

# COVER SHEET

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S.E.C. Registration Number

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

**ATTY. BAYANI K. TAN**

Contact Person

+02-667-8900
Company Telephone Number

1	2		3	1
Month			Day	
Fiscal Year				

**SEC FORM 17-A**  
Form Type

Month		Day
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Annual Meeting

Secondary License Type, if Applicable

Dept. Requiring this Doc.  
Total No. of Stockholders

	Amended Articles Number/Section	
		Foreign

To be accomplished by SEC Personnel concerned

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File Number

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# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-A (Annual Report)

1. For the year : **December 31, 2013**
2. SEC Identification Number : **ASO94-001420**
3. BIR Tax Identification Number: **043-003-507-219**
4. Exact name of the registrant as specified in its charter:  
**FIRST ABACUS FINANCIAL HOLDINGS CORPORATION**
5. **Pasig City, Philippines**  
Province, Country or other jurisdiction of incorporation
6.  (SEC Use Only)  
Industry Classification Code
7. **Unit -E3001 PSE Center, Exchange Road, Pasig City** **1605**  
Address of the principal office Postal Code
8. Registrant's telephone number, including area code  
**(632)667-8900**
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 Securities Regulation Code:

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding</u>
<b><u>Common Stock, P1.00 par value</u></b>	<b><u>1,193,200,000 shares</u></b>

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

Yes (x)                      No ( )

12. Check whether the registrant

- (a) Has filed all reports required to be filed by Section 17 of the Securities Regulation Code(SRC) and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months ( or for such shorter period that the registrant was required to file such reports);

Yes (x)                      No ( )

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

Yes (x)                      No ( )

13. Aggregate market value of the voting stock held by non-affiliates of the registrant as of April 15, 2014  
**₱776,926,920.00 :**

a) Total number of shares held by non-affiliates as of April 15, 2014 : 924,913,000 shares

b) Closing price of the Registrant's shares on the Exchange  
As of April 15, 2014 : P0.84

c) Aggregate market price (a x b) as of  
As of April 15, 2014 : **₱776,926,920.00**

**APPLICABLE ONLY TO REGISTRANTS INVOLVED IN INSOLVENCY/SUSPENSION OF  
PAYMENT PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

14. Check whether the registrant has filed all documents and reports required to be filed by Section 17 of the SRC subsequent to the distribution of securities under a plan confirmed by a court or the SEC.

Yes ( )                      No ( )                      (Not Applicable)

**DOCUMENTS INCORPORATED BY REFERENCE**

None

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## **PART I – BUSINESS AND GENERAL INFORMATION**

### **Item 1. Business**

First Abacus Financial Holdings (FAFHC) traces its roots from the Seven Seas Oil Exploration and Resources, Inc. (SSOERI). Seven Seas was incorporated on February 15, 1994 and became a publicly listed company on November 21, 1994. It was primarily engaged in the business of oil exploration and development. Presently, FAFHC is engaged in, through its wholly subsidiaries, stockbroking activities, investment banking, real estate business and other financial services.

Realizing that the local capital and equities markets have a pivotal role in the long-term development of the national economy, the board of directors decided to change SSOERI's primary purpose from being an oil exploration company into a financial holding company. Thus, on October 26, 1996, the SSOERI's stockholders approved the recommendations of the board to transform the firm. Consequently, on January 25, 1996, the Securities and Exchange Commission (SEC) approved the Company's change of name from Seven Seas Oil Exploration and Resources, Inc. to First Abacus Financial Holdings Corporation. The SEC likewise approved on January 25, 1996 the change on par value of FAFHC's capital stock from Php0.01 to Php 1.00 a share to remove the issue's speculative characteristic and reflect the stock's shift into a full-fledged commercial/industrial issue.

The Company's first strategic corporate re-alignment move was to acquire the Abacus Capital & Investment Corporation (ACIC)- an operating investment house- via a cash and stock swap. ACIC effectively became a wholly owned subsidiary. ACIC, in turn, owned 100% of Abacus Securities Corporation (ASC), one of the leading members of the Philippine Stock Exchange, and Vista Holdings Corporation (VHC), a real estate holding company.

The Company, through ASC, also acquired 25% of Prosperity Properties and Management Corporation (PPMC), used to own a 16-storey building at the Ayala Business Park in Cebu City. In 1996, the Company acquired from its subsidiaries – ACIC and ASC- interests in VHC and PPMC. This resulted in a direct investment in these companies. In 1999, upon approval by the Securities and Exchange Commission of the increase in authorized capital stock of ASC from Php50 million divided into 500,000 shares with a par value of Php100 per share to Php400 million divided into 4 million shares with Php100 par value per share, the Company subscribed to 3.5 million shares representing 87.525% ownership interest. The remaining 12.475% remained with ACIC. Accordingly, the Company's ownership over ASC was changed from 100% indirect to 87.525% direct and 12.475% indirect.

On December 18, 2002, the Board of Directors approved the conversion of advances to Abacus Capital & Investment Corporation (ACIC) as deposit for future stock subscription amounting to Php100,000,000. In 2008, the Company applied P90,000,000 of its deposit for future stock subscription to paid in capital as payment for the remaining subscriptions for the same amount.

### **Subsidiaries**

Abacus Capital and Investment Corp(ACIC). ACIC was incorporated on January 6, 1995. ACIC is engaged in investment banking activities, management services, and treasury and other financial services.

Abacus Securities Corporation(ASC). ASC was incorporated on December 27, 1991. A member of the Philippine Stock Exchange, ASC is engaged in stock brokering services. It engages in buying and selling stocks in Philippine stock market for the accounts of the clients as a broker and for its own account as a dealer.

Vista Holdings Corporation(VHC). VHC was incorporated on January 21, 1993. Presently, Vista Holdings Corporation is engaged in buying and leasing out condo units primarily to its affiliated companies.

### **FAFHC's Vision**

FAFHC's vision is to provide best value integrated financial services to its clients. In the process, Filipinos from all walks of life are enabled to become a part of the capital and equities market. Toward this end, progress and prosperity have stronger prospects of being shared by all.

Abacus Capital and Investment Corporation ( ACIC)

ACIC is financially secure, with capital resources of over 400 million; complemented by a core of investment managers providing highly ethical, professional, and client-oriented investment management services.

ACIC provides the following financial services:

a) Corporate Finance

Equity Underwriting Transactions

- Initial Public Offerings
- Stock Rights Offerings
- New Tranche Offerings
- Private Placements of Listed Companies

Financial Advisory

- Share or corporate acquisitions, Buy-Ins/Mergers/Divestments
- Financial review and Restructuring
- Project Development

Debt Underwriting and Loan Arrangements

- Short, Medium, or Long Term Loan Arrangements
- Short and Long Term Commercial Papers Underwriting
- On-going oversight, issue management, agency functions

b) Treasury sales

- Government Securities
- Treasury Bills
- Long and Short Term Commercial Papers

- Preferred Notes
- Promissory Notes
- Money Market Placements`

c) Financing

- Share Margin
- Working Capital Credit Facilities

### **Abacus Securities Corporation (ASC)**

Due to its commitment for quality service, ASC was awarded the Best Local Brokerage House in the Philippines Award from 1990-2008 granted by the Asiamoney.

ASC was the recipient of the Best Securities House in the Philippines Award granted by the EuroMoney International Awards for Excellence for the past two consecutive years, 1998 and 1999. Likewise, the Fund Managers Association of the Philippines honored ASC with a number of citations including Best in Institutional Sales/ Execution and in Settlements in 1998. The awards put ASC in an enviable position as it proved that local stockbrokerages could prove equal to international stockbroker houses.

ASC started operations in March 1992. In five years, ASC established itself as a top Filipino brokerage firm in PSE. The key factors for ASC's successes are: professional management, sound investment advisory, strong research team, real-time market information, and commitment to technology and training.

All these resulted in a strong retail franchise, a top tier domestic institutional sales organization, and growing foreign institutional sales based. Thus, ASC is now positioned to best serve the expanding domestic equities market. Strategically located branches in Binondo, Cebu and Davao support ASC's Head Office operations.

Abacus Securities Corporation was the second ranking stock brokerage house among the top ten PSE brokers. In past years, the large foreign stockbrokerage houses dominated the top ten list of brokers. ASC believes that it can effectively compete with other brokers because of its strong sales groups, the Retail and Institutional Teams. At present, the firm has one of the most extensive based of retail clients driven by the number of branches established and envisioned to be established. Its Institutional Sales Team, on the other hand, has managed to obtain accreditation and establish active working relationships with a number of domestic institutional investors and foreign fund management companies. ASC also has a Research Group that comes out with action-driven reports and recommendations, a quality admired by most of its clients, and even the other stockbrokers. The registrant has an excellent customer service to service its clients. The company established a website to keep its clients abreast of the new developments in stock market.

For the year ended **2013**, Abacus Securities Corporation ranked 18th in terms of total value traded.

### **Vista Holdings Corporation (VHC)**

The primary purpose of the Company is to invest in, purchase, or otherwise acquire and own, hold, use, sell (without engaging in retail trade), assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description.

VHC continues with its investment program through the acquisition of condominium units. At present, VHC leases its condominium units its affiliated companies.

Vista is not involved in real estate development.

VHC continues to lease its condominium units to its affiliates. The acquisition of condominium units was put on hold, as property market has not significantly improved.

### **The Contribution of each services or line of business**

	<b>Amounts (In mio)</b>
Commissions	P 231.3
Finance Income	145.1
Management fees	23.1
Other revenues	1.4
	P <u><u><b>400.9</b></u></u>

### **Competition**

The direct competitors of the Company and its subsidiaries are companies engaged in stock brokering business and are members of the Philippine Stock Exchange; companies engaged in investment banking, financial and management services, and treasury operations; companies and individual owners of condominium units within the area of Ortigas Center, as properties are located in the Philippine Stock Exchange Center Condominium. The indirect competitors of the Company and its subsidiaries are Financing Institution, Growth Funds, Pension and Pre-need companies.

As to the stock brokerage business segment, the Company and its competitors cater the requirements of both institutional and retail clients of our local stock and financial market. In 2013, a total of Php926.4 trillion were traded or done through the local bourse which were divided among the foreign and local brokers. The total value turnover or total amount of value traded are considered the total size of the registrant and its competitors which broker commissions are generated.

The registrant and its competitors almost offering the same services and strengths. Most of the brokerage and financial houses are fully capitalized, offering services for the needs of the institutional and retail clients, they all have created and established a good backroom support, established a good internal and financial control systems. Just recently, numbers of stock brokerage houses have launched an online trading facility to attract more investors and to give investors the easy access of the trading facility, and to keep them abreast with the local and financial market. Long before competitors have applied, focused and established themselves to catch up with the requirements to be a full-fledged financial and brokerage company, the registrant has long pioneered and can rightfully say was the first to institute those strengths.



The consistent exemplary performance comes as a result of the company's steadfast commitment to deliver the best value to customers through professional management, sound investment advisory, strong research team, real-time market information, and commitment to technology and training.

The Company is now positioned to best serve the expanding domestic equities market. Its branches are now strategically located in Binondo, Cebu and Davao to support the Company's Head Office operations.

### **Customers**

The Company's market for its financial products and services include both retail and institutional customer base. No data is available for brokers commission contributed by foreign nationalities as to the regional market. It must be noted that brokers commissions derived from the marketable securities were all transacted through the Philippine Stock Exchange.

The market for the Company's property development and leasing is primarily the upper income level market.

The Company and its wholly owned subsidiaries are not dependent upon a single customer or few customers. The Company and its subsidiaries do not have a customer that has over 20% or more of the Company's turnover.

### **Distribution methods of the product services**

The Company and its subsidiaries distribute its services to its clientele by or through:

- Certified Sales Representatives (CSRs) are licensed by the Securities and Exchange Commission to transact for the accounts of the clients of our stock broking business.
- Corporate Finance Group is composed of our top caliber professionals in charge in our investment banking, management and financing activities.
- Our brokerage house has just opened its online trading facility to its new and existing clients. With the new online trading scheme, our customers can already view their portfolios online and trade their accounts using their personal phones, tablets and terminals.

### **Patents, Trademarks, Licenses, Franchises, Concessions, Royalty Agreements or Labor Contracts.**

- License granted by the Securities and Exchange Commission (SEC) to Abacus Capital & Investment Corp. as an Investment House.
- License granted to Abacus Securities as a broker and dealer of Securities which is renewable every year

Aside from the above licenses granted, the registrant and its subsidiaries have no pending applications that need for any government approval.

