AUA was largely a result of net sales amounting to ₱204.9 million during the past twelve months as the number of clients owning mutual funds increased by 23.1% to 42,913 as of end September 2019.

However, the strong growth of interest income and trailer fees was partly offset by the decline in commission revenues and other income. Commission revenues fell by 18.5% to ₱449.8 million. Although value turnover in the PSE increased by 7.1% during the first nine months, value turnover attributable to local investors fell by 2.1%. COL's value turnover fell by an even faster pace of 18.7% during the same period as its market share of local value turnover normalized to 13.7% after jumping to an abnormally high level of 16.4% in the first nine months of 2018, brought about by heightened interest in possible third telco candidates during the said period. In 2017, COL's market share of local value turnover was 13.1%.

Also pulling down revenues was the significant decline in trading gains to less than a million pesos in the first nine months of 2019 from ₱12.5 million during the same period last year.

Cost of services fell by 8.8% to ₱131.9 million, led by the double-digit decline of commission expenses and lower stock exchange dues and fees. Commission expenses fell by 26.1% to ₱35.2 million as revenues generated by the agency and advisory business weakened. COL also completely took over the management of the agency and advisory business starting the middle of July, resulting to lower commission expenses. Stock exchange dues and fees fell by 6.6% to ₱12.0 million as a consequence of the decline in COL's trading activity.

While cost of services fell, operating expenses increased by 13.3% to ₱159.2 million. Personnel cost and professional fees, which together account for 43.6% of operating expenses, increased by 11.3% to ₱69.4 million. Personnel costs went up by 20.9% to ₱35.9 million as COL hired more employees, in line with efforts to improve the level of service it provides to its growing client base. Meanwhile, professional fees increased by 2.6% to ₱33.5 million, largely due to the hiring of consultants to improve the detection of cyber threats and to enhance website security.

Rental expenses increased by 25.3% to ₱20.7 million as COL expanded its office space and data center. Rental rates of existing office space likewise increased because of rental escalation.

Meanwhile power, light and water expenses decreased by 8.2% to ₱4.0 million due to timing issues in the billing and booking of the said utilities.

Advertising and marketing expenses jumped by 21.9% to ₱11.8 million as COL expanded its efforts to educate more Filipinos to save and invest.

Depreciation and amortization grew by 21.1% to ₱22.9 million largely due to increasing capital expenditures during the past few years to support the needs of COL's growing client base.

Due to the 3.2% increase in revenues and the 2.1% increase in total costs, operating income grew

by 3.7% to ₱607.1 million.

Net profits increased by a slightly slower pace of 2.0% to ₱459.8 million as provision for income taxes increased by 9.4% to ₱147.3 million despite flattish operating profits primarily due to higher amount of final taxes booked on interest income.

### **Other Matters**

- a. COL is not aware of any known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity. The Group has not defaulted in paying its obligations, which arise mostly from withdrawals made by customers. In addition, obligations of the Parent Company are fully funded in compliance with the Securities Regulation Code (SRC) Rule 49.2 while COLHK Subsidiary maintains a fund for the exclusive benefit of its customers in compliance with the regulations of the Securities and Futures Commission of Hong Kong.
- b. COL is not aware of any events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.
- c. COL is not aware of any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Group with other persons created during the reporting period.
- d. COL is not aware of any material commitments for capital expenditures.
- e. COL is not aware of any known trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations of the Group.
- f. COL is not aware of any significant elements of income or loss that did not arise from the Group's continuing operations.
- g. COL is not aware of any seasonal aspects that had a material effect on the financial condition or results of operations of the Group.

### **PART II – OTHER INFORMATION**

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



**SIGNATURES**

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

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

By:



**Conrado F. Bate**  
President and Chief Executive Officer  
November 18, 2019



**Catherine L. Ong**  
Senior Vice President and Chief Finance Officer  
November 18, 2019



**Lorena E. Velarde**  
Vice President and Financial Controller  
November 18, 2019

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

|   | September 30, 2019 (Unaudited) |                      |       | December 31, 2018 (Audited) |                        |                        |
|---|--------------------------------|----------------------|-------|-----------------------------|------------------------|------------------------|
|   | Money Balance                  | Security Valuation   |       | Money Balance               | Security Valuation     |                        |
|   |                                | Long                 | Short |                             | Long                   | Short                  |
| <b>ASSETS</b>   |                                |                      |       |                             |                        |                        |
| <b>Current Assets</b>   |                                |                      |       |                             |                        |                        |
| Cash and cash equivalents (Note 4)  | <b>₱9,103,153,197</b>          |                      |       | ₱8,897,583,382              |                        |                        |
| Cash in a segregated account (Note 5)   | <b>66,012,094</b>              |                      |       | 133,788,336                 |                        |                        |
| Short-term time deposits (Note 4)   | <b>200,000,000</b>             |                      |       | 626,000,000                 |                        |                        |
| Financial assets at fair value through profit or loss (Note 6)  | <b>4,509,100</b>               | <b>₱4,509,100</b>    |       | 3,225,163                   | <b>₱3,225,163</b>      |                        |
| Trade receivables (Notes 7 and 20)  | <b>742,770,393</b>             | <b>4,281,272,479</b> |       | 811,048,151                 | <b>3,472,639,844</b>   |                        |
| Other receivables (Notes 7 and 20)  | <b>54,623,097</b>              |                      |       | 52,041,067                  |                        |                        |
| Prepayments   | <b>9,466,788</b>               |                      |       | 7,186,335                   |                        |                        |
| Other current assets (Note 12)  | <b>8,960,245</b>               |                      |       | –                           |                        |                        |
| <b>Total Current Assets</b>   | <b>10,189,494,914</b>          |                      |       | <b>10,530,872,434</b>       |                        |                        |
| <b>Noncurrent Assets</b>  |                                |                      |       |                             |                        |                        |
| Long-term time deposit (Note 4)   | <b>200,000,000</b>             |                      |       | 200,000,000                 |                        |                        |
| Investment securities at amortized cost (Note 8)  | <b>200,656,508</b>             |                      |       | 201,564,744                 |                        |                        |
| Property and equipment (Note 9)   | <b>92,043,903</b>              |                      |       | 76,030,681                  |                        |                        |
| Investment property (Note 10)   | <b>15,977,634</b>              |                      |       | 16,634,249                  |                        |                        |
| Intangibles (Note 11)   | <b>23,260,820</b>              |                      |       | 20,090,176                  |                        |                        |
| Deferred tax assets (Note 19)   | <b>264,912</b>                 |                      |       | –                           |                        |                        |
| Other noncurrent assets (Note 12)   | <b>72,470,940</b>              |                      |       | 73,418,798                  |                        |                        |
| <b>Total Noncurrent Assets</b>  | <b>604,674,717</b>             |                      |       | <b>587,738,648</b>          |                        |                        |
| <b>TOTAL ASSETS</b>   | <b>₱10,794,169,631</b>         |                      |       | <b>₱11,118,611,082</b>      |                        |                        |
| Securities in box, in Philippine Depository and Trust Corporation<br>and Hong Kong Securities Clearing Company, Limited |                                |                      |       |                             | <b>₱68,192,199,712</b> | <b>₱64,836,014,077</b> |

(Forward)

|   | September 30, 2019 (Unaudited) |                        |                        | December 31, 2018 (Audited) |                        |                        |
|---|--------------------------------|------------------------|------------------------|-----------------------------|------------------------|------------------------|
|   | Money Balance                  | Security Valuation     |                        | Money Balance               | Security Valuation     |                        |
|   |                                | Long                   | Short                  |                             | Long                   | Short                  |
| <b>LIABILITIES AND EQUITY</b>                               |                                |                        |                        |                             |                        |                        |
| <b>Current Liabilities</b>                                  |                                |                        |                        |                             |                        |                        |
| Trade payables (Notes 13 and 20)                            | ₱8,913,602,529                 | ₱63,906,418,133        |                        | ₱9,254,855,350              | ₱61,360,149,070        |                        |
| Other current liabilities (Note 14)                         | 46,332,357                     |                        |                        | 107,152,667                 |                        |                        |
| Income tax payable  | 23,325,347                     |                        |                        | 18,775,269                  |                        |                        |
| <b>Total Current Liabilities</b>                            | <b>8,983,260,233</b>           |                        |                        | <b>9,380,783,286</b>        |                        |                        |
| <b>Noncurrent Liabilities</b>                               |                                |                        |                        |                             |                        |                        |
| Retirement obligation (Notes 18 and 20)                     | 42,945,228                     |                        |                        | 42,945,228                  |                        |                        |
| Deferred tax liabilities (Note 19)                          | –                              |                        |                        | 1,312,743                   |                        |                        |
| <b>Total Noncurrent Liabilities</b>                         | <b>42,945,228</b>              |                        |                        | <b>44,257,971</b>           |                        |                        |
| <b>Total Liabilities</b>                                    | <b>9,026,205,461</b>           |                        |                        | <b>9,425,041,257</b>        |                        |                        |
| <b>Equity</b>   |                                |                        |                        |                             |                        |                        |
| Equity attributable to equity holders of the Parent Company |                                |                        |                        |                             |                        |                        |
| Capital stock (Note 15)                                     | 476,000,000                    |                        |                        | 476,000,000                 |                        |                        |
| Capital in excess of par value                              | 53,219,024                     |                        |                        | 53,219,024                  |                        |                        |
| Accumulated translation adjustment                          | 18,529,155                     |                        |                        | 21,881,155                  |                        |                        |
| Loss on remeasurement of retirement obligation (Note 18)    | (15,806,586)                   |                        |                        | (15,806,586)                |                        |                        |
| Retained earnings:  |                                |                        |                        |                             |                        |                        |
| Appropriated  | 332,507,131                    |                        |                        | 276,503,775                 |                        |                        |
| Unappropriated (Note 15)                                    | 881,215,506                    |                        |                        | 881,772,457                 |                        |                        |
|   | <b>1,745,664,230</b>           |                        |                        | <b>1,693,569,825</b>        |                        |                        |
| Equity attributable to non-controlling interests            | 22,299,940                     |                        |                        | –                           |                        |                        |
| <b>Total Equity</b>   | <b>1,767,964,170</b>           |                        |                        | <b>1,693,569,825</b>        |                        |                        |
| <b>TOTAL LIABILITIES AND EQUITY</b>                         | <b>₱10,794,169,631</b>         | <b>₱68,192,199,712</b> | <b>₱68,192,199,712</b> | <b>₱11,118,611,082</b>      | <b>₱64,836,014,077</b> | <b>₱64,836,014,077</b> |

See accompanying Notes to Consolidated Financial Statements.