## **Employees**

**As of December 31, 2013, the Company and its operating subsidiaries employ 65 permanent employees.**

Type Employees	# of Employees	No. of Additional Employees for Ensuing 12 Mos. *	Collective Bargaining Agreement(CBA)	Supplemental Benefits or other incentives
Operations	25	1	N/A	None
Corporate Finance	6	0	N/A	None
Administrative	9	None	N/A	None
Sales	16	0	N/A	None
Accounting & Finance	10	None	N/A	None
Total	66	1		

For the past three years, the Company and its subsidiaries have not experienced any strike or threat of strike from its employees.

Government Approval of Principal products or Services

None

Amount Spent for Research and Development Activities

None

Cost and effects of Compliance with Environmental Laws

Not Applicable

Risk Management Objectives and Policies

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The risk management activities at the level of each Company in the Group is coordinated with the Parent Company, in close cooperation with the Board of Directors, and focuses on actively securing the Group's short-to-medium cash flows by minimizing the exposure to financial markets. Long-term financial instruments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant risks to which the Group is exposed to are described in the Company's Notes to Consolidated Financial Statements.

## **Item 2. Properties**

The following properties are in prime condition directly owned by the Company and its subsidiaries:

Approximately 110 square meters of office space located at Federal Towers, Binondo (through Vista Holdings Corporation). The unit is being occupied by a subsidiary, Abacus Securities Corporation. The lease agreement was renewed for two (2) years and will expire December 31, 2015. The monthly rental is Seventy Eight Thousand Seven Hundred Ten and 02/100 (₱78,710.02).

Approximately 940 square meters of office space located at the 29<sup>th</sup> Floor of the East Tower of the Philippine Stock Exchange Center (through Vista Holdings Corporation). The unit is being leased by a subsidiary, Abacus Securities Corporation, for a period of two (2) years. The lease agreement will end December 31, 2015 with a monthly rental of Six Hundred Seventy Two Thousand Six Hundred Twelve and 86/100 (₱672,612.86).

Approximately 483 square meters of office space located at the 29<sup>th</sup> Floor of the East Tower of the Philippine Stock Exchange Center (Direct).

All properties, as stated above, are owned by First Abacus Financial and its wholly owned subsidiaries. All of the Condominium Units stated above were used by the registrant and its subsidiaries to secure the group's bank loans. No limitations have been set by the banks on the properties collateralized, except that when the properties are to be disposed of, proper notice has to be sent to the banks prior its disposal.

The company has no intention of acquiring/leasing additional properties.

### **Item 3. Legal Proceedings**

The Company is not aware of any material proceeding involving the issuer and its directors, executive officers, underwriter or control person during the past five (5) years.

### **Item 4. Submission of Matters to Vote of Security Holders**

No matters were submitted to a vote of the security holders of the Company during the fourth quarter of 2012.

## **PART II – OPERATIONAL AND FINANCIAL INFORMATION**

### **Item 5. Market for Registrant's common equity and related stockholder matters**

#### **1) Market Information**

The shares of the Company are listed in and traded on the Philippine Stock Exchange. The high and low closing prices for each quarter within the last two (2) fiscal years are as follows:

<b>Applicable Quarter</b>	<b>2013</b>		<b>2012</b>		<b>2011</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
First Quarter	0.90	0.75	0.95	0.74	0.87	0.67
Second Quarter	0.87	0.74	0.89	0.71	0.80	0.63
Third Quarter	0.84	0.77	0.80	0.68	0.78	0.62
Fourth Quarter	0.84	0.77	0.82	0.69	0.93	0.63

During the first quarter of 2014, the issue's highest price per share was at ₱0.84 and its lowest was at ₱0.78. As of the close of trading hours of April 15, 2014, the price at which the Registrant's shares were traded at Php0.82 per share.

## 2) Holders

The number of *common shares* issued and outstanding as of December 31, 2013 was 1,193,200,000. As of December 31, 2013, Registrant had 111 shareholders, on the said date the following were the top 20 shareholders:

	Stockholder	Nationality	No. of Shares	%
1	PCD Nominee Corp. – Filipino	Filipino	817,769,000	68.53
2	Paulino S. Soo	Filipino	133,000,000	11.15
3	Abacus Capital & Investment Corp.	Filipino	62,191,000	5.21
4	PCD Nominee Corp. - Non-Filipino	Foreign	35,621,000	2.98
5	ACIC FAO 20001	Filipino	32,361,000	2.71
6	Edgardo Limtong	Filipino	28,527,000	2.39
7	Phee Bon Kang	Malaysian	20,000,000	1.68
8	Vista Holdings Corp.	Filipino	14,095,000	1.18
9	Cecilio Pedro	Filipino	12,260,000	1.03
10	Jimmy S. Soo	Filipino	10,010,000	0.84
11	Vicente Co Chien Jr.	Filipino	6,130,000	0.51
12	Elizabeth K. Soo	Filipino	6,000,000	0.50
13	Solar Securities, Inc.	Filipino	4,000,000	0.34
14	Quality Investments & Securities Corp	Filipino	2,720,000	0.23
15	Uy Louis	Filipino	2,000,000	0.17
16	George Q. Go & Shirley D. Go	Filipino	1,443,000	0.12
17	Quality Investments and Securities Corp	Filipino	500,000	0.05
18	Jack T. Huang	Filipino	500,000	0.04
19	Co Chien, Vicente T. Jr.	Filipino	400,000	.034
20	Lim, Francisco &/OR DULCE	Filipino	304,000	.026

## 3) Dividends

No dividends, neither in cash nor stock were declared on the shares for the last two (2) fiscal years, i.e. 2013 and 2012. There are no restrictions that limit the ability to pay dividends on common equity but the Company, as a general rule, shall only declare from surplus profit as determined by the Board of Directors as long as such declaration will not impair the capital of the Company.

## 4) Recent sales of Unregistered Securities

No unregistered securities or shares of the Company were sold during the last three (3) years (2013, 2012, and 2011).

## **Item 6. Management's Discussion and Analysis or Plan of Operation**

### **2013**

#### **General Business Environment**

Resilience characterized the overall performance of the Philippine Economy in 2013. Despite some volatility in the global financial arena and the trilogy of tragedy that occurred towards the end of the year, namely, the destructive earthquake in the Visayas, the crisis in Zamboanga, and super typhoon Yolanda which cut a swath of destruction across Visayas, the country's actual full year growth as measured by real GDP reached 7.2 per cent, even exceeding government's target range of 6-7 % for the year and surpassing market expectations. The growth drivers were broad based, including a supportive environment characterized by macroeconomic stability, comfortable financial cushions, a sound banking system, and generally buoyant sentiments. In addition, benign inflation dynamics sustained a generally low-interest rate environment which further enabled the country to ride out the pockets of turbulence. These developments were mirrored in the performance of the local capital market. The upgrade to investment grade of the country's credit ratings by Fitch Ratings, Standard and Poor's, and Moody's drove the index to historic highs, pushing past the 7,000 barrier and reaching 7,392.2 in May. However, volatilities in the global financial market caused mainly by the tapering of the US Federal Reserve's asset buying program and the impact of the trilogy of tragedy towards the second of the year weighed down heavily on the market. The local bourse closed at 5,889.8 index points in end-December 2013, modestly higher by 1.3 percent than the 5,812.7 index points a year ago.

#### **Performance of the Company**

Similarly, the Company turned in improvements in overall performance and in its core revenues. Our brokerage house reported a double-digit (36%) increase in commission, representing a year-on-year increase of Php61.4 million, from Php169.9 million to Php231.3 million. Our finance income registered a significant increase of Php64.7 million, from Php80.4 million to Php145.1 million or 81% increase. These came as a result of the improved volumes and activities in the Philippine stock market. Management fees recorded during the year was noted at Php23.1 million, a decrease of Php45.1 million as compared to the Php68.2 million posted last year.

Consolidated revenues for the year stood at Php400.9 million, a modest increase of 21.6% or Php71.3 million from last year's Php329.6 million.

As can be expected, variable costs from additional volumes of trades resulted in higher costs and expenses. Total costs and expenses for the year stood at Php412.2 million, representing an increase of Php63.8 million from last year's Php348.4 million. During the year, there was a temporary decline in the valuation of our marked to market short term investments amounting to Php20million which was included in our current year's total costs and expenses. Without the temporary decline, costs and expenses should only be Php392.2 million or an increase of only 12.6% from last year. As in the past, a large bulk of operating expenses was allocated for debt servicing in keeping with the company's commitment to honor its obligations.

Summing up the Company's performance for the year, there was consolidated net loss registered amounted to Php15.2 million, a decrease of Php4.9 million as compared to the Php10.3 million reported loss last year. Without the temporary decline in the valuation of marked to market short term investments, the company should have reported a consolidated income of almost Php5 million.

There was an increase in total assets noted for the year amounting to Php569 million, from Php5,024 million in December 2012 to Php5,593 million in December 2013. The increase in total assets was due

to increase in trade accounts receivable of Php448 million, additional purchases of financial assets of Php105 million, and increase in cash and other assets for the remainder.

A corresponding increase in total liabilities amounting to Php632.8 million was also noted during the period under review bringing total liabilities from Php2,447 million to Php3,080 million due to increases in short term borrowings and bank loans, partially offset by the payments made to trade customers and short term payables.

Due to the sale of our available for sale financial assets, the current year net result, and the temporary decline of our marked to market investment a decrease in the Company's stockholders' equity by Php63.5 million, from Php2,576 million to this year's Php2,513 million is being reported.

Aside from the discussions above, there are no material off-balance sheet transactions, arrangements, obligations( including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

The Company remains highly optimistic that its financial performance will continue to be stable moving forward.

The Company, however, will continue to keep an effective balance between managing risks and opportunities and will not let its guard down. The Company shall continue to solidify its niches and expand market reach. At the same time, the Company shall continue to be lean without sacrificing ability to provide the best value to customers. As it has continued to do so in the last four years, the Company will keep an eye on outstanding loans, and subsequently, interest cost and expenses. And as in the past, the Company shall draw strength and inspiration from the support and commitment of its various stakeholders.

FINANCIAL RATIOS ( SRC Rule 68, as amended October 2011). The following are the Company's financial soundness indicators in two comparative period:

			31-Dec 2013	31-Dec 2012
<b>CURRENT/LIQUITY RATIO</b>				
	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	=	1.16:1	1.16:1
	$\frac{\text{Quick Assets}}{\text{Current Liabilities}}$	=	0.95:1	0.86:1
The ratio is used to give an idea of the company's ability to pay back its short term liabilities with its short term assets.				
<b>DEBT TO EQUITY RATIO</b>	$\frac{\text{Debt}}{\text{Equity}}$	=	1.23:1	0.95:1
<b>ASSETS TO EQUITY RATIO</b>	$\frac{\text{Assets}}{\text{Equity}}$	=	2.23:1	1.95:1
<b>INTEREST RATE COVERAGE RATIO</b>	$\frac{\text{Earnings before interest and taxes}}{\text{Interest expense}}$	=	103%	98.00%
<b>Interest rate coverage ratio is a measure on how well a company can meet its interest payment obligations.</b>				

NET INCOME GROWTH (DECREASE)	$\frac{\text{Current year net income}}{\text{Previous year net income}}$	=	-47%	-149%
Net income growth is a firm's profit for the period. The growth rate of net income is how much the net income changes from one period to another. Management views growth rate of net income to determine if the firm is growing at a sustainable rate.				

Aside from the discussions above, there are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

## **2012**

### **General Business Environment**

The year 2012 was a rollercoaster ride for the Philippine economy and the local stock market. There was reason for cautious optimism given a backdrop of a reeling global economy brought about by the European fiscal debt crisis, a fragile US economy and the eventual threat of a fiscal cliff, Japan's efforts to recover from a natural disaster, and a looming slowdown in China. But the country's strong fundamentals, fueled by robust domestic consumption, contained inflation, higher government spending, a rebound in exports and a jump in farm outputs, and generally positive perceptions about the Aquino government's efforts to weed out corruption in the public sector prevailed. Towards the end of the year, the crests and troughs eventually culminated on a triumphant note. International agencies upgraded the country's ratings and record growth in the country's gross domestic product was posted. The country ended the year with an economic performance that surpassed expectations.

The country's economic performance was mirrored in the highs and lows of the local capital market. Although the market was propped up by a strong positive bias, external forces such as the problems in Greece in the middle of the year, forced the market to move within a defined band. Share prices, however, soared to record highs towards the end of the year. The local index posted a hefty 33 percent return and closed the year at 5,812.73 levels earning the distinction of being one of the best performing indices in Asia Pacific.

### **Performance of the Company**

The company likewise encountered a number of challenges during the year. Heightened competition in the market expectedly reduced brokers commissions. However, the company's strong market position and its inherent strengths prevailed and the decline was kept at single digit levels, thus, brokers commission for 2012 was noted at Php169.9 million, a decline of 9% over the Php187.4 million realized in the previous year. There was also a decline in the finance income of the company for the year under review - from Php131.7 million in 2011 to Php80.4 million in 2012. However, a significant increase in management fees was reported during the year. Revenues from management fees rose to Php68 million, up by 72% compared to Php39.7 million reported over the previous year. Consolidated revenues for 2012 was noted at Php329.6 million or Php31.2 million below the consolidated revenues reported in 2011.

The company has managed to keep total costs and expenses within manageable levels despite the increase in trade volumes. For the year 2012, total costs and expenses, at Php348.4 million, grew by only 1.2% over the previous year's Php344.1 million. As in the past, a large bulk of operating expenses

was allocated for debt servicing in keeping with the company's commitment to honor its obligations. Finance cost during the year was at Php154.6 million, an increase of Php4.6 million or 3% from Php150 million incurred in 2011.

Although the company is reporting a net loss of Php10.3 million for the year 2012 it is proud to note that it is closing the year with a total comprehensive income amounting to Php229.2 million, a remarkable feat compared to comprehensive loss of Php552.4 million reported in 2011.

There was an increase in total assets noted at the end of the year amounting to Php447.1 million, from Php4,576.5 million to Php5,023.6 million. This was brought about by increase in trade receivables of Php140.4 million, additional investments at fair value through profit or loss of Php124.7 million, increase in value of available for sale financial assets of Php216.4 million and increase in other assets of Php16.8 million. Correspondingly, total liabilities as of the end of the period increased by Php218.6 million. The increase was brought about by additional short term borrowings, increase in accounts payables and other liabilities, partially offset by the payments and decrease of trade payables as of the reporting period.

There was a large amount of increase in the stockholders' equity as of the reporting period by Php229.2 million from Php2,347 million last year to this year's Php2,576 million. The increase was basically due to the increase in value of our available for sale financial assets reduced by the consolidated loss for the period under review.

## **2011**

### **General Business Environment**

The year 2011 showcased both the resilience of the country's fundamentals and the fragility of the Philippine economy to external forces. Full year gross domestic product (GDP) settled at 3.7, way below the 4.5 to 5.5 percent projections. The National Economic Development Authority asserted, however, that the figure was within its growth forecast of 3.6 to 4.0 percent. A number of external shocks buffeted an economy that has long been susceptible to supply chain disruptions from neighboring countries such as Japan and Thailand, which suffered from natural calamities last year. Growth targets were likewise affected by the ongoing Middle East and North African crises, as well as the slow growth of the global economy on account of continuing problems in the United States and the Euro zone. The country was not spared the wrath of natural calamities, either, as several typhoons, flooding, and low-pressure areas weighed down on agriculture and infrastructure in 2011.

Despite the mixed results in the economic front and despite being dogged by accusations of inadequate public spending, the government nevertheless scored major points for its anti-corruption drive and its manifested sincerity and commitment to restore order in the bureaucracy and consequently, confidence in the country. Remittances continued to reach record levels while a number of indicators were kept within target. Moreover, some sectors posted unprecedented growth, the Philippine Stock Exchange among them.

The PSE bested other broad market indexes in 2011 in terms of overall improvements in index performance. While most of the broad market indexes posted declines in performance, the PSE surged to a 4.1% year-on-year index performance, outperforming Indonesia (3.2%) and Nordic Iceland (2.0%) and Malaysia (1.1%)



### **Performance of the Company**

The Company turned in improvements in terms of its overall performance and its core revenues. Our brokerage house reported a double-digit (21%) increase in commission, representing a year-on-year increase of Php32.6 million, from Php154.8 to Php187.4 million. This came as a result of the improved volume and activities in the Philippine stock market.

There was mixed results on the finance income posted by the Company and its subsidiaries during the year, resulting in a net decrease of P7.3 million, from Php139 million last year to 131.7 million this year. The decrease was on account of adjusted accounting treatment of short term investment on financial assets which showed an unrealized loss on marked to market valuation of Php7.4 million from a gain of Php63.3 million last year. Conversely, realized gain on sale of financial assets this year amounted to Php129.8 million as compared to last year's Php74.7 million or an increase of Php55.1 million.

Management fees recorded during the year was noted at Php39.7 million, a decrease of Php25.1 million as compared to the Php64.8million posted last year.

Consolidated revenues for the year stood at Php360.9 million, a slight increase of Php.3 million from last year's Php359.6 million.

As can be expected, variable costs from additional volumes of trades resulted in higher costs and expenses. Total costs and expenses for the year stood at Php344.1million, representing an increase of Php56.3 million from last year's Php287.8 million. As in the past, a large bulk of operating expenses was allocated for debt servicing in keeping with the company's commitment to honor its obligations.

Summing up the Company's performance for the year, consolidated net income amounted to Php21.2 million, a decrease of Php41.9 million as compared to the Php63.1million reported last year.

There was a decrease in total assets noted for the year amounting to Php484 million, from Php5,060 million in December 2010 to Php4,576 million in December 2011. The main cause of the temporary decrease was the marked to market valuation of our investment in financial assets, particularly our investment in BCOR shares. The effect of the decrease in available for sale financial assets was Php435.7 million, from last year's Php2,882.5 million to this year Php2,381.9 million.

A corresponding increase in total liabilities amounting to Php84million was also noted during the period under review bringing total liabilities from Php2,145 million to Php2,229 million due to increases in short term borrowings, partially offset by the payments made to trade customers and short term payables.

The temporary decrease due to the marked to market valuation and sale of the available for sale financial assets brought a decrease in the Company's stockholders' equity by Php569 million, from Php2,916 million to this year's Php2,347 million.

Aside from the discussions above, there are no material off-balance sheet transactions, arrangements, obligations( including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

The Company's performance in 2011 once again validated the inherent strengths of the company and give us reason for continued optimism. The company shall continue to leverage on and strengthen its core businesses while building new pipelines of revenue sources particularly in management and financial advisory services. The company will continue to manage costs and expenses while pursuing strategic investments in areas that will strengthen organizational capability and institutional growth.

**Item 7. Financial Statements**

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A.

**Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

For the years 2013, 2012, and 2011, the auditing firm of Punongbayan and Araullo was nominated and appointed by the Board of Directors to conduct the examination of the financial statements of the Company and its Subsidiaries. In compliance with the SEC Memorandum Circular No. 8 Series of 2003, the assignment of Mr. Romualdo P. Murcia, the engagement's partner, shall not exceed five (5) consecutive years.

There have been no changes in or disagreements with accountants on accounting and financial disclosure.

**The audit and audit-related fees paid by the Company in the last two (2) years are as follows:**

	<b>2013</b>	<b>2012</b>
<b>A. Audit and Audit-related Fees</b>		
1. Audit of the registrant's annual financial statements or services that are normally provided by the external auditor in connection with the statutory and regulatory filings or engagements.	<b>₱2,000,000</b>	<b>₱1,890,000</b>
2. Other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the registrant's financial statements	-0-	-0-
<b>B. Tax fees</b>	<b>₱0</b>	<b>₱0</b>
<b>C. All other fees</b>	<b>-0-</b>	<b>-0-</b>

The Company's Board of Directors reviews and approves the engagement of services of the Company external auditors, who are appointed upon the recommendation of the Audit Committee. Engagement Agreements are executed for every type of engagement, which provides for the scope of the work, timetable, fees, engagement team, etc. for each project.

**PART III – CONTROL AND COMPENSATION INFORMATION****Item 9. Directors and Executive Officers of the Registrant**

The names and ages of all incumbent Directors, elected on October 10, 2013 during the Annual Stockholders Meeting and are to serve for a term of one (1) year until their successors shall have been elected and qualified, with their business experiences for the past five (5) years:

<b>Position</b>	<b>Name</b>	<b>Citizenship</b>	<b>Age</b>	<b>Year of Assumption of Office</b>	<b>Number of yrs. as Director</b>
Chairman	Paulino S. Soo	Filipino	62	1994 to present	19
President	Jack T. Huang	Filipino	60	1995 to present	18
Treasurer	Vicente Co Chien, Jr.	Filipino	61	1995 to present	18
Director	Jimmy S. Soo	Filipino	56	1995 to present	18
Corp. Sec.	A. Bayani K. Tan	Filipino	59	1994 to present	19
Independent Director	Ma. Therese G. Santos	Filipino	55	2006 to present	7
Independent Director	Jimmy Chua Alabanza	Filipino	69	2008-present	5

**Mr. Paulino. Soo**  
**Chairman and Chief Executive Officer**

Mr. Soo holds a Master in Business Administration degree from the University of Pittsburgh Graduate School of Business and Bachelor of Science degree in Industrial Management Engineering from the De La Salle College. He is the President of Philippine Gaming Management Corporation, Berjaya Pizza Phils. Inc., Perdana Land Philippines Inc., Perdana Hotel Philippines Inc., Cosway Philippines Inc., and Bagan Resources PTE Inc.

Mr. Soo is a Director of Berjaya Auto Philippines Inc, Friendster Philippines Inc., Uniwiz Trade Sales Inc., and MOL Accessportal Inc. He is the Treasurer of Kailash PMN Management Corporation.

He is Chairman of Abacus Securities Corporation and Abacus Capital & Investment Corporation (1994-present), Vista Holdings Corporation ( 1994 - present)

**Mr. Jack T. Huang**  
**President**

Mr. Huang is the incumbent President of the Company. He holds a Bachelor of Arts degree in Economics from the Ateneo de Manila University. He is concurrently a director of Abacus Capital & Investment Corporation (1995-present) and Abacus Securities Corporation (1995-present). He is the President of Cebu Business Continuos Forms.(1994-present).

**Mr. Vicente Co Chien, Jr.**  
**Treasurer**

Mr. Co Chien is the Treasurer of the Corporation. He holds a Bachelor's degree in Business Economics from Hongkong Shue Yan University. He is the President of South Sea Realty and Development Corporation and Providence HealthCare Consultants (1999-present). He is concurrently director of Abacus Capital and Investment Corporation (1995-present), Abacus Securities Corporation (1995-present), Vista Holdings Corporation (1995-present). He is director of JWC Manpower Resources, Inc., Globalbridge Resources Corporation and Oro Peak Inc.

**Mr. Jimmy S. Soo**  
**Director**

Mr. Soo is a Director of the Company. He obtained his Bachelor of Laws degree from the University of the Philippines and was admitted to the Philippine Bar in 1985. He is the Managing Partner of Soo Gutierrez Leogardo and Lee Law Offices (1992-present). He is currently the Corporate Secretary and a Director of Abacus Capital & Investment Corporation (1995-present) and Vista Holdings Corporation. He is also a Director of Berjaya Pizza Philippines, Inc. He is also an Executive Officer, and/or Director and/or Corporate Secretary of various companies.