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

|   | For the Nine Months Ended<br>September 30 |              | For the Quarter Ended<br>September 30 |              |
|---|---|--------------|---------------------------------------|--------------|
|   | 2019                                      | 2018         | 2019                                  | 2018         |
| <b>REVENUES</b> (Note 16)                                   |   |              |                                       |              |
| Commissions (Note 20)                                       | <b>P449,800,729</b>                       | P551,559,451 | <b>P155,256,874</b>                   | P146,875,420 |
| Others:   |   |              |                                       |              |
| Interest income (Notes 4, 5, 7, 8 and 20)                   | <b>433,693,134</b>                        | 293,617,169  | <b>126,207,333</b>                    | 102,880,092  |
| Trading gains - net (Note 6)                                | <b>401,284</b>                            | 12,492,121   | <b>281,204</b>                        | 1,234,765    |
| Others (Notes 6 and 9)                                      | <b>14,361,610</b>                         | 13,076,004   | <b>4,996,614</b>                      | 4,479,435    |
|   | <b>898,256,757</b>                        | 870,744,745  | <b>286,742,025</b>                    | 255,469,712  |
| <b>COST OF SERVICES</b>                                     |   |              |                                       |              |
| Personnel costs (Notes 17, 18 and 20)                       | <b>51,648,507</b>                         | 51,177,713   | <b>14,821,720</b>                     | 14,842,942   |
| Commission expense (Note 20)                                | <b>35,228,651</b>                         | 47,654,253   | <b>8,190,965</b>                      | 14,301,387   |
| Stock exchange dues and fees (Note 12)                      | <b>12,056,290</b>                         | 12,913,708   | <b>4,052,114</b>                      | 1,358,264    |
| Central depository fees                                     | <b>5,425,369</b>                          | 5,097,079    | <b>1,844,596</b>                      | 1,698,358    |
| Research  | <b>2,784,345</b>                          | 1,888,955    | <b>921,332</b>                        | 632,204      |
| Others:   |   |              |                                       |              |
| Communications  | <b>24,689,668</b>                         | 25,903,935   | <b>8,290,535</b>                      | 8,320,205    |
| Depreciation (Note 9)                                       | <b>102,535</b>                            | 100,576      | <b>34,461</b>                         | 34,210       |
|   | <b>131,935,365</b>                        | 144,736,219  | <b>38,155,723</b>                     | 41,187,570   |
| <b>GROSS PROFIT</b>   | <b>766,321,392</b>                        | 726,008,526  | <b>248,586,302</b>                    | 214,282,142  |
| <b>OPERATING EXPENSES</b>                                   |   |              |                                       |              |
| Administrative expenses:                                    |   |              |                                       |              |
| Personnel costs (Notes 17, 18 and 20)                       | <b>35,857,380</b>                         | 29,672,047   | <b>10,936,507</b>                     | 8,929,700    |
| Professional fees (Note 20)                                 | <b>33,510,196</b>                         | 32,652,344   | <b>9,804,894</b>                      | 11,345,494   |
| Rentals (Note 21)   | <b>20,710,877</b>                         | 16,528,746   | <b>8,700,233</b>                      | 5,965,373    |
| Advertising and marketing                                   | <b>11,816,752</b>                         | 9,697,170    | <b>6,831,255</b>                      | 4,355,857    |
| Security and messengerial services                          | <b>5,013,606</b>                          | 4,439,520    | <b>1,615,505</b>                      | 1,446,258    |
| Taxes and licenses  | <b>5,008,576</b>                          | 4,408,147    | <b>1,959,810</b>                      | 1,455,173    |
| Power, light and water                                      | <b>4,038,281</b>                          | 4,401,441    | <b>1,392,373</b>                      | 1,402,693    |
| Repairs and maintenance                                     | <b>3,892,246</b>                          | 4,216,005    | <b>1,311,113</b>                      | 1,647,071    |
| Insurance and bonds   | <b>3,647,340</b>                          | 2,950,258    | <b>1,449,087</b>                      | 1,183,088    |
| Condominium dues  | <b>3,192,326</b>                          | 2,675,982    | <b>1,007,209</b>                      | 931,405      |
| Office supplies   | <b>2,920,375</b>                          | 2,405,593    | <b>807,115</b>                        | 641,430      |
| Communications  | <b>1,208,636</b>                          | 1,090,891    | <b>493,106</b>                        | 369,557      |
| Trainings, seminars and meetings                            | <b>1,142,591</b>                          | 1,450,773    | <b>418,832</b>                        | 285,774      |
| Membership fees and dues                                    | <b>928,964</b>                            | 1,021,791    | <b>278,312</b>                        | 342,213      |
| Directors' fees (Note 20)                                   | <b>775,000</b>                            | 682,500      | <b>200,000</b>                        | 192,500      |
| Representation and entertainment                            | <b>727,263</b>                            | 958,267      | <b>192,018</b>                        | 300,415      |
| Transportation and travel                                   | <b>590,102</b>                            | 774,078      | <b>207,961</b>                        | 169,057      |
| Bank charges  | <b>223,958</b>                            | 225,403      | <b>82,759</b>                         | 72,928       |
| Others  | <b>1,426,291</b>                          | 1,359,361    | <b>450,406</b>                        | 691,035      |
|   | <b>136,630,760</b>                        | 121,610,317  | <b>48,138,495</b>                     | 41,727,021   |
| Depreciation and amortization (Notes 9, 10 and 11)          | <b>22,899,057</b>                         | 18,912,371   | <b>8,457,439</b>                      | 6,663,352    |
| Provision for (Recovery from) credit losses (Note 7)        | <b>(320,399)</b>                          | 24,810       | <b>(742,767)</b>                      | (2,895,307)  |
|   | <b>159,209,418</b>                        | 140,547,498  | <b>55,853,167</b>                     | 45,495,066   |
| <b>INCOME BEFORE INCOME TAX</b>                             | <b>607,111,974</b>                        | 585,461,028  | <b>192,733,135</b>                    | 168,787,076  |
| <b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b><br>(Note 19) |   |              |                                       |              |
| Current   |   |              |                                       |              |
| Regular corporate income tax                                | <b>67,865,075</b>                         | 83,788,844   | <b>24,603,283</b>                     | 21,759,976   |
| Final income tax  | <b>79,541,929</b>                         | 52,134,444   | <b>22,795,968</b>                     | 18,524,131   |
| Deferred  | <b>(141,375)</b>                          | (1,265,778)  | <b>(180,491)</b>                      | (104,530)    |
|   | <b>147,265,629</b>                        | 134,657,510  | <b>47,218,760</b>                     | 40,179,577   |
| <b>NET INCOME</b>   | <b>P459,846,345</b>                       | P450,803,518 | <b>P145,514,375</b>                   | P128,607,499 |
| <b>NET INCOME ATTRIBUTABLE TO:</b>                          |   |              |                                       |              |
| Equity holders of the Parent Company                        | <b>P460,046,405</b>                       | P450,803,518 | <b>P145,714,435</b>                   | P128,607,499 |
| Non-controlling interests                                   | <b>(200,060)</b>                          | –            | <b>(200,060)</b>                      | –            |
|   | <b>P459,846,345</b>                       | P450,803,518 | <b>P145,514,375</b>                   | P128,607,499 |

See accompanying Notes to Consolidated Financial Statements.

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

|   | For the Nine Months Ended<br>September 30 |              | For the Quarter Ended<br>September 30 |              |
|---|---|--------------|---------------------------------------|--------------|
|   | 2019                                      | 2018         | 2019                                  | 2018         |
| <b>NET INCOME</b>   | <b>P459,846,345</b>                       | P450,803,518 | <b>P145,514,375</b>                   | P128,607,499 |
| <b>OTHER COMPREHENSIVE INCOME</b>                             |   |              |                                       |              |
| Item that may be reclassified subsequently to profit or loss: |   |              |                                       |              |
| Translation adjustments – net of tax                          | (3,352,000)                               | 21,768,509   | 2,184,779                             | 4,749,052    |
| <b>TOTAL COMPREHENSIVE INCOME</b>                             | <b>P456,494,345</b>                       | P472,572,027 | <b>P147,699,154</b>                   | P133,356,551 |
| <b>TOTAL COMPREHENSIVE INCOME</b>                             |   |              |                                       |              |
| <b>ATTRIBUTABLE TO:</b>                                       |   |              |                                       |              |
| Equity holders of the Parent Company                          | <b>P456,694,405</b>                       | P472,572,027 | <b>P147,899,214</b>                   | P128,607,499 |
| Non-controlling interests                                     | (200,060)                                 | –            | (200,060)                             | –            |
|   | <b>P456,494,345</b>                       | P472,572,027 | <b>P147,699,154</b>                   | P128,607,499 |
| <b>Earnings Per Share (Note 25)</b>                           |   |              |                                       |              |
| Basic and Dilluted  | <b>P0.97</b>                              | P0.95        | <b>P0.31</b>                          | P0.27        |

*See accompanying Notes to Consolidated Financial Statements.*

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

**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

**(With Comparative Figures for the Nine Months Ended September 30, 2018)**

|  | Capital Stock<br>(Note 15) | Capital<br>in Excess of<br>Par Value | Accumulated<br>Translation<br>Adjustment | Loss on<br>Remeasurement<br>of Retirement<br>Obligation | Retained Earnings         |                     | Equity<br>Attributable to<br>Non-controlling<br>Interests | Total                 |
|--|----------------------------|--------------------------------------|--|---|---------------------------|---------------------|---|-----------------------|
|  |                            |                                      |  |   | Appropriated<br>(Note 15) | Unappropriated      |   |                       |
| Balances at January 1, 2019                    | ₱476,000,000               | ₱53,219,024                          | ₱21,881,155                              | (₱15,806,586)   | ₱276,503,775              | ₱881,772,457        | ₱-  | ₱1,693,569,825        |
| Total comprehensive income (loss)              | -                          | -                                    | (3,352,000)                              | -   | -                         | 460,046,405         | (200,060)   | 456,494,345           |
| Appropriation of retained earnings (Note 15)   | -                          | -                                    | -  | -   | 56,003,356                | (56,003,356)        | -   | -                     |
| Issuance of shares – non-controlling interests | -                          | -                                    | -  | -   | -                         | -                   | 22,500,000  | 22,500,000            |
| Declaration of cash dividend (Note 15)         | -                          | -                                    | -  | -   | -                         | (404,600,000)       | -   | (404,600,000)         |
| <b>Balances at September 30, 2019</b>          | <b>₱476,000,000</b>        | <b>₱53,219,024</b>                   | <b>₱16,344,376</b>                       | <b>(₱15,806,586)</b>                                    | <b>₱332,507,131</b>       | <b>₱881,215,506</b> | <b>₱22,299,940</b>  | <b>₱1,767,964,170</b> |
| Balances at January 1, 2018                    | ₱476,000,000               | ₱53,219,024                          | ₱8,225,186                               | (₱11,741,631)   | ₱235,590,918              | ₱743,331,125        | ₱-  | ₱1,504,624,622        |
| Total comprehensive income                     | -                          | -                                    | 21,768,509                               | -   | -                         | 450,803,518         | -   | 472,572,027           |
| Appropriation of retained earnings (Note 15)   | -                          | -                                    | -  | -   | 40,912,857                | (40,912,857)        | -   | -                     |
| Declaration of cash dividend (Note 15)         | -                          | -                                    | -  | -   | -                         | (333,200,000)       | -   | (333,200,000)         |
| Balances at September 30, 2018                 | ₱476,000,000               | ₱53,219,024                          | ₱29,993,695                              | (₱11,741,631)   | ₱276,503,775              | ₱820,021,786        | ₱-  | ₱1,643,996,649        |

*See accompanying Notes to Consolidated Financial Statements.*

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

|  | <b>For the Nine Months Ended September 30</b> |                 |
|--|---|-----------------|
|  | <b>2019</b>                                   | <b>2018</b>     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                  |   |                 |
| Income before income tax                                     | <b>₱607,111,974</b>                           | ₱585,461,028    |
| Adjustments for:   |   |                 |
| Interest income (Notes 4, 5, 7, 8, 16, and 20)               | <b>(433,693,134)</b>                          | (293,617,169)   |
| Depreciation and amortization (Notes 9, 10 and 11)           | <b>23,001,591</b>                             | 19,012,947      |
| Unrealized trading (gains) losses (Note 6)                   | <b>471,254</b>                                | (351,811)       |
| Provision for (Recovery from) credit losses (Note 7)         | <b>(320,399)</b>                              | 24,810          |
| Dividend Income (Note 6)                                     | <b>(26,660)</b>                               | (258,596)       |
| Gain on disposal of property and equipment (Note 9)          | <b>(8,409)</b>                                | –               |
| Contribution to the retirement fund (Note 18)                | <b>–</b>                                      | (12,719,737)    |
| Operating income before working capital changes              | <b>196,536,217</b>                            | 297,551,472     |
| Changes in operating assets and liabilities:                 |   |                 |
| Decrease (increase) in:                                      |   |                 |
| Cash in a segregated account                                 | <b>67,776,242</b>                             | (29,080,635)    |
| Short-term time deposits                                     | <b>426,000,000</b>                            | –               |
| Financial assets at FVPL                                     | <b>(1,755,191)</b>                            | (140,839)       |
| Trade receivables  | <b>61,921,799</b>                             | 505,392,449     |
| Other receivables  | <b>73,108,155</b>                             | 63,105,573      |
| Prepayments  | <b>(2,282,019)</b>                            | (3,250,484)     |
| Other assets   | <b>(12,833,114)</b>                           | (9,498,849)     |
| Decrease in:   |   |                 |
| Trade payables   | <b>(339,330,689)</b>                          | (1,414,138,461) |
| Other current liabilities                                    | <b>(60,781,917)</b>                           | (77,429,232)    |
| Net cash generated from (used in) operations                 | <b>408,359,483</b>                            | (667,489,006)   |
| Interest received  | <b>358,901,265</b>                            | 224,803,954     |
| Dividends received   | <b>26,660</b>                                 | 258,596         |
| Income taxes paid  | <b>(138,094,510)</b>                          | (128,168,494)   |
| Net cash flows provided by (used in) operating activities    | <b>629,192,898</b>                            | (570,594,950)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                  |   |                 |
| Acquisitions of property and equipment (Note 9)              | <b>(35,993,387)</b>                           | (19,017,150)    |
| Acquisitions of software and licenses (Note 11)              | <b>(5,538,178)</b>                            | (6,737,950)     |
| Proceeds from disposal of property and equipment (Note 9)    | <b>8,482</b>                                  | –               |
| Net cash flows used in investing activities                  | <b>(41,523,083)</b>                           | (25,755,100)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                  |   |                 |
| Cash dividends declared and paid (Note 14)                   | <b>(404,600,000)</b>                          | (333,200,000)   |
| Proceeds from issuance of shares – non-controlling interests | <b>22,500,000</b>                             | –               |
| Net cash flows used in investing activities                  | <b>(382,100,000)</b>                          | (333,200,000)   |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>  | <b>205,569,815</b>                            | (929,550,050)   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>      | <b>8,897,583,382</b>                          | 10,015,930,327  |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)</b>   | <b>₱9,103,153,197</b>                         | ₱9,086,380,277  |

*See accompanying Notes to Consolidated Financial Statements.*

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

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## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **1. Corporate Information**

COL Financial Group, Inc. (the Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) on August 16, 1999, with a corporate term of 50 years, primarily to engage in the business of broker of securities and to provide stockbrokerage services through innovative internet technology. COL Securities (HK) Limited (COLHK or the Subsidiary), a wholly-owned foreign subsidiary, is domiciled and incorporated in Hong Kong (HK), primarily to act as a 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, HK.