**Atty. A. Bayani K. Tan**  
**Director, Corporate Secretary**

Mr. Tan has been a Director and the Corporate Secretary of the Corporation since May 1994. He is currently a Director, Corporate Secretary or both of the following reporting and/or listed companies: \*Asia United Bank (February 2014-present), Belle Corporation (May 1994-present), Coal Asia Holdings, Inc. (July 2012-present), Destiny Financial Plans, Inc. (2003-present), Discovery World Corporation (March 2013 as Director, July 2003-present as Corporate Secretary), I-Remit, Inc. (May 2007-present), Pacific Online Systems Corporation (May 2007-present), Philequity Balanced Fund, Inc. (March 2010-present), Philequity Dollar Income Fund, Inc. (March 1999-present), Philequity Dividend Yield Fund, Inc. (January 2013-present), Philequity Foreign Currency Fixed Income Fund, Inc. (March 2010-present), Philequity Fund, Inc. (June 1997-present), Philequity Peso Bond Fund, Inc. (June 2000-present), Philequity PSE Index Fund, Inc. (February 1999-present), Philequity Resources Fund, Inc. (March 2010-present), Philequity Strategic Growth Fund, Inc. (April 2008-present), Sinophil Corporation (December 1993-present), Tagaytay Highlands International Golf Club, Inc. (November 1993-present), Tagaytay Midlands Golf Club, Inc. (June 1997-present), The Country Club at Tagaytay Highlands, Inc. (August 1995-present), The Spa and Lodge at Tagaytay Highlands, Inc. (December 1999-present), TKC Steel Corporation (February 2007-present), Vantage Equities, Inc. (January 1993-present) and Yehey! Corporation (June 2004-present). Mr. Tan is also the Corporate Secretary of Sterling Bank of Asia Inc. since December 2006. Mr. Tan is the Managing Partner of the law offices of Tan Venturanza Valdez (1988 to present), Managing Director/President of Shamrock Development Corporation (May 1988-present), Director of Destiny LendFund, Inc. (December 2005-present) and Pascual Laboratories, Inc. (March 2014-present), President of Catarman Chamber Elementary School Foundation, Inc. (August 2012-present), Managing Trustee of SCTan Foundation, Inc. (1986-present), Trustee and Treasurer of Rebisco Foundation, Inc. (April 2013-present) and Trustee and Corporate Secretary of St. Scholastica's Hospital, Inc. (February 2011-present). He is currently the legal counsel of Xavier School, Inc.

Mr. Tan holds a Master of Laws degree from New York University USA (Class of 1988) and earned his Bachelor of Laws degree from the University of the Philippines (Class of 1980) where he was a member of the Order of the Purple Feather (U.P. College of Law Honor Society) and ranked ninth in his class. Mr. Tan passed the bar examinations in 1981 where he placed sixth. He has a Bachelor of Arts major in Political Science degree from the San Beda College (Class of 1976) from where he graduated Class Valedictorian and was awarded the medal for Academic Excellence.

**Ms. Ma Therese G. Santos**  
**Independent Director**

Ms. Ma. Therese G. Santos is a Director of the Company. She is Associate Director/Administrator of Gravitas Prime, Inc. (2007-present). She is an Independent Director, and the Chairman of the Audit and Compliance Committee and Compensation and Remuneration Committee of Music Semiconductors Corporation (2003-present). Ms. Santos has been an independent Management Consultant by profession since 1997. She was the former Vice President for Treasury and Administration of Music Corporation. Ms. Santos was the Director of Finance for United Development Corporation (1991-1993). Ms. Santos received a Bachelor of Science Degree in Chemical Engineering and a Master's in Business Administration degree from the University of the Philippines.

**Mr. Jimmy Chua Alabanza**  
**Independent Director**

Mr. Jimmy Chua Alabanza is a Director of the Company. He is currently the Chairman of Insular Construction and Supply Co ( 1967 - present) and a Consultant of Seaboard Insurance Company ( 1990 – present). He received a Bachelor of Science Degree in Management from Ateneo de Manila University in 1967.

**FAMILY RELATIONSHIP**

**Paulino S. Soo, Chairman of the Board, is the brother of Jimmy S. Soo, Director**

There are no other significant employees.

**Involvement in Certain Legal Proceedings**

The Company is not aware of any of the following events wherein any of its directors, executive officers, nominees for election as director, executive officers, underwriter or control persons were involved during the past five (5) years and up to the date of this report :

1. any bankruptcy petition filed by or against any business of which any of the above persons was a general partner or executive office either at the time of the bankruptcy or within two years prior to that time;
2. any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

3. any order or judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of any of the above persons in any type of business, securities, commodities or banking activities; and
4. any findings by a domestic or foreign court of competent jurisdiction (in civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, that any of the above persons has violated a securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

The Company and its major subsidiaries and associates are not involved in, nor are any of their properties subject to, any material legal proceedings that could potentially affect their operations and financial capabilities.

## **Item 10. Executive Compensation**

### **(1) General**

#### **All Compensation Covered**

Except for executive officers included under the compensation table below, all other executive officers and directors do not receive salaries.

### **(2) Summary of Compensation Table**

The following is a summary of the aggregate compensation paid or accrued during the last two (2) fiscal years, i.e. 2013 and 2012 and to be paid in the ensuing fiscal year 2014 to the Company's Chief Executive Officer and four (4) other mostly highly compensated executive officers who are individually named, and to all other officers and director of the Company as a group:

<b>Name and Principal Function</b>	<b>Fiscal Year</b>	<b>Salary</b>	<b>Bonus</b>	<b>Other Annual Compensation</b>
Paulino S. Soo Chairman and CEO	2012			
	2013			
	2014			
Jack T. Huang President	2012			
	2013			
	2014			
Schubert Caesar C. Austero VicePresident/HRM	2012			
	2013			
	2014			
Sheila Marie Aguilar Vice President	2012			
	2013			
	2014			
Melanio C. Dela Cruz Vice President	2012			
	2013			
	2014			

Total for the Group	2012	5,613,961	1,785,741	-0-
	2013	7,142,506	1,472,216	-0-
	2014	7,315,803	1,825,856	-0-
All Officers As A Group Unnamed	2012	6,711,341	2,138,511	-0-
	2013	8,312,500	1,716,967	-0-
	2014	8,514,184	2,129,399	-0-

**(3) Compensation of Directors**

(A) Standard Arrangement

The Member of the Board of Directors are not entitled to receive salaries and bonuses

(B) Other Arrangements.

None

**(4) Employment Contracts and Termination of Employment and Change-in Control Arrangements.**

None

**(5) Warrants and Options Outstanding :**

None

**Item 11. Security Ownership of Certain Beneficial Owners and Management**

**1. Security Ownership (more than 5%) of Certain Beneficial Owners and Management as of December 31, 2013.**

Class	Name and Address record owner and relationship with Issuer	Name of Beneficial Owner and Relationship with Owner	Citizenship	No. of Shares Held	Percentage Of Class
Common	PCD Nominee Corp. 2 <sup>nd</sup> Floor Makati Stock Exchange Bldg. Ayala Avenue Makati City		Filipino	817,769,000	68.54
Common	Paulino S. Soo (record and beneficial) Chairman and President 29 <sup>th</sup> Floor Abacus Securities Corp. East Tower PSE Center, Exchange Road, Pasig City	(Same as owner)	Filipino	133,000,000	11.15
Common	**Abacus Capital and Invt. Corp.(record and beneficial); subsidiary and stockholder 29 <sup>th</sup> Floor East Tower PSE Center, Exchange Road, Pasig City	(Same as owner)	Filipino	62,191,000	5.21
<i>Total</i>				<i>1,012,960,000</i>	<i>84.89</i>

There is no arrangement that may result in a change in control of the registrant and any voting trust holders

\*PCD Nominee corporation (“PCDNC”) is a wholly-owned subsidiary of the Philippine Central Depository, Inc. (“PCD”). The beneficial owners of such shares registered under the name of PCDNC are PCD’s participants, who hold the shares in their own behalf or in behalf of their clients. Individual or Group owners reported under PCD Nominee Corporation have less than 10% ownership of the outstanding capital stock of the Corporation.

There are no Individuals or Corporate stockholders who own more than 5% of the Company’s voting securities under PCD Nominee Corporation.

\*\* Mr. Paulino S. Soo, Chairman and President of Abacus Capital and Investment Corporation, directs the voting/disposition of shares held by both Companies.

## 1. Security Ownership of Management

The following is a summary of the beneficial holdings of the Company’s Directors and Executive Officers as of December 31, 2013:

Class	Beneficial Owner	Citizenship	Amount and Nature of Beneficial Ownership[record (r) or beneficial (b)]		Percent of Class
Common	Paulino S. Soo	Filipino	133,000,000	r / b	11.15
-do-	Jack T. Huang	Filipino	500,000	r / b	0.04
-do-	Jimmy S. Soo	Filipino	10,010,000	r / b	0.84
-do-	Vicente Co Chien	Filipino	6,130,000	r / b	0.51
-do-	A. Bayani K. Tan	Filipino	100,000	r / b	0.01
-do-	Ma. Therese G. Santos	Filipino	10,000	r / b	.000
-do-	Jimmy Chua Alabanza	Filipino	10,000	r / b	.000
-do-	All directors and Executive Officers as group unnamed		149,760,000	r / b	12.55

## 2. Voting Trust Holders of 5% or More

There is no voting trust or similar arrangement

## 3. Changes in Control

There are no arrangements that may result in a change of control of the registrant and no change of control occurred during the year.



**Item 12. Certain Relationship and Related Transactions**

Except as provided below, during the last two years, there are no related transactions either direct or indirect with the Company's Board of Directors.

In the normal course of business, the Company grants to and obtains advances from its affiliates. These advances earn interest at rates to the weighted average of the interest rates of the outstanding loans payable to the banks. For further information of these advances, please to the consolidated financial statements of the company and its subsidiaries.

There are no transactions with any promoter nor are there any assets to be acquired from a promoter. Registrant has no parent.

**PART IV – CORPORATE GOVERNANCE**

The Company has been monitoring compliance with SEC Memorandum Circular No.2, Series of 2002, as well as other relevant SEC Circulars and rules on good corporate governance. All directors, officers, and employees complied with all the leading practices and principles on good corporate governance as embodied in the Corporation's Manual. The Company complied with the appropriate performance self-rating assessment and performance evaluation system to determine and measure compliance with the Manual of Corporate Governance.

The Company is not aware of any non-compliance with or deviation from its Manual of Corporate Governance. The Company will continue to monitor compliance with the SEC Rules on Corporate Governance, and shall remain committed in insuring the adoption of other systems and practices of good corporate governance to enhance its value for its shareholders.

**PART V- EXHIBITS AND SCHEDULES**

a) Exhibits

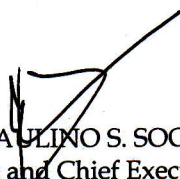
(Please see supplemental financial statements schedules).


**SIGNATURE PAGE**

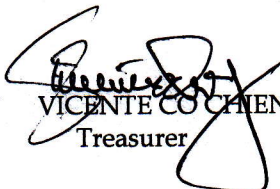
Pursuant to the requirements of the Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of **PASIG CITY** on **APR 28 2014**, 2014.


**FIRST ABACUS FINANCIAL HOLDINGS CORPORATION**  
Issuer

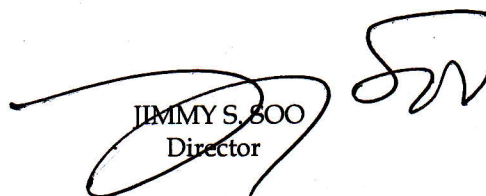
By:

  
PAULINO S. SOO  
Chairman and Chief Executive Officer

  
JACK T. HUANG  
President

  
VICENTE CO CHIEN, JR.  
Treasurer

  
ANNA FRANCESCA C. RESPICIO  
Assistant Corporate Secretary


  
JIMMY S. SOO  
Director

**REPUBLIC OF THE PHILIPPINES)  
PASIG CITY, METRO MANILA) S.S.**

SUBSCRIBED AND SWORN TO before me this **APR 28 2014** 2014 affiants exhibiting to me their passport number, as follows:

NAMES	CTC/PASSPORT#	DATE OF ISSUE	PLACE OF ISSUE
PAULINO S. SOO	EB2859026	Mar. 20, 2012	Manila
VICENTE CO CHIEN	EA0001628	Oct. 13, 2009	Manila
JACK T. HUANG	N1072027621	March 10, 2016	Cebu City
ANNA FRANCESCA C. RESPICIO	34260627	January 13, 2014	Manila
JIMMY S. SOO	Passport#133832627	November 15, 1999	Manila

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Page No. **19**  
Book No. **11**  
Series of 2014.

  
**MARIO VINCENT N. DIAZ**  
Notary Public for  
Pasig City, San Juan, Taguig & Pateros  
Appointment No. 286 (2013-2014)  
Commission Expires on December 31, 2014  
27th East Tower, PSE Centre Exchange Road  
Ortigas Center 1605 Pasig City  
PTR No. 9443772 / 01-10-2014 Quezon City  
IAP No. 945761 / 12-27-2014 Quezon City  
Roll No. 32170



# Punongbayan & Araullo

An instinct for growth™

## Report of Independent Auditors

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The Enterprise Center  
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1200 Makati City  
Philippines

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[www.punongbayan-araullo.com](http://www.punongbayan-araullo.com)

### **The Board of Directors and the Stockholders First Abacus Financial Holdings Corporation**

Unit 2904-A, Philippine Stock Exchange Centre  
Exchange Road, Ortigas Center  
Pasig City

We have audited the accompanying consolidated financial statements of First Abacus Financial Holdings Corporation and subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three the years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

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

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





### *Auditors' Responsibility*

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

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

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

### *Opinion*

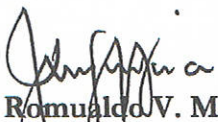
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of First Abacus Financial Holdings Corporation and subsidiaries as of December 31, 2013 and 2012, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2013, in accordance with Philippine Financial Reporting Standards.



*Emphasis of a Matter*

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements, which indicates that the Group has accumulated deficit of P645,468,257 and P630,229,809 as of December 31, 2013 and 2012, respectively. The accumulation of significant deficit indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The Group's management believes, however, that the Group will be able to recoup the deficit incurred in past years and the recovery will continue once the general business environment in the country further improves.

**PUNONGBAYAN & ARAULLO**

  
**By: Romualdo V. Murcia III**  
Partner

CPA Reg. No. 0095626

TIN 906-174-059

PTR No. 4225011, January 2, 2014, Makati City

SEC Group A Accreditation

Partner - No. 0628-AR-2 (until Sept. 5, 2016)

Firm - No. 0002-FR-3 (until Jan. 18, 2015)

BIR AN 08-002511-22-2013 (until Nov. 7, 2016)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 14, 2014

**FIRST ABACUS FINANCIAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2013 AND 2012**  
*(With Corresponding Figures as of January 1, 2012)*  
*(Amounts in Philippine Pesos)*

	Notes	December 31, 2013	December 31, 2012 (As Restated - see Note 2)	January 1, 2012 (As Restated - see Note 2)
<b><u>A S S E T S</u></b>				
<b>CASH</b>	7	<b>P 166,640,227</b>	P 130,355,384	P 174,714,949
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	8	<b>655,782,861</b>	557,756,995	433,016,792
<b>AVAILABLE-FOR-SALE FINANCIAL ASSETS - Net</b>	9	<b>2,557,207,265</b>	2,598,351,240	2,381,928,250
<b>RECEIVABLES - Net</b>	10	<b>1,879,180,084</b>	1,430,667,136	1,290,284,135
<b>PROPERTY AND EQUIPMENT - Net</b>	12	<b>77,407,897</b>	80,916,492	92,834,126
<b>OTHER ASSETS - Net</b>	13	<b>256,840,665</b>	225,583,071	203,733,503
<b>TOTAL ASSETS</b>		<b><u>P 5,593,058,999</u></b>	<b><u>P 5,023,630,318</u></b>	<b><u>P 4,576,511,755</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>				
<b>INTEREST-BEARING LOANS AND BORROWINGS</b>	14	<b>P 2,605,671,600</b>	P 2,012,060,034	P 1,752,625,980
<b>DUE TO CUSTOMERS</b>	15	<b>220,141,921</b>	274,815,850	379,602,721
<b>ACCOUNTS PAYABLE AND OTHER LIABILITIES</b>	16	<b>254,422,393</b>	160,501,548	97,230,347
Total Liabilities		<b><u>3,080,235,914</u></b>	<b><u>2,447,377,432</u></b>	<b><u>2,229,459,048</u></b>
<b>CAPITAL STOCK</b>	17	<b>1,193,200,000</b>	1,193,200,000	1,193,200,000
<b>ADDITIONAL PAID-IN CAPITAL</b>		<b>3,104,800</b>	3,104,800	3,104,800
<b>TREASURY SHARES - At Cost</b>	17	<b>( 385,670,581 )</b>	( 385,670,581 )	( 385,670,581 )
<b>REVALUATION RESERVES</b>	17	<b>2,347,657,123</b>	2,395,848,476	2,156,306,474
<b>DEFICIT</b>	1, 17	<b>( 645,468,257 )</b>	( 630,229,809 )	( 619,887,987 )
Total Equity		<b><u>2,512,823,085</u></b>	<b><u>2,576,252,886</u></b>	<b><u>2,347,052,707</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>P 5,593,058,999</u></b>	<b><u>P 5,023,630,318</u></b>	<b><u>P 4,576,511,755</u></b>

*See Notes to Consolidated Financial Statements.*

**FIRST ABACUS FINANCIAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**  
*(Amounts in Philippine Pesos)*

	Notes	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
<b>REVENUES</b>				
Commissions	2	P 231,281,697	P 169,861,107	P 187,415,376
Finance income	20	145,083,212	80,372,800	131,714,183
Management fees	11	23,121,406	68,181,486	39,673,908
Others		<u>1,460,927</u>	<u>11,207,971</u>	<u>2,052,514</u>
		<u>400,947,242</u>	<u>329,623,364</u>	<u>360,855,981</u>
<b>EXPENSES</b>				
Finance costs	20	207,857,959	154,627,538	149,967,807
Commissions		60,203,145	48,032,627	52,188,652
Employee benefits	18	50,884,731	49,628,295	50,809,496
Depreciation and amortization	12, 13	19,658,769	18,600,676	18,047,785
Taxes and licenses		17,213,475	16,055,763	15,877,075
Communication		9,972,383	9,926,425	7,858,508
Exchange fees		9,749,947	8,834,664	7,665,270
Representation and entertainment		6,412,999	10,837,796	13,494,098
Membership fees and dues		5,799,825	9,010,298	3,316,011
Professional fees		5,479,837	5,107,972	5,955,472
Outside services		4,089,113	3,839,888	7,354,299
Others	19	<u>14,890,229</u>	<u>13,909,019</u>	<u>11,572,288</u>
		<u>412,212,412</u>	<u>348,410,961</u>	<u>344,106,761</u>
<b>PROFIT (LOSS) BEFORE TAX</b>		( 11,265,170 )	( 18,787,597 )	16,749,220
<b>TAX INCOME (EXPENSE)</b>	21	( <u>3,973,278</u> )	<u>8,445,775</u>	<u>4,436,531</u>
<b>NET PROFIT (LOSS)</b>		( <u>P 15,238,448</u> )	( <u>P 10,341,822</u> )	<u>P 21,185,751</u>
<b>Basic and Diluted Earnings (Losses) Per Share</b>	22	( <u>P 0.0149</u> )	( <u>P 0.0101</u> )	<u>P 0.0207</u>

*See Notes to Consolidated Financial Statements.*



**FIRST ABACUS FINANCIAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**  
*(Amounts in Philippine Pesos)*

	Notes	2013	2012 (as Restated - see Note 2)	2011 (as Restated - see Note 2)
<b>NET PROFIT (LOSS)</b>		<b>( P 15,238,448 )</b>	<b>( P 10,341,822 )</b>	<b>P 21,185,751</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>Items that will not be reclassified subsequently to profit or loss</b>				
Remeasurement of post-employment defined benefit obligation	18	2,062,576	-	3,980,666
<b>Items that will be reclassified subsequently to profit or loss</b>				
Unrealized fair value gains (losses) on available-for-sale financial assets	9	45,154,375	259,847,206	( 471,973,440 )
Reclassification of realized fair value gains on available-for-sale financial assets to profit or loss	9	( 95,408,304 )	( 20,305,204 )	( 105,566,589 )
<b>Other Comprehensive Income (Loss) - net of tax</b>		( 48,191,353 )	239,542,002	( 573,559,363 )
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>( P 63,429,801 )</b>	<b>P 229,200,180</b>	<b>( P 552,373,611 )</b>

*See Notes to Consolidated Financial Statements.*

**FIRST ABACUS FINANCIAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**  
*(Amounts in Philippine Pesos)*

Notes	Capital Stock (see Note 17)	Additional Paid-in Capital (see Note 17)	Treasury Shares (see Note 17)	Revaluation Reserves (see Notes 2 and 17)	Deficit (see Notes 2 and 17)	Total Equity
BALANCE AT JANUARY 1, 2013						
As previously reported	P 1,193,200,000	P 3,104,800	( P 385,670,581 )	P 2,410,342,966	( P 632,039,093 )	P 2,588,938,092
Effect of PAS 19 (Revised)	2	-	-	( 14,494,490 )	1,809,284	( 12,685,206 )
As restated	<u>1,193,200,000</u>	<u>3,104,800</u>	<u>( 385,670,581 )</u>	<u>2,395,848,476</u>	<u>( 630,229,809 )</u>	<u>2,576,252,886</u>
Net loss for the year	-	-	-	-	( P 15,238,448 )	( P 15,238,448 )
Remeasurements of post-employment defined benefit	-	-	-	2,062,576	-	2,062,576
Available-for-sale financial assets						
Unrealized fair value gains for the year	-	-	-	45,154,375	-	45,154,375
Realized fair value gains transferred to profit or loss	-	-	-	( 95,408,304 )	-	( 95,408,304 )
Total comprehensive income (loss) for the year	-	-	-	( 48,191,353 )	( 15,238,448 )	( 63,429,801 )
<b>BALANCE AT DECEMBER 31, 2013</b>	<u>P 1,193,200,000</u>	<u>P 3,104,800</u>	<u>( P 385,670,581 )</u>	<u>P 2,347,657,123</u>	<u>( P 645,468,257 )</u>	<u>P 2,512,823,085</u>
BALANCE AT JANUARY 1, 2012						
As previously reported	P 1,193,200,000	P 3,104,800	( P 385,670,581 )	P 2,170,800,964	( P 621,079,242 )	P 2,360,355,941
Effect of PAS 19 (Revised)	2	-	-	( 14,494,490 )	1,191,255	( 13,303,235 )
As restated	<u>1,193,200,000</u>	<u>3,104,800</u>	<u>( 385,670,581 )</u>	<u>2,156,306,474</u>	<u>( 619,887,987 )</u>	<u>2,347,052,706</u>
Net loss for the year	-	-	-	-	( 10,341,822 )	( 10,341,822 )
Available-for-sale financial assets						
Unrealized fair value losses for the year	-	-	-	259,847,206	-	259,847,206
Realized fair value gains transferred to profit or loss	-	-	-	( 20,305,204 )	-	( 20,305,204 )
Total comprehensive income (loss) for the year	-	-	-	239,542,002	( 10,341,822 )	229,200,180
BALANCE AT DECEMBER 31, 2012	<u>P 1,193,200,000</u>	<u>P 3,104,800</u>	<u>( P 385,670,581 )</u>	<u>P 2,395,848,476</u>	<u>( P 630,229,809 )</u>	<u>P 2,576,252,886</u>
BALANCE AT JANUARY 1, 2011						
As previously reported	P 1,193,200,000	P 3,104,800	( P 385,670,581 )	P 2,748,340,993	( P 643,389,136 )	P 2,915,586,076
Effect of PAS 19 (Revised)	2	-	-	( 18,475,156 )	2,315,398	( 16,159,758 )
As restated	<u>1,193,200,000</u>	<u>3,104,800</u>	<u>( 385,670,581 )</u>	<u>2,729,865,837</u>	<u>( 641,073,738 )</u>	<u>2,899,426,318</u>
Net profit for the year	-	-	-	-	21,185,751	21,185,751
Remeasurements of post-employment defined benefit	-	-	-	3,980,666	-	3,980,666
Available-for-sale financial assets						
Unrealized fair value losses for the year	-	-	-	( 471,973,440 )	-	( 471,973,440 )
Realized fair value gains transferred to profit or loss	-	-	-	( 105,566,589 )	-	( 105,566,589 )
Total comprehensive income (loss) for the year	-	-	-	( 573,559,363 )	21,185,751	( 552,373,611 )
BALANCE AT DECEMBER 31, 2011	<u>P 1,193,200,000</u>	<u>P 3,104,800</u>	<u>( P 385,670,581 )</u>	<u>P 2,156,306,474</u>	<u>( P 619,887,987 )</u>	<u>P 2,347,052,707</u>