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 exchange 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 exchange trading right registered in the name of Mark Securities Corporation and the designation of Mr. Conrado F. Bate as its Nominee Trading Participant (Note 11).

The Parent Company became a clearing member of the Securities Clearing Corporation of the Philippines (SCCP) and started operating its own seat in the PSE on February 16, 2009.

In 2015, the Parent Company was registered and authorized by the SEC to distribute various mutual funds issued by the top six (6) fund providers in the Philippines.

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

#### Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) which have been measured at fair value. The Group's consolidated financial statements are presented in Philippine peso (₱), which is the presentation currency under 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 when otherwise indicated.

#### Basis of Consolidation

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



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

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

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

#### Non-Controlling Interest

Non-controlling interest represents the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company and are presented in the consolidated statements of income, consolidated statements of comprehensive income, and within equity in the consolidated statements of financial position, separately from equity attributable to the Parent Company.

#### Changes in Accounting Policies and Disclosures

The Group applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2019. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*
- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Additionally, the Group is currently assessing the impact of adopting the following:

- PFRS 16, *Leases*

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

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

#### *Effective beginning on or after January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

#### *Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

#### *Deferred effectivity*

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

### Summary of Significant Accounting Policies

#### Foreign Currency Translation

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

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

#### Current versus Non-current Classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

Net deferred tax asset (liabilities) are classified as non-current.

#### Cash and Cash Equivalents, Short-term Time Deposits and Long-term Time Deposit

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. Bank placements and investments with original maturities of more than three (3) months but less than one year are classified as short-term time deposit while investments with original maturities of more than one year are classified as long-term time deposit.

#### 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.

The asset is recognized to the extent that COLHK bears the risks and rewards related to the clients' monies deposited in the bank. Similarly, the accompanying liability is recognized to the extent that COLHK has the obligation to deliver cash to its customers upon withdrawal and is liable for any loss or misappropriation of clients' monies.

#### 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.

#### *Financial Instruments at FVPL*

Financial assets and financial liabilities at FVPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in ‘Trading gains (losses) - 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.

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

Financial assets are measured at FVPL unless these are measured at fair value through OCI (FVOCI) or at amortized cost. Financial liabilities are classified as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group’s business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. As a second step of its classification process, the Group assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test also known as “solely payment of principal and interest” (SPPI) test.

#### *Investment securities at FVOCI*

Investment securities at FVOCI include debt and equity securities. After initial measurement, investment securities at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of investment securities at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the consolidated statement of comprehensive income as ‘Change in net unrealized loss on investment securities at FVOCI’.

Debt securities at FVOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVOCI, as well as the impact of restatement on foreign currency-denominated debt securities at FVOCI, is reported in the statement of income. Interest earned on holding debt securities at debt securities at FVOCI are reported as ‘Interest income’ using the effective interest rate (EIR) method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized as ‘Trading and securities gain (loss) - net’ in the consolidated statement of income. The expected credit loss (ECL) arising from impairment of such investments are recognized in OCI with a corresponding charge to ‘Provision for credit losses’ in the consolidated statement of income.

Equity securities designated at FVOCI are those that the Group made an irrevocable election to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the statement of income as ‘Dividends’ when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the consolidated statement of comprehensive income is reclassified to ‘Surplus’ or any other appropriate equity account upon disposal. Equity securities at FVOCI are not subject to impairment assessment.

The Group had no investment securities at FVOCI as at September 30, 2019 and December 31, 2018.

#### *Financial assets at amortized cost*

Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. This accounting policy mainly relates to the consolidated statement of financial position captions 'Cash and cash equivalents', 'Cash in a segregated account', 'Short-term time deposits', 'Trade receivables', 'Other receivables', 'Long-term time deposit', 'Investment securities at amortized cost', 'Deposit and refundable contributions to Clearing and Trade Guarantee Fund (CTGF)' and refundable deposits under 'Other noncurrent assets', which arise primarily from service revenues and other types of receivables.

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the EIR method, 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 statement of income when these investments are derecognized or impaired, as well as through the amortization process. The ECL are recognized in the statement of income under 'Provision for credit losses'. The effects of revaluation on foreign currency-denominated investments are recognized in the consolidated statement of income.

#### *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', 'Short-term time deposits', 'Trade receivables', 'Other receivables', 'Long-term time deposit', 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 effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the consolidated statement of income. The losses arising from impairment are recognized in 'Provision for credit losses' in the consolidated statement of income.

#### *Other Financial Liabilities*

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

This accounting policy applies primarily to the consolidated statement of financial position captions 'Trade payables' and 'Other current liabilities' and other obligations that meet the above definition (other than the Group's statutory liabilities).

### Fair Value Measurement

The Group measures financial instruments, such as financial assets at FVPL, at fair value at each end of the reporting period. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 24.

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

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

The principal or the most advantageous market must be accessible 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.

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

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

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

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

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

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

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

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

### Trade Receivables and Payables

Trade receivables from customers, which include margin accounts, and payable to clearing house and other brokers arise from securities purchased (in a regular way transaction) that have been contracted for but not yet delivered and settled at the end of the reporting period. Payable to customers and receivable from clearing house and other brokers arise from securities sold (in a regular way

transaction) that have been contracted for but not yet delivered and settled at the end of the reporting period. Refer to the accounting policy for 'Loans and receivables' and 'Other financial liabilities' for recognition and measurement. The related security valuation shows all positions as of clearance date.

### Derecognition of Financial Instruments

#### *Financial Assets*

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

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

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

#### *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 recognises an ECL for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Group calculates ECL either on an individual or a collective basis. The Group performs collective impairment by grouping exposures into smaller homogeneous portfolios based on a combination of borrower and account characteristics. Accounts with similar risk attributes (i.e. facility, security, credit rating, months-on-books, utilization and collateral type, etc.) are pooled together for calculation provisions based on the ECL models.

The Group assesses on a forward-looking basis the ECL associated with its debt instrument asset carried at amortized cost and the exposure arising from unutilized margin trading facility.

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

A broad range of forward-looking factors are considered as economic inputs, such as growth of the gross domestic product, inflation rates, unemployment rates, interest rates and PSEi statistical indicators.

Generally, the Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Treasury exposures are considered in default upon occurrence of a credit event such as but not limited to bankruptcy of counterparty, restructuring, failure to pay on an agreed settlement date, or request for moratorium.

#### Offsetting of Financial Assets and Liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

#### Prepayments and Other Assets

The Group's prepayments are composed of prepaid insurance, prepaid taxes, prepaid rent and other prepayments. Other current assets are composed of receivable from the Bureau of Internal Revenue (BIR), creditable withholding tax (CWT) and input value-added tax (VAT). Other noncurrent assets are composed of deposit and refundable contributions to CTGF, refundable deposits, receivable from BIR, deferred input VAT and intangible assets under development. These assets are classified as current when it is probable to be realized within one (1) year from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

#### Property and Equipment

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

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

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



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

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

#### Investment Property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation (for depreciable investment properties) and impairment in value.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to operations in the year in which the costs are incurred. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties based on appraisal reports but not to exceed 50 years for buildings and condominium units.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

#### Intangibles

##### *Exchange Trading Rights*

Exchange trading rights are carried at cost less any allowance for impairment losses and are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying values may be impaired. The exchange trading rights are deemed to have indefinite useful lives as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. The assessment of indefinite life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. The Parent Company does not intend to sell its exchange trading right in the near future. COLHK's exchange trading right is a nontransferable right.

### *Software Costs*

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

### 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 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.

Intangibles with indefinite useful lives are tested for impairment annually at end of the reporting period either individually or at the cash generating unit level, as appropriate.

Intangibles with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. A previously recognized impairment loss is reversed by a credit to current operations to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

### Leases

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

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

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

### *Group as a Lessee*

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

### Provisions

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

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

#### Capital Stock and Capital Paid-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 retrospective effect of changes in accounting policy as may be required by the transitional provisions of the new or revised accounting policy.

Unappropriated retained earnings represent the accumulated profits and gains realized out of the normal and continuous operations of the Group after deducting therefrom distributions to stockholders and transfers to capital stocks or other accounts, and which is:

- Not appropriated by its BOD for corporate expansion projects or programs;
- Not covered by a restriction for dividend declaration under a loan agreement;
- Not required under special circumstances obtaining in the Group such as when there is a need for a special reserve for probable contingencies.

Appropriated retained earnings represent that portion which has been restricted and, therefore, not available for dividend declaration.

#### Revenue Recognition

Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Group has concluded that it is the principal in all of its revenue arrangements except for its brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized:

#### *Commissions*

Commissions are recognized as income upon confirmation of trade deals. These are computed for every trade transaction based on a flat rate or a percentage of the amount of trading transaction, whichever is higher.

## Revenues outside the scope of PFRS 15

### *Interest*

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as investment securities at FVOCI, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument, including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'.

Under PFRS 9, when a financial asset becomes credit-impaired, the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

### *Trading gains (losses) - net*

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities at FVPL and gains and losses from disposal of investment securities at FVPL, debt securities at FVOCI/AFS and HTM investments.

Unrealized trading gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of prior period's unrealized gains and losses for financial instruments which were realized in the reporting period. Realized gains and losses on disposals of financial instruments classified as at FVPL are calculated using the first-in, first-out (FIFO) method. They represent the difference between an instrument's initial carrying amount and disposal amount.

### *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.

## Costs and Expenses

Costs 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 of services such as commissions, direct personnel costs, stock exchange dues and fees, central depository fees, research costs, and communication costs are recognized when the related revenue is earned or when the service is rendered. The majority of operating expenses incurred by the Group such as indirect personnel costs, professional fees, computer services, and other operating expenses are overhead in nature and are recognized with regularity as the Group continues its operations.

## Retirement Costs

### *Defined Benefit Plan*

The Parent Company has a noncontributory defined benefit retirement plan.

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

#### *Defined Contribution Plan*

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

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

### Earnings per Share (EPS)

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

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

Outstanding SOP shares 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.

Potential ordinary shares are weighted for the period they are outstanding. Potential ordinary shares that are converted into ordinary shares during the period are included in the calculation of diluted EPS from the beginning of the period to the date of conversion; from the date of conversion, the resulting ordinary shares are included in both basic and diluted EPS.

### Taxes

#### *Current Income Tax*

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

#### *Deferred Income Tax*

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

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

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

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

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

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

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

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

#### 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 End of the Reporting Period

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

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

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

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

#### 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.

#### *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 exchange trading rights is based on the higher of fair value less costs to sell and VIU. The assumptions used in the calculation of the VIU are sensitive to estimates of future cash flows from the cash-generating unit, discount rate and revenue growth rate used to project the cash flows.

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 September 30, 2019 and December 31, 2018, the carrying values of intangibles are disclosed in Note 11.

*Estimating Recoverability of Deferred Income Tax Assets*

The Group reviews the carrying amounts of deferred income tax assets at each end of the reporting period and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax assets to be utilized. The deferred income tax assets (liabilities) as at September 30, 2019 and December 31, 2018 are disclosed in Note 19.

*Determining Retirement Obligation*

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

All assumptions are reviewed at each end of the reporting period.

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

Further details about the assumptions used are provided in Note 18.

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**4. Cash and Cash Equivalents, Short and Long-term Time Deposits**

*Cash and Cash Equivalents*

|                             | <b>September 30, 2019</b> | December 31, 2018 |
|-----------------------------|---------------------------|-------------------|
|                             | <b>(Unaudited)</b>        | (Audited)         |
| Cash on hand and in banks   | <b>₱484,140,111</b>       | ₱422,340,408      |
| Short-term cash investments | <b>8,619,013,086</b>      | 8,475,242,974     |
|                             | <b>₱9,103,153,197</b>     | ₱8,897,583,382    |

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 2.44% to 7.00% per annum during the nine-month period in 2019 and 1.70% to 6.90% per annum during the twelve-month period in 2018. The Parent Company has United States dollar (US\$)-denominated cash in banks amounting to US\$1,077 and US\$1,061 as at September 30, 2019 and December 31, 2018, respectively, while COLHK has US\$-denominated cash in banks amounting to US\$49,489 and US\$209,575 as at September 30, 2019 and December 31, 2018, respectively.