*See Notes to Consolidated Financial Statements.*

**FIRST ABACUS FINANCIAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**  
*(Amounts in Philippine Pesos)*

	Notes	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit (loss) before tax		( P 11,265,170 )	( P 18,787,597 )	P 16,749,220
Adjustments for:				
Interest expense	20	179,213,236	153,269,522	142,519,818
Depreciation and amortization	12, 13	19,658,769	18,600,676	18,047,785
Interest income	20	( 1,138,635 )	( 996,842 )	( 962,209 )
Operating profit before working capital changes		186,468,200	152,085,759	176,354,614
Increase in financial assets at fair value through profit or loss		( 98,025,866 )	( 124,740,203 )	( 22,406,930 )
Decrease (increase) in available-for-sale financial assets		( 7,047,378 )	23,119,012	( 94,327,995 )
Decrease (increase) in receivables		( 448,512,948 )	( 140,383,001 )	3,173,024
Increase in other assets		( 39,991,315 )	( 16,788,578 )	( 1,911,988 )
Decrease in due to customers		( 54,673,929 )	( 104,786,872 )	( 94,310,806 )
Increase (decrease) in accounts payable and other liabilities		93,632,231	63,168,251	( 126,253,999 )
Cash used in operations		( 368,151,005 )	( 148,325,632 )	( 159,684,079 )
Interest received		744,109	996,842	962,209
Cash paid for final taxes		( 73,636 )	( 112,720 )	( 151,084 )
Net Cash Used in Operating Activities		( 367,480,532 )	( 147,441,510 )	( 158,872,954 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisitions of property and equipment	12	( 11,316,095 )	( 1,900,219 )	( 12,827,506 )
Acquisition of computer software	13	-	( 1,126,607 )	( 105,357 )
Net Cash Used in Investing Activities		( 11,316,095 )	( 3,026,826 )	( 12,932,863 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Loan availments		603,422,080	276,042,978	303,461,004
Interest paid		( 173,141,488 )	( 153,325,283 )	( 141,342,409 )
Loan repayments		( 15,199,122 )	( 16,608,924 )	( 28,318,571 )
Net Cash From Financing Activities		415,081,470	106,108,771	133,800,024
<b>NET INCREASE (DECREASE) IN CASH</b>		36,284,843	( 44,359,565 )	( 38,005,793 )
<b>CASH AT BEGINNING OF YEAR</b>		130,355,384	174,714,949	212,720,742
<b>CASH AT END OF YEAR</b>		<u>P 166,640,227</u>	<u>P 130,355,384</u>	<u>P 174,714,949</u>

*See Notes to Consolidated Financial Statements.*

**FIRST ABACUS FINANCIAL HOLDINGS CORPORATION  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2013, 2012 AND 2011  
(Amounts in Philippine Pesos)**

**1. CORPORATE MATTERS**

***1.01 Corporate Information***

First Abacus Financial Holdings Corporation (the Parent Company) was incorporated in the Philippines and wholly owns the following subsidiaries, all of which are incorporated in the Philippines:

<u>Subsidiaries</u>	<u>Nature of Business</u>
Abacus Capital & Investment Corporation (ACIC)	Investment banking
Abacus Securities Corporation (ASC)	Securities brokerage
Vista Holdings Corporation (VHC)	Leasing

The Parent Company's transactions consist mainly of regular financial support granted to related parties to carry out their respective business operations. The Parent Company's shares of stock are listed at the Philippine Stock Exchange (PSE).

The Parent Company's registered office, which is also its principal place of business, is located at Unit 2904-A, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City.

The Parent Company and its subsidiaries are hereinafter referred to as the Group.

***1.02 Status of Operations***

The Group has accumulated a deficit of P645,468,257 and P630,229,809 as of December 31, 2013 and 2012, respectively. The accumulation of significant deficit indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The Group's management believes, however, that the Group will be able to recoup the deficit incurred in past years and the recovery will continue once the general business environment in the country further improves.

***1.03 Approval of Financial Statements***

The consolidated financial statements of the Group for the year ended December 31, 2013 (including the comparative financial statements for December 31, 2012 and the corresponding figures as of January 1, 2012) were authorized for issue by the Parent Company's Chairman of the Board of Directors (BOD) on April 14, 2014.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. The policies have been consistently applied to all years presented, unless otherwise stated.

### ***2.01 Basis of Preparation of Consolidated Financial Statements***

#### *(a) Statement of Compliance with Philippine Financial Reporting Standards*

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council from the pronouncements issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

#### *(b) Presentation of Financial Statements*

The consolidated financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*. The Group presents consolidated statements of comprehensive income separate from the consolidated statements of profit or loss.

The Group presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the consolidated statement of financial position at the beginning of the preceding period. The related notes to the third consolidated statement of financial position are not required to be disclosed.

The Group's adoption of PAS 19 (Revised), *Employee Benefits*, resulted in material retrospective restatements on certain accounts in the comparative consolidated financial statements for the year ended December 31, 2012 and the corresponding figures as of January 1, 2012 [see Note 2.03(a)(ii)]. Accordingly, the Group presents a third consolidated statement of financial position as of January 1, 2012 without the related notes, except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

#### *(c) Functional and Presentation Currency*

These consolidated financial statements are presented in Philippine pesos, the Group's functional currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the consolidated financial statements of the Group are measured using its functional currency, the currency of the primary economic environment in which the Group operates.

## ***2.02 Basis of Consolidation***

The Parent Company obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the accounts of the Parent Company and its wholly owned subsidiaries, ACIC, ASC and VHC, after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting principles.

Subsidiaries are entities (including structured entities) over which the Parent Company has control. The Parent Company controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Parent Company obtains control. The Parent Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any noncontrolling interest in the acquiree, either at fair value or at the noncontrolling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any noncontrolling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss.

## 2.03 Adoption of New and Amended PFRS

### (a) Effective in 2013 that are Relevant to the Group

In 2013, the Group adopted for the first time the following new PFRS, revisions, annual improvements and amendments to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after July 1, 2012 or January 1, 2013:

PAS 1 (Amendment)	:	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
PAS 19 (Revised)	:	Employee Benefits
PAS 34 (Amendment)	:	Interim Financial Reporting – Interim Financial Reporting Segment Information for Total Assets and Liabilities
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
PFRS 10	:	Consolidated Financial Statements
PFRS 12	:	Disclosure of Interests in Other Entities
PAS 27 (Revised)	:	Separate Financial Statements
PAS 28 (Revised)	:	Investments in Associate and Joint Venture
PFRS 10 and 12 (Amendments)	:	Amendments to PFRS 10 and 12 – Transition Guidance to PFRS 10 and 12
PFRS 13	:	Fair Value Measurement
Annual Improvements	:	Annual Improvements to PFRS (2009-2011 Cycle)

Discussed below are the relevant information about these amended standards.

- (i) PAS 1 (Amendment), *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss; and, (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Group applied the amendment retrospectively, hence, the presentation of the consolidated statements of comprehensive income has been modified to reflect the groupings of items of other comprehensive income.
- (ii) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). This revised standard made a number of changes to the accounting for employee benefits. The most significant changes relate to defined benefit plans as follows:
  - eliminates the corridor approach and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;

- changes the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit liability or asset; and,
- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The Group has applied PAS 19 (Revised) retrospectively in accordance with its transitional provisions. Consequently, the Group restated the comparative amounts disclosed in prior years and adjusted the cumulative effect of changes against the December 31, 2012 and January 1, 2012 balances. The effect of the restatement on the affected assets, liabilities, and equity components is shown below.

		<u>December 31, 2012</u>		
		<u>As Previously Reported</u>	<u>Effect of Adoption of PAS 19 (Revised)</u>	<u>As Restated</u>
<i>Changes in asset and liability:</i>				
Other assets	P	223,841,716	P 1,741,355	P 225,583,071
Accounts payable and other liabilities	(	146,074,987)	( 14,426,561)	( 160,501,548)
Net decrease in equity			(P 12,685,206)	
<i>Changes in components of equity:</i>				
Revaluation reserves	P	2,410,342,966	(P 14,494,490)	P 2,395,848,476
Deficit		632,039,093	1,809,284	630,229,809
Net decrease in equity			(P 12,685,206)	
		<u>January 1, 2012</u>		
		<u>As Previously Reported</u>	<u>Effect of Adoption of PAS 19 (Revised)</u>	<u>As Restated</u>
<i>Changes in asset and liability:</i>				
Other assets	P	201,935,307	P 1,798,196	P 203,733,503
Accounts payable and other liabilities	(	82,128,916)	( 15,101,431)	( 97,230,347)
Net decrease in equity			(P 13,303,235)	
<i>Changes in components of equity:</i>				
Revaluation reserves	P	2,170,800,964	(P 14,494,490)	P 2,156,306,474
Deficit		621,079,242	1,191,255	619,887,987
Net decrease in equity			(P 13,303,235)	



The effects of the adoption of PAS 19 (Revised) on the consolidated statements of profit or loss and consolidated statements of comprehensive income for the years ended December 31, 2012 and 2011 are shown below.

		December 31, 2012		
		As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
<i>Changes in profit or loss:</i>				
Employee benefits	P	50,311,474	(P 683,179)	P 49,628,295
Finance costs		154,619,230	8,308	154,627,538
Tax income		8,502,617	( 56,842)	8,445,775
Net change in net profit			(P 618,029)	
<i>Change in other comprehensive income:</i>				
Remeasurements of Post-employment defined benefit obligation			P -	
		December 31, 2011		
		As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
<i>Changes in profit or loss:</i>				
Employee benefits	P	48,859,213	(P 1,950,283)	P 50,809,496
Finance income		130,779,001	935,182	131,714,183
Tax income		4,545,572	( 109,011)	4,436,531
Net change in net profit			(P 906,090)	
<i>Change in other comprehensive income:</i>				
Remeasurements of Post-employment defined benefit obligation	P	-	P 3,980,666	P 3,980,666

The adoption of PAS 19 (Revised) did not have a material impact on Group's consolidated statements of cash flows for the year ended December 31, 2012 and 2011.

- (iii) PAS 34 (Amendment), *Interim Financial Reporting and Segment Information for Total Assets and Liabilities* (effective from January 1, 2013). This standard clarifies the requirements on segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in paragraph 23 of IFRS 8, *Operating Segments*. It also clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (a) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; and, (b) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment. The adoption of this standard did not have a material impact in the consolidated financial statements.

- (iv) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the consolidated statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's consolidated statement of financial position. The adoption of this amendment did not result in any significant changes in the Group's disclosures on its consolidated financial statements as there were no financial instruments which were set-off in the consolidated statement of financial position.

- (v) Consolidation, Associates and Disclosures

This package of associates and disclosures standards comprise of PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28 (revised 2011), *Investments in Associates and Joint Ventures*

- PFRS 10 changes the definition of control focusing on three elements which determine whether the investor has control over the investee such as the: (a) power over the investee; (b) exposure or rights to variable returns from involvement with the investee; and, (c) ability to use such power to affect the returns. This standard also provides additional guidance to assist in determining control when it is difficult to assess, particularly in situation where an investor that owns less than 50% of the voting rights in an investee may demonstrate control to the latter.
- PFRS 12 integrates and makes consistent the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates, special purpose entities and unconsolidated structured entities. In general, this requires more extensive disclosures about the risks to which an entity is exposed from its involvement with structured entities.
- PAS 27 (Revised) deals with the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10, while PAS 28 (revised) includes the requirements for joint ventures, as well as for associates, to be accounted for using the equity method following the issuance of PFRS 11.

Subsequent to the issuance of these standards, amendments to PFRS 10, and PFRS 12 were issued to clarify certain transitional guidance for the first-time application of the standards. The guidance clarifies that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirement to present comparatives for disclosures relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

The Group has evaluated the various facts and circumstances related to its interests in other entities and it has determined that the adoption of the foregoing standards, revisions and amendments had no material impact on the amounts recognized in the consolidated financial statements.

- (vi) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This new standard clarifies the definition of fair value and provides guidance and enhanced disclosures about fair value measurements. The requirements under this standard do not extend the use of fair value accounting but provide guidance on how it should be applied to both financial instrument items and non-financial items for which other PFRS require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances. This new standard applies prospectively from annual period beginning January 1, 2013, hence, disclosure requirements need not be presented in the comparative information in the first year of application.

Other than the additional disclosures presented in Note 5, the application of this new standard had no significant impact on the amounts recognized in the consolidated financial statements.

- (vii) 2009-2011 Annual Improvements to PFRS. Annual improvement to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following are relevant to the Group:
  - (a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies that a statement of financial position as at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the third statement of financial position. The amendment specifies that other than disclosure of certain specified information in accordance with PAS 8 related notes to the third statement of financial position are not required to be presented.

Consequent to the Group's adoption of PAS 19 (Revised) in the current year which resulted in retrospective restatement of the prior years' consolidated financial statements, the Group has presented a third consolidated statement of financial position as of January 1, 2012 without the related notes, except for the disclosure requirements of PAS 8.

- (b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment*. The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory. This amendment had no impact on the Group's consolidated financial statements since it does not have servicing equipment used in operations.
- (c) PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity. This amendment had no effect on the Group's consolidated financial statements as it has been recognizing the effect of distributions to holders of equity instruments and transaction costs of an equity transaction in accordance with PAS 12.

*(b) Effective in 2013 that are not Relevant to the Group*

The following amendments, annual improvements and interpretation to PFRS are mandatory for accounting periods beginning on or after January 1, 2013 but are not relevant to the Group's consolidated financial statements:

PFRS 1 (Amendment)	: First-time Adoption of PFRS – Government Loans
Annual Improvements (2009-2011 Cycle)	
PFRS 1 (Amendments)	: First-time Adoption of PFRS – Repeated Application of PFRS 1 and Borrowing Costs
Philippine Interpretation International Financial Reporting Interpretations Committee 20	: Stripping Costs in the Production Phase of a Surface Mine

(c) *Effective Subsequent to 2013 but not Adopted Early*

There are new PFRS, amendments, annual improvements and interpretation to existing standards that are effective for periods subsequent to 2013.

Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

- (i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has initially determined that this amendment will have no impact on the Group's consolidated financial statements.
- (ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business; in the event of default; and, in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and provided characteristics of a gross settlement system that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.
- (iii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. Management will reflect in its subsequent years' consolidated financial statements the changes arising from this relief on disclosure requirements, if the impact of the amendment will be applicable.
- (iv) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective from January 1, 2014). The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

- (v) PFRS 9, *Financial Instruments: Classification and Measurement*. This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value. In addition, PFRS 9 allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangement, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to the liability's credit risk is recognized in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

In November 2013, the IASB has published amendments to International Financial Reporting Standard (IFRS) 9 that contain new chapter and model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The amendment also now requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather in profit or loss. It also includes the removal of the January 1, 2015 mandatory effective date of IFRS 9.

To date, the remaining chapter of IFRS/PFRS 9 dealing with impairment methodology is still being completed. Further, the IASB is currently discussing some limited modifications to address certain application issues regarding classification of financial assets and to provide other considerations in determining business model.

The Group does not expect to implement and adopt PFRS 9 until its effective date. In addition, management is currently assessing the impact of PFRS 9 on the consolidated financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

- (vi) PFRS 10, 12 and PAS 27 (Amendments) – *Investment Entities* (effective from January 1, 2014). The amendments define the term “investment entities”, provide supporting guidance, and require investment entities to measure investments in the form of controlling interest in another entity, at fair value through profit or loss.

Management does not anticipate this amendment to have a material impact on the Group’s consolidated financial statements.

- (vii) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after July 1, 2014. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group’s consolidated financial statements:

*Annual Improvements to PFRS (2010-2012 Cycle)*

- (a) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.
- (b) PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the financial statements and not the amounts of compensation paid or payable by the key management entity to its employees or directors.
- (c) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

*Annual Improvements to PFRS (2011-2013 Cycle)*

- (a) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32.

- (b) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3, *Business Combinations*, and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

## **2.04 Business Segments**

The Group is organized into the following business segments:

- (a) *Securities brokerage* – handles buying and selling of shares of stock, bonds and other securities.
- (b) *Investment banking* – provides services which include underwriting of financial instruments and management fees from financial and management advisory services.
- (c) *Leasing and others* – includes leasing of condominium units and other segment activities, none of which constitute a separately reportable segment.

Transactions between the business segments are on normal commercial terms and conditions.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds ranges from 7.12% to 7.46%.

Inter-segment revenues and expenses also include rentals from the operating leases on condominium units managed by certain segments. There are no other material items of income or expense between the business segments.

Segment assets and liabilities comprise operating assets and liabilities including items such as taxation and borrowings.

## **2.05 Financial Assets**

Financial assets, which are recognized when the Group becomes a party to the contractual terms of the financial instruments, include cash and other financial instruments. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments and AFS financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting period at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in consolidated profit or loss.



A more detailed description of the categories of financial assets relevant to the Group follows:

*(a) Financial Assets at FVTPL*

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

*(b) Loans and Receivables*

Loans and receivables 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. They are included in current assets, except for maturities greater than 12 months after the reporting period which are classified as non-current assets.

The Group's financial assets categorized as loans and receivables are presented as Cash and Receivables in the consolidated statement of financial position. Cash is defined as cash on hand and demand deposits which are unrestricted and readily available for use in the operations of the Group.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

*(c) AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Group's AFS financial assets include listed equity securities and golf club shares.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income.

Reversal of impairment loss is recognized in the consolidated other comprehensive income, except for investments that are debt securities which are recognized in the consolidated profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance Income (Costs) in the consolidated statement of profit or loss.

For securities that are actively traded in organized financial markets, fair value is determined by reference to stock exchange-quoted market bid prices at the close of business on the reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred.

### ***2.06 Offsetting Financial Instruments***

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 there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

### ***2.07 Property and Equipment***

Property and equipment are carried at cost less accumulated depreciation, amortization and impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in the consolidated profit or loss for the period.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Condominium units	15-25 years
Building improvements	5 years
Transportation equipment	5 years
Computer equipment	3-5 years
Furniture, fixtures and equipment	3-5 years

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.12).

The residual values and estimated useful lives of property and equipment are reviewed and adjusted, if appropriate, at the end of each reporting period.

An item of property and equipment, including the related accumulated depreciation and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included in the consolidated profit or loss in the year the item is derecognized.

### ***2.08 Investment Properties***

Investment properties, accounted for under the cost model, are properties held either to earn rental or for capital appreciation or both, but not for sale in the ordinary course of business, use for rendering of services or for administrative purposes.

Investment properties are measured initially at acquisition cost, including transaction costs.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in consolidated profit or loss for the period.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets of 25 years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.12).

The residual values and estimated useful lives of investment properties is reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in consolidated profit or loss in the year of retirement or disposal.

### ***2.09 Intangible Assets***

Intangible assets include goodwill, trading right and acquired computer software licenses (presented as part of Other Assets account in the consolidated statement of financial position). The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition or production.

#### ***(a) Goodwill***

Goodwill represents the excess of the acquisition cost of the investment over the fair value of identifiable net assets of a subsidiary at date of acquisition. Goodwill is carried at amortized cost up to the date of transition to PFRS less any impairment in value. Goodwill is subject to annual test for impairment whether there is an objective evidence of impairment or not (see Note 2.12).

#### ***(b) Trading Right***

Trading right represents the value of the exchange seat which allows the Group to trade in the PSE. Trading right is assessed as having an indefinite useful life and is tested annually for impairment and carried at cost less accumulated impairment losses (see Note 2.12).

#### ***(c) Computer Software***

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are expensed as incurred. Capitalized costs are amortized on a straight-line basis over the estimated useful life of three years as these intangible assets are considered finite (see Note 2.12).

### ***2.11 Deferred Oil Exploration Costs***

The Group made certain investments in oil exploration projects. The cost of exploration relating to service contract or block area which is still in the exploratory stage are capitalized as Deferred oil exploration costs (shown under the Other Assets account in the consolidated statement of financial position). When a service contract or block area is permanently abandoned, the related deferred oil exploration cost is written off. Service contracts or block areas are considered not permanently abandoned if the service contracts have not yet expired and/or there are ongoing negotiations for further exploration. The carrying amount of the capitalized deferred oil exploration costs is written down to its recoverable amount if the carrying amount is greater than its estimated recoverable amount (see Note 2.12).

### ***2.12 Impairment of Non-financial Assets***

The Group's property and equipment, investment properties, deferred oil exploration costs, goodwill, other intangible assets and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets with an indefinite useful life such as goodwill and trading right are tested for impairment at least annually.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro-rata to the other assets in the cash generating unit.

All assets, except goodwill and trading right, are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss. Impairment losses recognized on goodwill are not reversed.

### ***2.13 Financial Liabilities***

Financial liabilities include interest-bearing loans and borrowings, due to customers and accounts payable and other liabilities (excluding retirement benefit obligation and taxes-related payable).

Financial liabilities are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as expense under the caption Finance Cost in the consolidated statement of profit or loss.

Interest-bearing loans and borrowings are obtained to support the short-term to long-term funding needs of the Group. They are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Accounts payable and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities of more than one year, less settlement payments.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

### ***2.14 Provisions and Contingencies***

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### ***2.15 Related Party Relationships and Transactions***

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Parent Company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Parent Company that gives them significant influence over the Parent Company and close members of the family of any such individual; and retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

### ***2.16 Equity***

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves comprise gains and losses due to the revaluation of AFS financial assets and remeasurements of retirement benefit obligation.

Deficit represents all current and prior period results of operations as reported in the consolidated statement of profit or loss, reduced by the amounts of dividends declared.

### ***2.17 Revenue and Expense Recognition***

Revenue comprises revenue from rendering of services measured by reference to the fair value of consideration received or receivable by the Group for services rendered, excluding value-added tax (VAT).

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Group; and, the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Rendering of services (commissions, underwriting fees, financial and management advisory fees)* – Revenue is recognized when contractually agreed tasks have been substantially rendered.
- (b) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the assets.
- (c) *Rental* – Revenue is recognized on a straight line basis over the lease term.

Costs and expenses are recognized in the consolidated profit or loss upon utilization of services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except for borrowing costs capitalized as part of the cost of any qualifying asset (see Note 2.22).

### ***2.18 Securities Transactions***

Securities transactions (and related commission income and expense, if applicable) are recorded on a transaction date basis.

### ***2.19 Leases***

- (a) *Group as lessee* – Leases, which do not transfer to the Group substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments are recognized as expense in the consolidated profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.
- (b) *Group as lessor* – Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from operating leases is recognized as income in the consolidated profit or loss on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes 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.

## ***2.20 Foreign Currency Transactions***

The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated profit or loss.

## ***2.21 Employee Benefits***

### ***(a) Defined Benefit Plan***

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified and non-contributory. The Group does not have a formal retirement plan but it accrues retirement benefit obligation based on actuarial valuation report.

The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated periodically by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bond as published by Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance Costs or Finance Income account in the consolidated statement of profit or loss.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment.



*(b) Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

*(c) Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are in the Accounts Payable and Other Liabilities- Others account (see Note 16) in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

**2.22 Borrowing Costs**

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

**2.23 Income Taxes**

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is, when the investment property is depreciable and is held within the business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

#### ***2.24 Earnings (Loss) Per Share***

Earnings (loss) per share is determined by dividing consolidated net profit (loss) by the weighted average number of common shares issued and outstanding during the year.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares.

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

Any post-year-end event that provides additional information about the Group's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect the amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

#### ***3.01 Critical Management Judgments in Applying Accounting Policies***

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

##### *(a) Impairment of AFS Financial Assets*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

Allowance for impairment losses on the Group's AFS financial assets amounted to P144.9 million as of December 31, 2013 and 2012 (see Note 9).

##### *(b) Distinguishing Operating and Finance Leases*

The Group has entered into various lease agreements either as a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

##### *(c) Distinguishing Investment Properties and Owner-occupied Properties*

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

##### *(d) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and contingencies are discussed in Note 2.14 and relevant disclosures are presented in Note 23.

### ***3.02 Key Sources of Estimation Uncertainty***

The following are 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:

#### *(a) Estimating Useful Lives of Property and Equipment, Investment Properties and Computer Software*

The Group estimates the useful lives of property and equipment, investment properties and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment, investment properties and computer software are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical and legal or other limits on the use of the assets.

The carrying amounts of property and equipment, investment properties and computer software are analyzed in Notes 12, 13.03 and 13.06, respectively. Based on management's assessment as at December 31, 2013 and 2012, there is no change in estimated useful lives of property and equipment, investment properties and computer software during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

#### *(b) Impairment of Receivables*

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status, average age of accounts, collection experience and historical loss experience.

The carrying value of receivables and the analysis of allowance for impairment on such financial assets are shown in Note 10.

#### *(c) Valuation of Financial Assets Other Than Receivables*

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates, volatility rates. However, the amount of changes in fair value would differ if the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets would affect the consolidated profit and loss and other comprehensive income. In 2013 and 2012, most of the Group's financial assets measured at fair value are valued using price quoted in an active market.

The carrying values of the Group's financial assets at FVTPL and AFS financial assets and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 8 and 9, respectively.

*(d) Determining Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying values of recognized and unrecognized deferred tax assets as of December 31, 2013 and 2012 are disclosed in Note 21.

*(e) Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.12). Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment loss on non-financial assets was recognized in 2013, 2012 and 2011.