In compliance with SRC Rule 49.2 covering customer protection and custody of securities, the Parent Company maintains special reserve bank accounts for the exclusive benefit of its customers amounting to ₱8,527,624,459 and ₱8,541,305,763 as at September 30, 2019 and December 31, 2018, respectively. The Parent Company's reserve requirement is determined based on the SEC's prescribed computations. As at September 30, 2019 and December 31, 2018, the Parent Company's reserve accounts are adequate to cover its reserve requirements.



#### *Short-term Time Deposits*

This account pertains to the Parent Company's time deposits in local banks that have original maturities of more than three (3) months but less than a year. Short-term time deposits bear annual interest rates of 5.00% per annum during the nine-month period in 2019 and ranging from 4.45% to 7.00% per annum during the twelve-month period in 2018.

#### *Long-term Time Deposit*

This account pertains to the Parent Company's time deposit in a local bank placed in 2016 with interest at 4.00% per annum and maturing on June 24, 2021.

Interest income of the Group from cash and cash equivalents, cash in segregated account, short-term time deposits and long-term time deposits amounted to ₱391,174,129 and ₱254,296,582 in September 30, 2019 and 2018, respectively (Note 16).

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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 (Note 13). The Group is not allowed to use the clients' monies to settle its own obligations.

As of September 30, 2019 and December 31, 2018, cash in a segregated account for COLHK amounted to ₱66,012,094 and ₱133,788,336, respectively.

Interest income from cash in segregated account is included under 'Interest income – banks' (Notes 4 and 16).

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### 6. Financial Assets at FVPL

Financial assets at FVPL pertain to investments in mutual funds and shares of stock of companies listed in the PSE. As at September 30, 2019 and December 31, 2018, financial assets at FVPL amounted to ₱4,509,100 and ₱3,225,163, respectively.

The Group's net trading gains follow:

|   | <b>September 30, 2019</b> | September 30, 2018 |
|---|---------------------------|--------------------|
|   | <b>(Unaudited)</b>        | (Unaudited)        |
| Realized trading gains (losses) from sale | <b>₱872,538</b>           | ₱12,140,310        |
| Unrealized trading gains (losses)         | <b>(471,254)</b>          | 351,811            |
|   | <b>₱401,284</b>           | ₱12,492,121        |

Dividend income included under other revenues amounted to ₱26,660 and ₱258,596 in September 30, 2019 and 2018, respectively.

## 7. Trade Receivables and Other Receivables

### Trade Receivables

|   | September 30, 2019<br>(Unaudited) | December 31, 2018<br>(Audited) |
|---|-----------------------------------|--------------------------------|
| Customers (Note 20)   | P681,986,185                      | P725,741,713                   |
| Clearing house  | 32,445,910                        | –                              |
| Other broker  | 28,034,865                        | 85,396,559                     |
| Trail fee receivables   | 1,461,269                         | 1,388,114                      |
|   | <b>743,928,229</b>                | <b>812,526,386</b>             |
| Less allowance for credit losses on trade receivables<br>from customers | <b>1,157,836</b>                  | <b>1,478,235</b>               |
|   | <b>P742,770,393</b>               | <b>P811,048,151</b>            |

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

|  | September 30, 2019<br>(Unaudited) |                       | December 31, 2018<br>(Audited) |                       |
|--|-----------------------------------|-----------------------|--------------------------------|-----------------------|
|  | Money Balance                     | Security Valuation    | Money Balance                  | Security Valuation    |
| Cash and fully secured accounts:                                 |                                   |                       |                                |                       |
| More than 250%   | P302,400,979                      | P3,559,535,688        | P363,647,312                   | P2,927,387,828        |
| Between 200% and 250%  | 176,589,010                       | 399,698,312           | 144,838,172                    | 310,736,355           |
| Between 150% and 200%  | 147,822,129                       | 264,618,606           | 17,374,905                     | 32,383,907            |
| Between 100% and 150%  | 25,147,920                        | 28,661,792            | 99,524,027                     | 104,578,764           |
| Less than 100%   | 30,025,862                        | 28,758,081            | 100,357,086                    | 97,552,990            |
| Unsecured accounts   | 285                               | –                     | 211                            | –                     |
|  | <b>681,986,185</b>                | <b>4,281,272,479</b>  | <b>725,741,713</b>             | <b>3,472,639,844</b>  |
| Less allowance for credit losses on<br>receivable from customers | <b>1,157,836</b>                  | –                     | <b>1,478,235</b>               | –                     |
|  | <b>P680,828,349</b>               | <b>P3,658,917,674</b> | <b>P724,263,478</b>            | <b>P3,472,639,844</b> |

As at September 30, 2019 and December 31, 2018, the Parent Company offered a credit line facility amounting to P5,471,768,000 and P5,381,368,000, respectively, to its customers who qualified for margin account.

Interest income from customers amounted to P37,052,240 and P33,821,661 in September 30, 2019 and 2018, respectively (Note 16).

Trade receivables from margin customers have no specific credit terms but customers are required to maintain the value of their collateral within a specific level. Once the value of the collateral falls down this level, customers may either deposit additional collateral or sell stock to cover their account balance. Meanwhile, receivables from post-paid customers are required to be settled on two (2) trading days' term for COLHK and three (3) trading days' term for the Parent Company. The receivable balances become demandable upon failure of the customer to duly comply with these requirements. As at September 30, 2019 and December 31, 2018, P651,960,038 and P625,384,416, respectively, of the total trade receivables from customers are fully covered by collateral.

Trade receivables from clearing house as at September 30, 2019 were fully collected subsequently in October 2019. These are noninterest-bearing and are collected on two (2) trading days' term and three (3) trading days' term following the settlement convention of HK and Philippines clearing houses, respectively.

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

Trail fee receivables pertain to the amount due from the mutual fund managers representing the trail fee earned by the Parent Company for selling mutual funds to its customers. The fee is computed daily and collected on a monthly basis.

#### *Other Receivables*

|  | <b>September 30, 2019</b><br><b>(Unaudited)</b> | December 31, 2018<br><b>(Audited)</b> |
|--|---|---------------------------------------|
| Accrued interest                             | <b>₱40,706,160</b>                              | ₱44,547,984                           |
| Mutual fund redemption proceeds              | <b>3,762,730</b>                                | 4,761,737                             |
| Advances to officers and employees (Note 20) | <b>1,438,879</b>                                | 918,030                               |
| Others                                       | <b>8,715,328</b>                                | 1,813,316                             |
|  | <b>₱54,623,097</b>                              | ₱52,041,067                           |

#### *Allowance for Credit Losses on Trade Receivables from Customers*

|   | <b>September 30, 2019</b><br><b>(Unaudited)</b> | December 31, 2018<br><b>(Audited)</b> |
|---|---|---------------------------------------|
| Balances at beginning of the period         | <b>₱1,478,235</b>                               | ₱1,181,292                            |
| Provision for (Recovery from) credit losses | <b>(320,399)</b>                                | 296,943                               |
| Balances at end of the period               | <b>₱1,157,836</b>                               | ₱1,478,235                            |

### **8. Investment Securities at Amortized Cost**

This account consists of an investment in a government security with a face value amounting to ₱200,000,000, purchased on September 25, 2017 at a premium of ₱3,041,886. The investment earns a coupon rate of 4.25% per annum, payable on a quarterly basis and will mature on April 11, 2020, with an EIR of 3.62%.

As at September 30, 2019 and December 31, 2018, the carrying amount of the investment security at amortized cost amounted to ₱200,656,508 and ₱201,564,744, respectively.

The Group's investment in government security is considered of low credit risk since this is rated as Baa2 by Moody's Investors Service, Inc..

Interest income earned from the investment amounted to ₱5,466,765 and ₱5,498,926 in September 30, 2019 and 2018, respectively (Note 16).

### **9. Property and Equipment**

|                                 | <b>September 30, 2019 (Unaudited)</b>                  |  |                                   |                                     |                     |
|---------------------------------|--|--|-----------------------------------|-------------------------------------|---------------------|
|                                 | <b>Online Trading<br/>Equipment and<br/>Facilities</b> | <b>Furniture,<br/>Fixtures and<br/>Equipment</b> | <b>Leasehold<br/>Improvements</b> | <b>Construction<br/>in Progress</b> | <b>Total</b>        |
| <b>Cost</b>                     |  |  |                                   |                                     |                     |
| At beginning of year            | <b>₱156,266,185</b>                                    | <b>₱28,994,359</b>                               | <b>₱39,874,672</b>                | <b>₱3,438,428</b>                   | <b>₱228,573,644</b> |
| Additions                       | <b>8,780,676</b>                                       | <b>5,552,421</b>                                 | <b>24,686,100</b>                 | -                                   | <b>39,019,197</b>   |
| Disposals                       | <b>(2,463,611)</b>                                     | <b>(635,369)</b>                                 | -                                 | -                                   | <b>(3,098,980)</b>  |
| Reclassifications               | -  | -  | -                                 | <b>(3,025,810)</b>                  | <b>(3,025,810)</b>  |
| Translation adjustments         | <b>(115,372)</b>                                       | <b>(45,856)</b>                                  | <b>(13,854)</b>                   | -                                   | <b>(175,082)</b>    |
| At end of year                  | <b>162,467,878</b>                                     | <b>33,865,555</b>                                | <b>64,546,918</b>                 | <b>412,618</b>                      | <b>261,292,969</b>  |
| <b>Accumulated depreciation</b> |  |  |                                   |                                     |                     |
| At beginning of year            | <b>99,538,013</b>                                      | <b>24,002,484</b>                                | <b>29,002,466</b>                 | -                                   | <b>152,542,963</b>  |
| Depreciation                    | <b>15,519,710</b>                                      | <b>1,665,807</b>                                 | <b>2,791,926</b>                  | -                                   | <b>19,977,443</b>   |
| Disposals                       | <b>(2,463,568)</b>                                     | <b>(635,339)</b>                                 | -                                 | -                                   | <b>(3,098,907)</b>  |
| Translation adjustments         | <b>(115,372)</b>                                       | <b>(43,207)</b>                                  | <b>(13,854)</b>                   | -                                   | <b>(172,433)</b>    |
| At end of year                  | <b>112,478,783</b>                                     | <b>24,989,745</b>                                | <b>31,780,538</b>                 | -                                   | <b>169,249,066</b>  |
| <b>Net book value</b>           | <b>₱49,989,095</b>                                     | <b>₱8,875,810</b>                                | <b>₱32,766,380</b>                | <b>₱412,618</b>                     | <b>₱92,043,903</b>  |

| December 31, 2018 (Audited)     |   |   |                           |                     |                             |              |
|---------------------------------|---|---|---------------------------|---------------------|-----------------------------|--------------|
|                                 | Online Trading<br>Equipment and<br>Facilities | Furniture,<br>Fixtures and<br>Equipment | Leasehold<br>Improvements | Condominium<br>Unit | Construction<br>in Progress | Total        |
| <b>Cost</b>                     |   |   |                           |                     |                             |              |
| At beginning of year            | ₱140,869,282                                  | ₱25,530,266                             | ₱31,986,657               | ₱17,509,736         | ₱–                          | ₱215,895,941 |
| Additions                       | 14,984,280                                    | 3,300,090                               | 7,838,465                 | –                   | 3,438,428                   | 29,561,263   |
| Reclassification (Note 10)      | –   | –                                       | –                         | (17,509,736)        | –                           | (17,509,736) |
| Translation adjustments         | 412,623                                       | 164,003                                 | 49,550                    | –                   | –                           | 626,176      |
| At end of year                  | 156,266,185                                   | 28,994,359                              | 39,874,672                | –                   | 3,438,428                   | 228,573,644  |
| <b>Accumulated depreciation</b> |   |   |                           |                     |                             |              |
| At beginning of year            | 79,950,687                                    | 22,423,830                              | 27,525,256                | –                   | –                           | 129,899,773  |
| Depreciation                    | 19,174,703                                    | 1,430,999                               | 1,427,660                 | –                   | –                           | 22,033,362   |
| Translation adjustments         | 412,623                                       | 147,655                                 | 49,550                    | –                   | –                           | 609,828      |
| At end of year                  | 99,538,013                                    | 24,002,484                              | 29,002,466                | –                   | –                           | 152,542,963  |
| Net book value                  | ₱56,728,172                                   | ₱4,991,875                              | ₱10,872,206               | ₱–                  | ₱3,438,428                  | ₱76,030,681  |

As at September 30, 2019 and December 31, 2018, the cost of the Group's fully depreciated property and equipment still in use amounted to ₱110,852,903 and ₱98,532,588, respectively. The gain on disposal of property and equipment amounting to ₱8,409 during the nine-month period in 2019 was included in 'Other revenues'.

The depreciation and amortization during the reporting period were distributed as follows:

|                    | September 30, 2019<br>(Unaudited) | September 30, 2018<br>(Unaudited) |
|--------------------|-----------------------------------|-----------------------------------|
| Cost of services   | <b>₱102,535</b>                   | ₱100,576                          |
| Operating expenses | <b>19,874,908</b>                 | 15,958,772                        |
|                    | <b>₱19,977,443</b>                | ₱16,059,348                       |

## 10. Investment Property

This account pertains to an office space purchased by the Parent Company with an initial cost of ₱17,509,736 and previously classified as property and equipment. Movements in the investment property account follow:

|                                 | September 30, 2019<br>(Unaudited) | December 31, 2018<br>(Audited) |
|---------------------------------|-----------------------------------|--------------------------------|
| <b>Cost</b>                     |                                   |                                |
| At beginning of the period      | <b>₱17,509,736</b>                | ₱–                             |
| Additions                       | –                                 | 17,509,736                     |
| At end of the period            | <b>17,509,736</b>                 | 17,509,736                     |
| <b>Accumulated depreciation</b> |                                   |                                |
| At beginning of year            | <b>875,487</b>                    | –                              |
| Depreciation                    | <b>656,615</b>                    | 875,487                        |
| At end of the period            | <b>1,532,102</b>                  | 875,487                        |
| <b>Net book value</b>           | <b>₱15,977,634</b>                | ₱16,634,249                    |

The office space is being held for capital appreciation. As at September 30, 2019 and December 31, 2018, the fair value of the investment property amounted to ₱39,567,000.

### Collaterals

As at September 30, 2019 and December 31, 2018, the Group's investment property is not pledged as collateral.

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## 11. Intangibles

### Stock Exchange Trading Right

#### *Philippine Operations*

As at September 30, 2019 and December 31, 2018, the fair value less costs to sell of the exchange trading right amounted to ₱8,500,000, representing the transacted price of the exchange trading right of the most recent sale approved by the PSE on December 14, 2011.

As at September 30, 2019 and December 31, 2018, the book value of the Group's exchange trading right amounted to ₱5,000,000.

### Software Costs and Licenses

Movements in the software costs and licenses account follow:

|                                 | September 30, 2019<br>(Unaudited) | December 31, 2018<br>(Audited) |
|---------------------------------|-----------------------------------|--------------------------------|
| <b>Cost</b>                     |                                   |                                |
| At beginning of the period      | <b>₱45,369,750</b>                | ₱46,222,625                    |
| Additions                       | <b>5,538,178</b>                  | 1,723,031                      |
| Write-off                       | –                                 | (2,575,906)                    |
| At end of the period            | <b>50,907,928</b>                 | 45,369,750                     |
| <b>Accumulated amortization</b> |                                   |                                |
| At beginning of the period      | <b>30,279,574</b>                 | 29,816,936                     |
| Amortization                    | <b>2,367,534</b>                  | 3,038,541                      |
| Write-off                       | –                                 | (2,575,903)                    |
| At end of the period            | <b>32,647,108</b>                 | 30,279,574                     |
| <b>Net book value</b>           | <b>₱18,260,820</b>                | ₱15,090,176                    |

The amortization of software costs and licenses recorded in 'Depreciation and amortization' in the consolidated statements of income amounted to ₱2,367,534 and ₱2,953,599 in September 30, 2019 and 2018, respectively.

As of September 30, 2019 and December 31, 2018, the costs of the Group's fully amortized software still in use amounted to ₱20,906,452 and ₱19,833,325, respectively.

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## 12. Other Assets

### Other Current Assets

In prior years, the Parent Company recognized the payment to the BIR of additional income tax for the taxable year 2009 as 'Other receivables' and provided 100% allowance. On April 6, 2016, the Supreme Court issued a decision to deny the BIR's petition for review on certiorari, effectively affirming the decision of the Court of Tax Appeals and ordering the BIR to issue a tax credit certificate in favor of the Parent Company. Said decision became final and executory on September 22, 2016. On November 24, 2017, the Parent Company applied with the BIR for the issuance of a tax credit certificate (TCC). Accordingly, the Parent Company reversed the related allowance for credit losses amounting to ₱8,960,245 included in 'Other revenues' and reclassified the balance from 'Other receivables' to 'Other current assets' in 2017. In 2018, the Parent Company reclassified the balance to 'Other noncurrent assets' since there is a high probability that the amount will not be collected in 2019.

On October 2, 2019, however, the BIR issued the TCC to the Parent Company. Accordingly, the Parent Company reclassified the balance back to 'Other current assets' (Note 27).

### Other Noncurrent Assets

|                                     | September 30, 2019<br>(Unaudited) | December 31, 2018<br>(Audited) |
|-------------------------------------|-----------------------------------|--------------------------------|
| Deposit to CTGF                     | <b>₱41,143,692</b>                | ₱38,791,026                    |
| Refundable deposits:                |                                   |                                |
| Rental and utility deposits         | <b>7,689,686</b>                  | 7,226,513                      |
| Other refundable deposits           | <b>3,782,151</b>                  | 3,649,101                      |
|                                     | <b>11,471,837</b>                 | 10,875,614                     |
| Intangible assets under development | <b>11,893,988</b>                 | 6,168,367                      |
| Deferred input VAT                  | <b>7,961,423</b>                  | 8,623,546                      |
| Accounts receivable - BIR           | –                                 | 8,960,245                      |
|                                     | <b>₱72,470,940</b>                | ₱73,418,798                    |

On March 13, 2018, the SEC resolved to approve SCCP's proposed amendments to SCCP Rule 5.2, making the Clearing Members' contributions to the CTGF refundable upon cessation of their business and/or termination of their membership with SCCP, provided that all liabilities owing to SCCP at the time of termination, whether actual or contingent, shall have been satisfied or paid in full. Accordingly, the Parent Company recognized the total refundable contributions amounting to ₱41,143,692 and ₱38,791,026 as of September 30, 2019 and December 31, 2018, respectively, as 'Other noncurrent assets'.

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

### 13. Trade Payables

|                     | September 30, 2019<br>(Unaudited) | December 31, 2018<br>(Audited) |
|---------------------|-----------------------------------|--------------------------------|
| Customers (Note 19) | <b>₱8,873,804,345</b>             | ₱8,989,453,360                 |
| Clearing house      | <b>39,798,184</b>                 | 265,379,830                    |
| Dividends payable   | –                                 | 22,160                         |
|                     | <b>₱8,913,602,529</b>             | ₱9,254,855,350                 |

The Group's trade payables to customers and their security valuation follow:

|                       | September 30, 2019 (Unaudited) |                            | December 31, 2018 (Audited) |                            |
|-----------------------|--------------------------------|----------------------------|-----------------------------|----------------------------|
|                       | Money<br>Balance               | Security<br>Valuation-Long | Money<br>Balance            | Security<br>Valuation-Long |
| Payable to customers: |                                |                            |                             |                            |
| With money balances   | <b>₱8,873,804,345</b>          | <b>₱62,886,846,784</b>     | ₱8,989,453,360              | ₱60,448,272,436            |
| No money balances     | –                              | <b>1,019,571,349</b>       | –                           | 911,876,634                |
|                       | <b>₱8,873,804,345</b>          | <b>₱63,906,418,133</b>     | ₱8,989,453,360              | ₱61,360,149,070            |

Generally, trade payables to customers are noninterest-bearing and have no specific credit terms.

Payable to customers with money balances amounting to ₱84,199,543 and ₱133,701,018 as at September 30, 2019 and December 31, 2018, respectively, were payable to COLHK's clients in respect of the trust and segregated bank balances received and held for clients in the course of the conduct of regulated activities. These balances are payable on demand (see Note 5).

Trade payables to clearing house as at September 30, 2019 and December 31, 2018 were fully paid subsequently in October 2019 and January 2019, respectively. These are noninterest-bearing and are settled on two (2) trading days' term and three (3) trading days' term following the settlement convention of HK and Philippines clearing houses, respectively.

#### 14. Other Current Liabilities

|                          | September 30, 2019<br>(Unaudited) | December 31, 2018<br>(Audited) |
|--------------------------|-----------------------------------|--------------------------------|
| Accrued expenses         | P13,810,892                       | P36,643,298                    |
| Due to BIR               | 9,758,729                         | 28,273,890                     |
| Trading fees             | 2,745,001                         | 2,655,018                      |
| Accrued management bonus | –                                 | 25,626,821                     |
| Others                   | 20,017,735                        | 13,953,640                     |
|                          | <b>P46,332,357</b>                | <b>P107,152,667</b>            |

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

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

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

'Others' account consists mainly of deposits of clients which were received after the cut-off time for the processing of collections and which were credited to the clients' trading accounts on the next business day following the end of the reporting period.

#### 15. Equity

##### Capital Stock

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

|  | September 30, 2019 |                 | December 31, 2018 |            |
|--|--------------------|-----------------|-------------------|------------|
|  | Shares             | Amount          | Shares            | Amount     |
| Common stock - P1 per share  |                    |                 |                   |            |
| Authorized   | 1,000,000          | P1,000,000      | 1,000,000         | P1,000,000 |
| Issued and outstanding   |                    |                 |                   |            |
| Balances at beginning of the period                                | 476,000            | 476,000         | 476,000           | 476,000    |
| Issuance of common shares upon exercise of stock options (Note 17) | –                  | –               | –                 | –          |
| Balances at end of the period                                      | <b>476,000</b>     | <b>P476,000</b> | 476,000           | P476,000   |

All issued and outstanding shares of the Parent Company are listed with the PSE (Note 1). As at September 30, 2019 and December 31, 2018, there were 33 holders of the listed shares of the Parent Company, with a closing price of P18.60 and P16.24 per share, respectively. The history of share issuance during the last five years follows:

| Year | Issuance               | Listing Date      | Number of Shares issued |
|------|------------------------|-------------------|-------------------------|
| 2016 | Stock options exercise | July 4, 2016      | 1,000,000               |
| 2015 | Stock options exercise | July 16, 2015     | 250,000                 |
| 2015 | Stock options exercise | April 14, 2015    | 200,000                 |
| 2014 | Stock options exercise | November 25, 2014 | 200,000                 |
| 2014 | Stock options exercise | November 24, 2014 | 5,500,000               |
| 2014 | Stock options exercise | May 22, 2014      | 200,000                 |

### Retained Earnings

In compliance with SRC Rule 49.1 B, *Reserve Fund*, the Parent Company appropriates annually ten percent (10%) of its audited net income and transfers the same to appropriated retained earnings account. Minimum appropriation shall be 30.0%, 20.0% and 10.0% of profit after tax for broker dealers with unimpaired paid up capital between ₱10.0 million to ₱30.0 million, between ₱30.0 million to ₱50.0 million and more than ₱50.0 million, respectively. In the event that the Parent Company's paid-up capital is impaired, it will be required to transfer from the appropriated retained earnings to the capital account an amount equivalent to the impairment. Such amount so transferred out shall not be made available for the payment of dividend.

In 2019 and 2018, the BOD approved the appropriation of retained earnings amounting to ₱56.00 million and ₱40.91 million, respectively, in compliance with such requirement.

On March 29, 2019, the BOD declared a regular and a special dividend amounting to ₱0.21 per share held or ₱99,960,000 (476,000,000 shares multiplied by ₱0.21 cash dividend per share) and ₱0.64 per share held or ₱304,640,000 (476,000,000 shares multiplied by ₱0.64 cash dividend per share), respectively, to stockholders as of record date of April 16, 2019. These dividends were paid on May 3, 2019.

On April 13, 2018, the BOD declared a regular and a special dividend amounting to ₱0.15 per share held or ₱71,400,000 (476,000,000 shares multiplied by ₱0.15 cash dividend per share) and ₱0.55 per share held or ₱261,800,000 (476,000,000 shares multiplied by ₱0.55 cash dividend per share), respectively, to stockholders as of record date of April 27, 2018. These dividends were paid on May 10, 2018.

As of September 30, 2019 and December 31, 2018, the consolidated retained earnings includes the retained earnings of COLHK amounting to ₱152,842,513 and ₱167,658,454, respectively, which are not available for dividend declaration.

## 16. Revenues

|                                       | September 30, 2019<br>(Unaudited) | September 30, 2018<br>(Unaudited) |
|---------------------------------------|-----------------------------------|-----------------------------------|
| Revenue from contracts with customers |                                   |                                   |
| Commissions                           | <b>₱449,800,729</b>               | ₱551,559,451                      |
| Margin interest                       | <b>37,052,240</b>                 | 33,821,661                        |
| Trail fees                            | <b>13,002,283</b>                 | 10,810,889                        |
|                                       | <b>499,855,252</b>                | 596,192,001                       |
| Other revenues                        |                                   |                                   |
| Other interest income                 | <b>396,640,894</b>                | 259,795,508                       |
| Trading gains - net                   | <b>401,284</b>                    | 12,492,121                        |
| Foreign exchange gains - net          | <b>45,019</b>                     | 6,595                             |
| Others                                | <b>1,314,308</b>                  | 2,258,520                         |
|                                       | <b>₱898,256,757</b>               | ₱870,744,745                      |

Set out below is the disaggregation of the Group's revenue from contracts with customers:

|                 | September 30, 2019 (Unaudited) |                   |                     |
|-----------------|--------------------------------|-------------------|---------------------|
|                 | Philippines                    | Hong Kong         | Total               |
| Commissions     | <b>₱442,096,929</b>            | <b>₱7,703,800</b> | <b>₱449,800,729</b> |
| Margin interest | <b>37,052,240</b>              | –                 | <b>37,052,240</b>   |
| Trail fees      | <b>13,002,283</b>              | –                 | <b>13,002,283</b>   |
|                 | <b>₱492,151,452</b>            | <b>₱7,703,800</b> | <b>₱499,855,252</b> |



| September 30, 2018 (Unaudited) |                     |                    |                     |
|--------------------------------|---------------------|--------------------|---------------------|
|                                | Philippines         | Hong Kong          | Total               |
| Commissions                    | P537,414,073        | P14,145,378        | P551,559,451        |
| Margin interest                | 33,821,661          | –                  | 33,821,661          |
| Trail fees                     | 10,810,889          | –                  | 10,810,889          |
|                                | <b>P582,046,623</b> | <b>P14,145,378</b> | <b>P596,192,001</b> |

*Interest income*

|                                | <b>September 30, 2019<br/>(Unaudited)</b> | September 30, 2018<br>(Unaudited) |
|--------------------------------|---|-----------------------------------|
| Banks (Notes 4 and 5)          | <b>P391,174,129</b>                       | P254,296,582                      |
| Customers (Note 7)             | <b>37,052,240</b>                         | 33,821,661                        |
| Government securities (Note 8) | <b>5,466,765</b>                          | 5,498,926                         |
|                                | <b>P433,693,134</b>                       | P293,617,169                      |

**17. Personnel Costs**

|                    | <b>September 30, 2019<br/>(Unaudited)</b> | September 30, 2018<br>(Unaudited) |
|--------------------|---|-----------------------------------|
| Salaries and wages | <b>P78,019,819</b>                        | P72,758,073                       |
| Other benefits     | <b>9,486,068</b>                          | 8,091,687                         |
|                    | <b>P87,505,887</b>                        | P80,849,760                       |

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

The above accounts were distributed as follows:

|                    | <b>September 30, 2019<br/>(Unaudited)</b> | September 30, 2018<br>(Unaudited) |
|--------------------|---|-----------------------------------|
| Cost of services   | <b>P51,648,507</b>                        | P51,177,713                       |
| Operating expenses | <b>35,857,380</b>                         | 29,672,047                        |
|                    | <b>P87,505,887</b>                        | P80,849,760                       |

**18. Employee Benefits**

Retirement Benefits

The Parent Company has a funded, noncontributory defined benefit retirement plan covering substantially all of its regular employees. The benefits are based on a certain percentage of the final monthly basic salary for every year of credited service of the employees. The defined retirement benefit obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement as of September 30, 2019 and December 31, 2018.

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.

COLHK makes monthly contribution to a fund under the mandatory provident fund schemes ordinance enacted by the Hong Kong Government. The plan is a defined contribution. Under the plan, COLHK should contribute 5% of the monthly relevant income of all its qualified employees. The contribution recognized as expense amounted to P245,064 and P243,015 in September 30, 2019 and 2018, respectively.

## 19. Income Taxes

### Current Income Taxes

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

|                              | <b>September 30, 2019</b> | September 30, 2018 |
|------------------------------|---------------------------|--------------------|
|                              | <b>(Unaudited)</b>        | (Unaudited)        |
| Final income tax             | <b>P79,541,929</b>        | P52,134,444        |
| Regular corporate income tax | <b>67,865,075</b>         | 83,788,844         |
|                              | <b>P147,407,004</b>       | P135,923,288       |

### Deferred Income Taxes

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

|   | <b>September 30, 2019</b> | December 31, 2018 |
|---|---------------------------|-------------------|
|   | <b>(Unaudited)</b>        | (Unaudited)       |
| Retirement obligation   | <b>P8,047,889</b>         | P8,047,889        |
| Accumulated translation adjustment                              | <b>(7,941,067)</b>        | (9,377,638)       |
| Unrealized trading gains  | <b>(397,079)</b>          | (538,456)         |
| Allowance for credit losses on trade receivables from customers | <b>354,388</b>            | 354,388           |
| Unamortized past service cost                                   | <b>180,729</b>            | 180,729           |
| Unused tax losses   | <b>20,052</b>             | 20,345            |
|   | <b>P264,912</b>           | (P1,312,743)      |

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

The Group did not recognize the following deferred tax assets on the temporary differences since management believes that it is not probable that the related benefits will be realized in the future:

|   | <b>September 30, 2019</b> | December 31, 2018 |
|---|---------------------------|-------------------|
|   | <b>(Unaudited)</b>        | (Unaudited)       |
| Unused tax losses   | <b>P33,357,738</b>        | P33,357,738       |
| Retirement obligation   | <b>4,654,951</b>          | 4,654,951         |
| Allowance for credit losses on trade receivables from customers | <b>(7,037)</b>            | 89,083            |
| Unrealized foreign exchange losses                              | <b>3,790</b>              | 640               |
|   | <b>P38,009,442</b>        | P38,102,412       |

On September 30, 2019 and 2018, the Parent Company availed of the optional standard deduction (OSD) method in claiming its deductions.

## 20. 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 | Directors' fees |
|---|-------------------|------------------|--------------------|-------------------|-----------------|
| <i>Key management personnel</i>                                   |                   |                  |                    |                   |                 |
| <b>September 30, 2019</b>   | <b>₱1,416,763</b> | <b>₱232,748</b>  | <b>₱–</b>          | <b>₱–</b>         | <b>₱–</b>       |
| September 30, 2018  | 1,615,758         | 348,971          | –                  | –                 | –               |
| <i>Companies with common officers, directors and stockholders</i> |                   |                  |                    |                   |                 |
| <b>September 30, 2019</b>   | <b>6,005,886</b>  | <b>2,009,266</b> | <b>–</b>           | <b>3,686,589</b>  | <b>–</b>        |
| September 30, 2018  | 9,042,999         | 1,481,341        | –                  | 3,716,188         | –               |
| <i>Directors</i>  |                   |                  |                    |                   |                 |
| <b>September 30, 2019</b>   | <b>5,256,199</b>  | <b>653,349</b>   | <b>–</b>           | <b>–</b>          | <b>775,000</b>  |
| September 30, 2018  | 5,918,647         | 507,070          | –                  | –                 | 682,500         |

| Category  | Trade payables     | Trade receivables  | Terms   | Conditions                           |
|---|--------------------|--------------------|---|--------------------------------------|
| <i>Key management personnel</i>                                   |                    |                    |   |                                      |
| <b>September 30, 2019</b>   | <b>₱46,922,201</b> | <b>₱24,559,429</b> | 3-day; non-interest bearing/Collectible or payable on demand; interest bearing  | Secured; no impairment; no guarantee |
| December 31, 2018   | 96,330,087         | 15,483,080         |   |                                      |
| <i>Companies with common officers, directors and stockholders</i> |                    |                    |   |                                      |
| <b>September 30, 2019</b>   | <b>14,374,030</b>  | <b>23,371,438</b>  | 3-day; non-interest bearing/Collectible or payable on demand; interest bearing/Payable upon billing; non-interest bearing | Secured; no impairment; no guarantee |
| December 31, 2018   | 18,458,230         | 40,827,421         |   |                                      |
| <i>Directors</i>  |                    |                    |   |                                      |
| <b>September 30, 2019</b>   | <b>162,985,067</b> | <b>–</b>           | 3-day; non-interest bearing/Collectible or payable on demand; interest bearing  | Secured; no impairment; no guarantee |
| December 31, 2018   | 129,806,076        | –                  |   |                                      |

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

|                              | <b>September 30, 2019</b><br><b>(Unaudited)</b> | September 30, 2018<br><b>(Unaudited)</b> |
|------------------------------|---|--|
| Short-term employee benefits | <b>₱31,995,324</b>                              | ₱33,132,725                              |
| Retirement costs             | <b>89,658</b>                                   | 90,377                                   |
| Other benefits               | <b>717,261</b>                                  | 723,019                                  |
|                              | <b>₱32,802,243</b>                              | ₱33,946,121                              |

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## 21. Leases

The Group leases its office premises under separate operating lease agreements expiring on various dates and whose lease terms are negotiated every 1-3 years. Rental costs charged to operations amounted to ₱20,710,877 and ₱16,528,746 in September 30, 2019 and 2018, respectively.

The future minimum lease payments are as follows:

|   | <b>September 30, 2019</b> | September 30, 2018 |
|---|---------------------------|--------------------|
|   | <b>(Unaudited)</b>        | (Unaudited)        |
| Within one (1) year                                 | <b>₱22,526,180</b>        | ₱19,193,856        |
| After one (1) year but not more than five (5) years | <b>23,044,783</b>         | 6,334,530          |
|   | <b>₱45,570,963</b>        | ₱25,528,386        |

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## 22. Capital Management

The primary objective of the Group's capital management is to ensure that the Group maintains healthy capital ratios in order to support its business, pay existing obligations and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the period ended September 30, 2019 and December 31, 2018.

The Amended Implementing Rules and Regulations of the SRC effective February 28, 2004 include, among others, revisions in the terms and conditions for registration and subsequent renewal of license applicable to both exchange trading participants and non-exchange broker dealers as follows: (a) to allow a net capital of ₱2.5 million or 2.5% of aggregate indebtedness, whichever is higher, for broker dealers dealing only in proprietary shares and not holding securities, (b) to allow the SEC to set a different net capital requirement for those authorized to use the Risk-Based Capital Adequacy (RBCA) model, and (c) to require unimpaired paid-up capital of ₱100.0 million for broker dealers, which are either first time registrants or those acquiring existing broker dealer firms and will participate in a registered clearing agency; ₱10.0 million plus a surety bond for existing broker dealers not engaged in market making transactions; and ₱2.5 million for broker dealers dealing only in proprietary shares and not holding securities.

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

The Parent Company being a registered broker in securities is subject to the stringent rules of the SEC and other regulatory agencies with respect to the maintenance of specific levels of RBCA ratios. RBCA is a ratio that compares the broker or dealer's total measured risk to its liquid capital. As a rule, the Parent Company must maintain an RBCA ratio of at least 110% and a net liquid capital (NLC) of at least ₱5.0 million or five percent (5%) of its aggregate indebtedness, whichever is higher. Also, the Aggregated Indebtedness (AI) of every stockbroker should not exceed two thousand percent (2,000%) of its NLC. In the event that the minimum RBCA ratio of 110% or the minimum NLC is breached, the Parent Company shall immediately cease doing business as a broker and shall notify the PSE and SEC. As of September 30, 2019 and December 31, 2018, the Parent Company is compliant with the said requirement.

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

The RBCA ratio of the Parent Company as of September 30, 2019 and December 31, 2018 are as follows:

|  | <b>September 30, 2019</b><br><b>(Unaudited)</b> | December 31, 2018<br><b>(Audited)</b> |
|--|---|---------------------------------------|
| Equity eligible for net liquid capital       | <b>₱1,582,321,465</b>                           | ₱1,511,792,250                        |
| Less: Ineligible assets                      | <b>524,639,806</b>                              | 335,040,045                           |
| <b>NLC</b>                                   | <b>₱1,057,681,659</b>                           | <b>₱1,176,752,205</b>                 |
| Position risk                                | <b>₱4,531,554</b>                               | ₱9,102,431                            |
| Operational risk                             | <b>189,014,295</b>                              | 164,470,546                           |
| Counterparty risk                            | –   | –                                     |
| <b>Total Risk Capital Requirement (TRCR)</b> | <b>₱193,545,849</b>                             | <b>₱173,572,977</b>                   |
| <b>AI</b>                                    | <b>₱8,711,895,415</b>                           | <b>₱9,064,514,225</b>                 |
| 5.00% of AI                                  | <b>₱435,710,865</b>                             | ₱453,225,711                          |
| <b>Required NLC</b>                          | <b>435,710,865</b>                              | ₱453,225,711                          |
| <b>Net Risk-Based Capital Excess</b>         | <b>621,970,794</b>                              | <b>₱723,526,494</b>                   |
| Ratio of AI to NLC                           | <b>824%</b>                                     | 770%                                  |
| <b>RBCA ratio (NLC/TRCR)</b>                 | <b>546%</b>                                     | 678%                                  |

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 ₱20.0 million effective December 31, 2009, and ₱30.0 million effective December 31, 2011 and onwards. As at September 30, 2019 and December 31, 2018, the Parent Company is compliant with this capital requirement.

The Parent Company's regulated operations have complied with all externally-imposed capital requirements as at September 30, 2019 and December 31, 2018.

COLHK monitors capital using liquid capital as provided for under HK'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\$3.00 million and computed variable required capital. As at September 30, 2019 and December 31, 2018, COLHK is compliant with the said requirement.

## 23. 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, short-term time deposits, financial assets at FVPL, trade receivables, other receivables, long-term time deposit, 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, equity price risk and foreign currency risk.

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

### *Aging Analyses of Financial Assets*

The aging analyses of the Group's financial assets as at September 30, 2019 and December 31, 2018 are summarized in the following tables:

|  | September 30, 2019 (Unaudited) |                    |                    |                     |                       | Total                  |
|--|--------------------------------|--------------------|--------------------|---------------------|-----------------------|------------------------|
|  | Neither past due nor impaired  | Days past due      |                    |                     | Specifically impaired |                        |
|  |                                | 4-14 days          | 15-31 days         | More than 31 days   |                       |                        |
| Cash and cash equivalents*                   | ₱9,103,098,284                 | ₱-                 | ₱-                 | ₱-                  | ₱-                    | ₱9,103,098,284         |
| Cash in segregated account                   | 66,012,094                     | -                  | -                  | -                   | -                     | 66,012,094             |
| Short-term time deposits                     | 200,000,000                    | -                  | -                  | -                   | -                     | 200,000,000            |
| Loans and receivables:                       |                                |                    |                    |                     |                       |                        |
| Trade receivables                            | 135,113,949                    | 57,890,023         | 98,161,739         | 452,762,518         | -                     | 743,928,229            |
| Other receivables                            | 54,623,097                     | -                  | -                  | -                   | -                     | 54,623,097             |
| Long-term time deposit                       | 200,000,000                    | -                  | -                  | -                   | -                     | 200,000,000            |
| Refundable deposits                          | 11,471,837                     | -                  | -                  | -                   | -                     | 11,471,837             |
| Deposit and refundable contributions to CTGF | 41,143,692                     | -                  | -                  | -                   | -                     | 41,143,692             |
| Financial assets at FVPL                     | 4,509,100                      | -                  | -                  | -                   | -                     | 4,509,100              |
| Investment securities at amortized cost      | 200,656,508                    | -                  | -                  | -                   | -                     | 200,656,508            |
|  | <b>₱10,016,628,561</b>         | <b>₱57,890,023</b> | <b>₱98,161,739</b> | <b>₱452,762,518</b> | <b>₱-</b>             | <b>₱10,625,442,841</b> |

\*Excluding cash on hand

| December 31, 2018 (Audited)                     |                                     |                    |                     |                      |                          |                        |
|---|-------------------------------------|--------------------|---------------------|----------------------|--------------------------|------------------------|
|   | Neither<br>past due nor<br>impaired | Days past due      |                     |                      | Specifically<br>impaired | Total                  |
|   |                                     | 4-14 days          | 15-31 days          | More than<br>31 days |                          |                        |
| Cash and cash equivalents*                      | P8,897,533,179                      | P-                 | P-                  | P-                   | P-                       | P8,897,533,179         |
| Cash in segregated account                      | 133,788,336                         | -                  | -                   | -                    | -                        | 133,788,336            |
| Short-term time deposits                        | 626,000,000                         | -                  | -                   | -                    | -                        | 626,000,000            |
| Loans and receivables:                          |                                     |                    |                     |                      |                          |                        |
| Trade receivables                               | 243,665,774                         | 73,901,199         | 100,219,240         | 394,740,173          | -                        | 812,526,386            |
| Other receivables                               | 52,041,067                          | -                  | -                   | -                    | -                        | 52,041,067             |
| Long-term time deposit                          | 200,000,000                         | -                  | -                   | -                    | -                        | 200,000,000            |
| Refundable deposits                             | 10,875,614                          | -                  | -                   | -                    | -                        | 10,875,614             |
| Deposit and refundable<br>contributions to CTGF | 38,791,026                          | -                  | -                   | -                    | -                        | 38,791,026             |
| Financial assets at FVPL                        | 3,225,163                           | -                  | -                   | -                    | -                        | 3,225,163              |
| Investment securities at<br>amortized cost      | 201,564,744                         | -                  | -                   | -                    | -                        | 201,564,744            |
|   | <b>P10,407,484,903</b>              | <b>P73,901,199</b> | <b>P100,219,240</b> | <b>P394,740,173</b>  | <b>P-</b>                | <b>P10,976,345,515</b> |

\*Excluding cash on hand

Past due accounts pertain to margin accounts of the Parent Company that are charged an interest rate ranging from 8.00% to 10.00% per annum. The account has no due date and becomes demandable only when equity percentage of the customers falls below 33.33%.

#### Credit quality per class of financial assets

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

| September 30, 2019 (Unaudited)                  |  |                    |                              |                        |
|---|--|--------------------|------------------------------|------------------------|
|   | Neither Past Due nor Specifically Impaired |                    | Past due but<br>not impaired | Total                  |
|   | High Grade                                 | Standard Grade     |                              |                        |
| Cash and cash equivalents*                      | <b>P9,103,098,284</b>                      | <b>P-</b>          | <b>P-</b>                    | <b>P9,103,098,284</b>  |
| Cash in a segregated account                    | <b>66,012,094</b>                          | -                  | -                            | <b>66,012,094</b>      |
| Short-term time deposits                        | <b>200,000,000</b>                         | -                  | -                            | <b>200,000,000</b>     |
| Loans and receivables:                          |  |                    |                              |                        |
| Trade receivables                               | <b>135,113,949</b>                         | -                  | <b>608,814,280</b>           | <b>743,928,229</b>     |
| Other receivables                               | -  | <b>54,623,097</b>  | -                            | <b>54,623,097</b>      |
| Long-term time deposit                          | <b>200,000,000</b>                         | -                  | -                            | <b>200,000,000</b>     |
| Refundable deposits                             | <b>11,471,837</b>                          | -                  | -                            | <b>11,471,837</b>      |
| Deposit and refundable contributions to<br>CTGF | <b>41,143,692</b>                          | -                  | -                            | <b>41,143,692</b>      |
|   | <b>9,756,839,856</b>                       | <b>54,623,097</b>  | <b>608,814,280</b>           | <b>10,420,277,233</b>  |
| Financial assets at FVPL                        | <b>4,509,100</b>                           | -                  | -                            | <b>4,509,100</b>       |
| Investment securities at amortized cost         | <b>200,656,508</b>                         | -                  | -                            | <b>200,656,508</b>     |
|   | <b>P9,962,005,464</b>                      | <b>P54,623,097</b> | <b>P608,814,280</b>          | <b>P10,625,442,841</b> |

\*Excluding cash on hand

| December 31, 2018 (Audited)                     |  |                    |                              |                        |
|---|--|--------------------|------------------------------|------------------------|
|   | Neither Past Due nor Specifically Impaired |                    | Past due but<br>not impaired | Total                  |
|   | High Grade                                 | Standard Grade     |                              |                        |
| Cash and cash equivalents*                      | <b>P8,897,533,179</b>                      | <b>P-</b>          | <b>P-</b>                    | <b>P8,897,533,179</b>  |
| Cash in a segregated account                    | <b>133,788,336</b>                         | -                  | -                            | <b>133,788,336</b>     |
| Short-term time deposits                        | <b>626,000,000</b>                         | -                  | -                            | <b>626,000,000</b>     |
| Loans and receivables:                          |  |                    |                              |                        |
| Trade receivables                               | <b>243,665,774</b>                         | -                  | <b>568,860,612</b>           | <b>812,526,386</b>     |
| Other receivables                               | -  | <b>52,041,067</b>  | -                            | <b>52,041,067</b>      |
| Long-term time deposit                          | <b>200,000,000</b>                         | -                  | -                            | <b>200,000,000</b>     |
| Refundable deposits                             | <b>10,875,614</b>                          | -                  | -                            | <b>10,875,614</b>      |
| Deposit and refundable contributions to<br>CTGF | <b>38,791,026</b>                          | -                  | -                            | <b>38,791,026</b>      |
|   | <b>10,150,653,929</b>                      | <b>52,041,067</b>  | <b>568,860,612</b>           | <b>10,771,555,608</b>  |
| Financial assets at FVPL                        | <b>3,225,163</b>                           | -                  | -                            | <b>3,225,163</b>       |
| Investment securities at amortized cost         | <b>201,564,744</b>                         | -                  | -                            | <b>201,564,744</b>     |
|   | <b>P10,355,443,836</b>                     | <b>P52,041,067</b> | <b>P568,860,612</b>          | <b>P10,976,345,515</b> |

\*Excluding cash on hand

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

#### High grade

##### *Financial assets at amortized cost*

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

Cash and cash equivalents, cash in a segregated account, and long-term time deposit 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 any shortfall. Meanwhile, receivables from post-paid customers are required to be settled on two (2) trading days' term for COLHK and three (3) trading days' term for the Parent Company. The receivable balances become demandable upon failure of the customer to duly comply with these requirements. As at September 30, 2019 and December 31, 2018, ₱681,985,900 and ₱725,741,502 of the total receivables from customers is secured by collateral comprising of cash and equity securities of listed companies with a total market value of ₱4,281,272,479 and ₱3,472,639,844, respectively (Note 7).

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision matrix is based on the Group's historical observed default rates. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

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

##### *Financial Assets at FVPL*

Companies that are consistently profitable, have strong fundamentals and pays out dividends. As at September 30, 2019 and December 31, 2018, the Group's financial assets at FVPL are classified as high grade since these are with entities of good reputation.

##### *Investment securities at amortized cost*

The investment securities at amortized cost is classified as high grade since this is a retail treasury bond issued by the Philippine government and there is a high probability of collecting the principal and coupon payments.

#### Standard grade

##### *Other receivables*

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.

##### *Collateral and other credit enhancement*

Margin 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 any shortfall.



Collateral comes in the form of financial assets. This pertains to securities listed and traded in the PSE and lodged with the Philippine Depository and Trust Corporation under the account of the Parent Company. The market value of the securities is closely monitored to ensure compliance with the required levels of collaterals.

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.

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

*Maximum exposure to credit risk after collateral held or other credit enhancements*

The maximum exposure to credit risk is the carrying value at the reporting date of each class of financial assets of the Group except for receivables from customers wherein the Group holds collateral as security.

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

|   | <b>September 30, 2019</b><br><b>(Unaudited)</b> | December 31, 2018<br><b>(Audited)</b> |
|---|---|---------------------------------------|
| Cash and cash equivalents (Note 4)*                       | <b>₱9,103,098,284</b>                           | ₱8,897,533,179                        |
| Cash in a segregated account (Note 5)                     | <b>66,012,094</b>                               | 133,788,336                           |
| Short-term time deposits (Note 4)                         | <b>200,000,000</b>                              | 626,000,000                           |
| Financial assets at FVPL (Note 6)                         | <b>4,509,100</b>                                | 3,225,163                             |
| Trade receivables (Note 7)                                | <b>1,268,066</b>                                | 2,804,307                             |
| Other receivables (Note 7)                                | <b>54,623,097</b>                               | 52,041,067                            |
| Long-term time deposit (Note 4)                           | <b>200,000,000</b>                              | 200,000,000                           |
| Refundable deposits (Note 12)                             | <b>11,471,837</b>                               | 10,875,614                            |
| Deposit and refundable contributions to CTGF<br>(Note 12) | <b>41,143,692</b>                               | 38,791,026                            |
| Investment securities at amortized cost (Note 8)          | <b>200,656,508</b>                              | 201,564,744                           |
|   | <b>9,882,782,678</b>                            | 10,545,249,783                        |
| Unutilized margin trading facility                        | <b>4,850,045,326</b>                            | 4,854,797,720                         |
|   | <b>₱14,732,828,004</b>                          | ₱15,400,047,503                       |

\*Excluding cash on hand

Liquidity Risk

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

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

As at September 30, 2019 and December 31, 2018, all of the Group's financial liabilities, which consist of trade payables and other current liabilities, are contractually payable on demand and up to sixty (60) days' term.

Correspondingly, the financial assets that can be used by the Group to manage its liquidity risk as at September 30, 2019 and December 31, 2018 consist of cash and cash equivalents, short-term time deposits, 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 in mutual fund shares. The Group's policy is to maintain the risk within an acceptable level. Movement in share price is monitored regularly to determine the impact on its financial position.

Since the carrying amount of financial assets subject to equity price risk is immaterial relative to the consolidated financial statements, Management believes that disclosure of equity price risk sensitivity analysis as at September 30, 2019 and December 31, 2018 is not necessary.

### *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\$50,566 and US\$210,636 as at September 30, 2019 and December 31, 2018, respectively (Note 4).

Since the amount of US\$-denominated cash in bank subject to foreign currency risk is immaterial relative to the consolidated financial statements, Management believes that disclosure of foreign currency risk analysis as at September 30, 2019 and December 31, 2018 is not significant.

## Offsetting of Financial Assets and Liabilities

The table below presents information about rights to offset related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar agreements.

| September 30, 2019 (Unaudited)                                      |  |   |   |  |                                    |                |              |
|---|--|---|---|--|------------------------------------|----------------|--------------|
| Financial Instruments Recognized at End of Reporting Period by Type | Gross Carrying Amounts (Before Offsetting) | Gross Amounts Offset in Accordance with the Offsetting Criteria | Net Amount Presented in Consolidated Statements of Financial Position | Effect of Remaining Rights of Set-Off (Including Rights to Set Off Financial Collateral) that do not Meet PAS 32 Offsetting Criteria |                                    |                |              |
|   |  |   |   | Financial Instruments  | Fair Value of Financial Collateral |                | Net Exposure |
|   |  |   |   |  |                                    |                |              |
| [a]   | [b]  | [c] = [a-b]   | [d]   | [e]  | [f] = [c-d]                        |                |              |
| <b>Financial Assets</b>   |  |   |   |  |                                    |                |              |
| Receivable from customers   | P681,986,185                               | P-  | P681,986,185  | P1,539,789   | P-                                 | P680,446,396   |              |
| Receivable from clearing house                                      | 32,445,910                                 | -   | 32,445,910  | 25,366,379   | -                                  | 7,079,531      |              |
|   | P714,432,095                               | P-  | P714,432,095  | P26,906,168  | P-                                 | P687,525,927   |              |
| <b>Financial Liabilities</b>  |  |   |   |  |                                    |                |              |
| Payable to customers  | P8,873,804,345                             | P-  | P8,873,804,345  | P1,539,789   | P-                                 | P8,872,264,556 |              |
| Payable to clearing house   | 39,798,184                                 | -   | 39,798,184  | 25,366,379   | -                                  | 14,431,805     |              |
|   | P8,913,602,529                             | P-  | P8,913,602,529  | P26,906,168  | P-                                 | P8,886,696,361 |              |

December 31, 2018 (Audited)

| Financial Instruments Recognized at End of Reporting Period by Type | Gross Carrying Amounts (Before Offsetting) | Gross Amounts Offset in Accordance with the Offsetting Criteria | Net Amount Presented in Consolidated Statements of Financial Position | Effect of Remaining Rights of Set-Off (Including Rights to Set Off Financial Collateral) that do not Meet PAS 32 Offsetting Criteria |                      |                |
|---|--|---|---|--|----------------------|----------------|
|   |  |   |   | Fair Value of  |                      | Net Exposure   |
|   |  |   |   | Financial Instruments  | Financial Collateral |                |
| [a]   | [b]  | [c] = [a-b]   | [d]   | [e]  | [f] = [c-d]          |                |
| <b>Financial Assets</b>   |  |   |   |  |                      |                |
| Receivable from customers   | P725,741,713                               | P-  | P725,741,713  | P4,475,220   | P-                   | P721,266,493   |
|   | P725,741,713                               | P-  | P725,741,713  | P4,475,220   | P-                   | P721,266,493   |
| <b>Financial Liabilities</b>  |  |   |   |  |                      |                |
| Payable to customers  | P8,989,453,360                             | P-  | P8,989,453,360  | P4,475,220   | P-                   | P8,984,978,140 |
|   | P8,989,453,360                             | P-  | P8,989,453,360  | P4,475,220   | P-                   | P8,984,978,140 |

## 24. Fair Value Measurement

The following table shows the carrying values and fair values of the Group's assets and liabilities, whose carrying values do not approximate their fair values as at September 30, 2019 and December 31, 2018:

|   | Carrying Values                |                             | Fair Values                    |                             |
|---|--------------------------------|-----------------------------|--------------------------------|-----------------------------|
|   | September 30, 2019 (Unaudited) | December 31, 2018 (Audited) | September 30, 2019 (Unaudited) | December 31, 2018 (Audited) |
| Refundable deposits                     | <b>P11,471,837</b>             | P10,875,614                 | <b>P9,992,345</b>              | P9,473,015                  |
| Investment securities at amortized cost | <b>200,656,508</b>             | 201,564,744                 | <b>199,388,040</b>             | 194,860,902                 |
| Investment property                     | <b>15,977,634</b>              | 16,634,249                  | <b>39,567,000</b>              | 35,610,300                  |

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

The carrying value of long-term time deposit approximates its fair value since the placement earns interest at prevailing market rates.

### *Financial Assets at FVPL*

The Group's financial assets at FVPL are carried at their fair values as at September 30, 2019 and December 31, 2018. Fair value of financial assets at FVPL is based on the closing quoted prices of stock investments published by the PSE. Fair value of mutual funds is based on net asset values computed and published by the mutual fund providers.

### *Refundable Deposits*

The fair value of the refundable deposits is based on the present value of the future cash flows discounted using credit adjusted risk-free rates for a similar type of instrument using 2.8% as at September 30, 2019 and December 31, 2018, respectively. There are no changes in the valuation techniques in 2019 and 2018.

### *Investment securities at amortized cost*

The fair value of HTM investment is based on the quoted closing price in an active market as at September 30, 2019 and December 31, 2018.

### *Investment Property*

The fair value of the investment property was based on the highest and best use of property being appraised. Valuations were derived on the basis of recent sales of similar properties in the same areas as the investment property and taking into account the economic conditions prevailing at the time the valuations were made and the comparability of similar properties sold with the property being valued.

### Fair Value Hierarchy

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

|   | <b>September 30, 2019 (Unaudited)</b> |                 |                   |
|---|---------------------------------------|-----------------|-------------------|
|   | <b>Level 1</b>                        | <b>Level 2</b>  | <b>Level 3</b>    |
| <i>Asset measured at fair value:</i>              |                                       |                 |                   |
| Financial assets at FVPL                          | <b>₱4,509,100</b>                     | <b>₱–</b>       | <b>₱–</b>         |
| <i>Asset for which fair values are disclosed:</i> |                                       |                 |                   |
| Refundable deposits                               | –                                     | –               | <b>9,992,345</b>  |
| Investment securities at amortized cost           | <b>199,388,040</b>                    | –               | –                 |
| Investment property                               | –                                     | –               | <b>39,567,000</b> |
|   | December 31, 2018 (Audited)           |                 |                   |
|   | <b>Level 1</b>                        | <b>Level 2</b>  | <b>Level 3</b>    |
| <i>Asset measured at fair value:</i>              |                                       |                 |                   |
| Financial assets at FVPL                          | <b>₱3,018,331</b>                     | <b>₱206,832</b> | <b>₱–</b>         |
| <i>Asset for which fair values are disclosed:</i> |                                       |                 |                   |
| Refundable deposits                               | –                                     | –               | 9,473,015         |
| Investment securities at amortized cost           | 194,860,902                           | –               | –                 |
| Investment property                               | –                                     | –               | 35,610,300        |

During the period ended September 30, 2019 and the year ended December 31, 2018, there were no transfers among levels 1, 2 and 3 of fair value measurements.

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### 25. EPS Computation

|   | <b>September 30, 2019<br/>(Unaudited)</b> | September 30, 2018<br>(Unaudited) |
|---|---|-----------------------------------|
| Net income attributable to equity holders of the Parent Company | <b>₱460,046,405</b>                       | ₱450,803,518                      |
| Weighted average number of shares for earnings per share        | <b>476,000,000</b>                        | 476,000,000                       |
| Basic and diluted earnings per share                            | <b>₱0.97</b>                              | ₱0.95                             |

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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:

|   | September 30, 2019 (Unaudited) |                      |                | Total               |
|---|--------------------------------|----------------------|----------------|---------------------|
|   | Philippines                    | Hong Kong            | Elimination    |                     |
| <b>Revenue from external customers:</b> |                                |                      |                |                     |
| Commissions                             | P442,096,929                   | P7,703,800           | P-             | P449,800,729        |
| Interest                                | 433,683,660                    | 9,474                | -              | 433,693,134         |
| Others                                  | 13,942,716                     | 820,178              | -              | 14,762,894          |
| Segment revenue                         | 889,723,305                    | 8,533,452            | -              | 898,256,757         |
| Cost of services                        | (116,508,866)                  | (15,426,499)         | -              | (131,935,365)       |
| Operating expenses                      | (128,387,467)                  | (7,922,894)          | -              | (136,310,361)       |
| Depreciation and amortization           | (22,899,057)                   | -                    | -              | (22,899,057)        |
| Income (loss) before income tax         | 621,927,915                    | (14,815,942)         | -              | 607,111,974         |
| Provision for income tax                | (147,265,629)                  | -                    | -              | (147,265,629)       |
| <b>Net income (loss)</b>                | <b>P474,662,286</b>            | <b>(14,815,942)</b>  | <b>P-</b>      | <b>P459,846,345</b> |
| Segment assets                          | P10,694,265,092                | P392,378,035         | (P292,473,496) | P10,794,169,631     |
| Segment liabilities                     | 8,945,172,591                  | 86,206,366           | (5,173,496)    | 9,026,205,461       |
| <b>Capital expenditures:</b>            |                                |                      |                |                     |
| Tangible fixed assets                   | 35,965,794                     | 27,593               | -              | 35,993,387          |
| <b>Cash flows arising from:</b>         |                                |                      |                |                     |
| Operating activities                    | 575,599,647                    | 53,593,251           | -              | 629,192,898         |
| Investing activities                    | (41,495,490)                   | (27,593)             | -              | (41,523,083)        |
| Financing activities                    | (557,100,000)                  | -                    | 175,000,000    | (382,100,000)       |
|   |                                |                      |                |                     |
|   | December 31, 2018 (Audited)    |                      |                |                     |
|   | Philippines                    | Hong Kong            | Elimination    | Total               |
| <b>Revenue from external customers:</b> |                                |                      |                |                     |
| Commissions                             | P687,358,256                   | P15,573,024          | P-             | P702,931,280        |
| Interest                                | 422,222,322                    | 5,526                | -              | 422,227,848         |
| Others                                  | 30,367,598                     | 1,265,383            | -              | 31,632,981          |
| Segment revenue                         | 1,139,948,176                  | 16,843,933           | -              | 1,156,792,109       |
| Cost of services                        | (200,980,119)                  | (19,845,333)         | -              | (220,825,452)       |
| Operating expenses, net of other income | (172,369,312)                  | (11,120,228)         | -              | (183,489,540)       |
| Depreciation and amortization           | (25,812,755)                   | -                    | -              | (25,812,755)        |
| Income (loss) before income tax         | 740,785,990                    | (14,121,628)         | -              | 726,664,362         |
| Provision for income tax                | (180,752,435)                  | (33,357,738)         | -              | (214,110,173)       |
| <b>Net income (loss)</b>                | <b>P560,033,555</b>            | <b>(P47,479,366)</b> | <b>P-</b>      | <b>P512,554,189</b> |
| Segment assets                          | P10,792,266,848                | P459,831,491         | (P133,487,257) | P11,118,611,082     |
| Segment liabilities                     | 9,288,236,632                  | 135,491,882          | 1,312,743      | 9,425,041,257       |
| <b>Capital expenditures:</b>            |                                |                      |                |                     |
| Fixed assets                            | 31,284,294                     | -                    | -              | 31,284,294          |
| <b>Cash flows arising from:</b>         |                                |                      |                |                     |
| Operating activities                    | (728,095,929)                  | (25,755,722)         | -              | (753,851,651)       |
| Investing activities                    | (31,284,294)                   | -                    | -              | (31,284,294)        |
| Financing activities                    | (333,200,000)                  | -                    | -              | (333,200,000)       |

## 27. Events after the reporting period

On October 2, 2019, the BIR issued the TCC to the Parent Company which will expire on October 2, 2024. The Parent Company plans to utilize the TCC within the year. Accordingly, the Parent Company reclassified the balance back to 'Other current assets' (Note 27).

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

|                                       | <b>September 30,<br/>2019</b> | September 30,<br>2018 | Formula  |
|---------------------------------------|-------------------------------|-----------------------|--|
| <b>Profitability ratios:</b>          |                               |                       |  |
| Return on assets                      | <b>4.27%</b>                  | 4.31%                 | Net income/Total assets                            |
| Return on equity (annualized)         | <b>35.67%</b>                 | 38.18%                | Net income/Average<br>stockholders' equity         |
| Net profit margin                     | <b>51.22%</b>                 | 51.77%                | Net income/Net sales                               |
| <b>Solvency and liquidity ratios:</b> |                               |                       |  |
| Current ratio                         | <b>1.13:1</b>                 | 1.12:1                | Current assets/Current liabilities                 |
| Debt to equity ratio                  | <b>5.25:1</b>                 | 5.64:1                | Total liabilities/ Average<br>stockholders' equity |
| Quick ratio                           | <b>1.11:1</b>                 | 1.12:1                | Liquid assets/Current liabilities                  |
| Asset to equity ratio                 | <b>6.28:1</b>                 | 6.69:1                | Total assets/Average<br>stockholders' equity       |