*(f) Valuation of Post-employment Defined Benefits*

The determination of the Group's retirement benefit obligation is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected rate of return on plan assets and salary rate increase. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 18.02.

*(g) Fair Value Measurement for Investment Property*

The Group's investment property is composed of condominium units carried at cost at the end of the reporting period. The fair value of investment property as disclosed in Note 13.03 is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behaviour of the buying parties. A significant change in these elements may affect prices and the value of the assets.

#### 4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating, financing and investing activities. The risk management activities at the level of each company in the Group is coordinated with the Parent Company, in close cooperation with the BOD, and focuses on actively securing the Group's short-to-medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The most significant financial risks to which the Group is exposed to are described below.

##### ***4.01 Interest Rate Risk***

The following table illustrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in the Group's interest-bearing loans and borrowings' interest rates of +/- 3.21% in 2013, +/- 3.57% in 2012 and +/- 5.25% in 2011. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at the end of each reporting period that are sensitive to changes in interest rates. All other variables are held constant.

	<b>Effect on Profit before Tax</b>	
	<b>Positive Change</b>	<b>Negative Change</b>
<b>2013 (+/-3.21%)</b>	<b>P 75,589,166</b>	<b>(P 75,589,166)</b>
2012 (+/-3.57%)	71,830,543	( 71,830,543)
2011 (+/-5.25%)	92,012,864	( 92,012,864)

##### ***4.02 Foreign Currency Risk***

Foreign currency risk arises mainly from potential losses from the changes in the exchange rates of the Group's foreign currency denominated assets.

The Group seeks to mitigate the effect of its foreign currency exposure by limiting its foreign currency transactions to the extent possible. The Group does not enter into forward contracts or hedging transactions.

The Group's United States (US) dollar-denominated financial instruments, pertain only to cash in bank, translated into Philippine pesos at the closing rates, amounting to P105,453 in 2013, P161,874 in 2012 and P368,852 in 2011.

The exchange rates used are P44.414:US\$1, P41.220:US\$1 and P43.928:US\$1, as of December 31, 2013, 2012 and 2011, respectively.

The table below demonstrates the possible impact on the Group's profit before tax and equity of the changes in the exchange rates of the Philippines peso and US dollars. It assumes a +/-23.40%, +/-13.83%, and +/- 16.23% change of the Philippine peso – US dollar exchange rate for the years ended December 31, 2013, 2012 and 2011, respectively. These percentages have been determined based on the average market volatility in the exchange rates in the previous 12 months, estimated at 99% confidence level, with all other variables held constant.

		<u>Positive Change</u>		<u>Negative Change</u>
<b>2013 (+/- 23.40%)</b>				
Profit before tax	(P	24,676)	P	24,676
Equity	(	17,273)		17,273
<b>2012 (+/- 13.83%)</b>				
Profit before tax	(P	22,387)	P	22,387
Equity	(	15,653)		15,653
<b>2011 (+/- 16.23%)</b>				
Profit before tax	(P	59,865)	P	59,865
Equity	(	41,900)		41,900

The Group's exposures to changes in foreign exchange rates may differ at various periods each year, depending on the volume of foreign currency transactions. Hence, the foregoing effects should not be construed to be representative of the Group's foreign currency exposure at any particular point in time.

#### **4.03 Credit Risk**

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers and placing deposits.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the consolidated statements of financial position (or in the detailed analysis provided in the notes to the consolidated financial statements) as summarized below.

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Cash in banks	7	<b>P 166,553,606</b>	P 130,263,763
Receivables – net	10	<b><u>1,879,180,084</u></b>	<u>1,430,662,018</u>
		<b><u>P 2,045,733,690</u></b>	<u>P 1,560,925,781</u>

The credit risk for cash is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Cash presented in the analysis in the previous page do not include cash on hand amounting to P86,621, P91,621 and P70,000 as of December 31, 2013, 2012 and 2011, respectively. It only includes cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500,000 for every depositor per banking institution.

The table below shows the credit quality by class of financial assets as of December 31.

	<u>Neither Past Due Nor Impaired</u>		<u>Past Due but</u>	
	<u>High</u>	<u>Standard</u>	<u>not Individually</u>	
	<u>Grade</u>	<u>Grade</u>	<u>Impaired</u>	<u>Total</u>
<u>December 31, 2013</u>				
Cash in bank	P 166,553,606	P -	P -	P 166,553,606
Receivables – net:				
Customers/brokers	26,759,349	1,004,984,073	12,786,153	1,044,529,575
Equity margin loans	-	608,968,067	-	608,968,067
Accounts receivable	3,559,589	129,182,077	-	132,741,666
Interest receivable	-	-	9,307,938	9,307,938
Notes receivable	-	-	78,739,251	78,739,251
Others	-	3,133,135	1,760,452	4,893,587
	<b><u>P 196,872,544</u></b>	<b><u>P1,746,267,352</u></b>	<b><u>P 102,593,794</u></b>	<b><u>P2,045,733,690</u></b>
<u>December 31, 2012</u>				
Cash in bank	P 130,263,763	P -	P -	P 130,263,763
Receivables – net:				
Customers/brokers	111,187,875	479,299,932	12,786,153	603,273,960
Equity margin loans	-	523,459,824	-	523,459,824
Accounts receivable	7,568,097	152,804,794	-	160,372,891
Interest receivable	-	-	62,854,154	62,854,154
Notes receivable	-	-	65,114,885	65,114,885
Others	-	394,819	15,196,603	15,591,422
	<b><u>P 249,019,735</u></b>	<b><u>P1,155,959,369</u></b>	<b><u>P 155,951,795</u></b>	<b><u>P1,560,930,899</u></b>

Certain receivables of the Group are partially secured by borrowers' collaterals and customers' stocks traded in the PSE that are held by the Group. Other financial assets are not secured by collateral or other credit enhancements.

Management believes that the amount of past due but not individually impaired receivables are still recoverable as the Group's management has regular communication with the debtors for the settlement of the receivables.

In respect of receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.



#### 4.04 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by the Group's ability to sell long-term financial assets.

As at December 31, 2013 and 2012, the Group's financial liabilities have contractual maturities which are presented below.

	<u>Current</u>		<u>Non-current</u>	
	<u>Within</u>	<u>6 to 12</u>	<u>1 to 5</u>	
	<u>6 Months</u>	<u>Months</u>	<u>Years</u>	<u>Total</u>
<b><u>December 31, 2013</u></b>				
Interest-bearing loans and borrowings	P 2,352,488,181	P 252,322,096	P 861,323	P 2,605,671,600
Accounts payable and other liabilities (excluding retirement benefit obligation and taxes payable)	35,400,170	219,022,223	-	254,422,393
Due to customers	<u>220,141,921</u>	<u>-</u>	<u>-</u>	<u>220,141,921</u>
	<b><u>P2,608,030,272</u></b>	<b><u>P 471,344,319</u></b>	<b><u>P 861,323</u></b>	<b><u>P 3,080,235,914</u></b>
<b><u>December 31, 2012</u></b>				
Interest-bearing loans and borrowings	P 1,917,109,793	P 82,778,925	P 12,171,316	P 2,012,060,034
Accounts payable and other liabilities (excluding retirement benefit obligation and taxes payable)	88,220,576	11,550,745	-	99,877,321
Due to customers	<u>274,815,850</u>	<u>-</u>	<u>-</u>	<u>274,815,850</u>
	<b><u>P 2,301,392,643</u></b>	<b><u>P 94,329,670</u></b>	<b><u>P 12,171,316</u></b>	<b><u>P 2,408,193,629</u></b>

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting period.

#### 4.05 Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (financial assets at FVTPL and AFS financial assets). It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

The observed volatility rates using standard deviation of the fair values of the Group's investments held at fair value and their impact on the Group's net profit and other comprehensive income as of December 31, 2013, 2012, and 2011 are summarized as follows:

			Increase		Decrease	
			Net Profit	Other Comprehensive Income	Net Profit	Other Comprehensive Income
<b>2012</b>						
Financial assets at FVTPL	+11.67%	-11.67%	P 65,090,024	P -	(P 65,090,024)	P -
AFS financial assets						
Berjaya Philippines, Inc. (BCOR)	+75.44%	-75.44%	-	1,954,779,583	-	(1,954,779,583)
			<u>P 65,090,024</u>	<u>P 1,954,779,583</u>	<u>(P 65,090,024)</u>	<u>(P 1,954,779,583)</u>
<b>2011</b>						
Financial assets at FVTPL	+16.98%	-16.98%	P 73,526,251	P -	(P 73,526,251)	P -
AFS financial assets						
BCOR	+19.61%	-19.61%	-	465,801,870	-	(465,801,870)
			<u>P 73,526,251</u>	<u>P 465,801,870</u>	<u>(P 73,526,251)</u>	<u>(P 465,801,870)</u>
<b>2010</b>						
Financial assets at FVTPL	+18.79%	-18.79%	P 73,896,387	P -	(P 73,896,387)	P -
AFS financial assets						
BCOR	+85.31%	-85.31%	-	2,453,451,677	-	(2,453,451,677)
			<u>P 73,896,387</u>	<u>P 2,453,451,677</u>	<u>(P 73,896,387)</u>	<u>(P 2,453,451,677)</u>

The investments in listed equity securities (classified as AFS financial assets) are considered long term, strategic investments. In accordance with the Group's policies, no specific hedging activities are undertaken in relation to these investments.

The volatility rates of investment in golf club shares were not presented as of December 31, 2013, 2012, and 2011 since the impact of these volatility rates using standard deviation of the golf club shares on the consolidated other comprehensive income would not be significant.

## 5. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

### 5.01 Carrying Amounts and Fair Values by Category

The cost and fair values of the categories of assets and liabilities presented in the consolidated statements of financial position are shown below.

Notes	2013		2012	
	Carrying Cost	Fair Values	Carrying Cost	Fair Values
<b>Financial assets</b>				
Loans and receivables:				
Cash	7	P 166,640,227	P 166,640,227	P 130,355,384
Receivables – net	10	<u>1,879,180,084</u>	<u>1,879,180,084</u>	<u>1,430,667,136</u>
		<u>2,045,820,311</u>	<u>1,561,022,520</u>	<u>1,561,022,520</u>
Financial assets at FVTPL				
Equity securities	8	655,782,861	655,782,861	557,810,495
AFS financial assets:				
Equity securities	9	<u>2,412,274,335</u>	<u>2,412,274,335</u>	<u>2,453,418,310</u>
		<u>3,068,057,196</u>	<u>3,011,175,305</u>	<u>3,011,175,305</u>
		<u>P 5,113,877,507</u>	<u>P 4,572,197,825</u>	<u>P 4,572,197,825</u>
<b>Financial liabilities</b>				
Financial liabilities at amortized cost:				
Interest-bearing loans and borrowings	14	P 2,605,671,600	P 2,605,671,600	P 2,012,060,034
Due to customers	15	220,141,921	220,141,921	274,815,850
Accounts payable and other other liabilities	16	<u>254,422,393</u>	<u>254,422,393</u>	<u>99,877,760</u>
		<u>P 3,080,235,914</u>	<u>P 3,080,235,914</u>	<u>P 2,385,773,644</u>

### 5.02 Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### ***5.03 Financial Instrument Measured at Fair Value***

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the consolidated statements of financial position on a recurring basis as of December 31, 2013 and 2012.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>December 31, 2013</b>				
Financial assets at FVTPL	P 655,782,861	P -	P -	P 655,782,861
AFS financial assets	<u>2,412,274,335</u>	<u>-</u>	<u>-</u>	<u>2,412,274,335</u>
	<b><u>P 3,068,057,196</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 3,068,057,196</u></b>
<b>December 31, 2012</b>				
Financial assets at FVTPL	P 557,810,495	P -	P -	P 557,810,495
AFS financial assets	<u>2,453,418,310</u>	<u>-</u>	<u>-</u>	<u>2,453,418,310</u>
	<b><u>P 3,011,175,305</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 3,011,175,305</u></b>

All financial instrument classified as AFS financial assets amounting to P2,557,207,265 as of December 31, 2013 and P2,598,351,240 as of December 31, 2012, respectively are classified as Level 1 in fair value hierarchy, except for the investments in unquoted equity securities amounting to P144,932,930 as of December 31, 2013 and 2012, which are fully provided with allowance and are measured at cost because the fair value cannot be reliably measured and therefore are not included in the schedule above (see Note 9).

There were no financial liabilities measured at fair value as of December 31, 2013 and 2012.

### ***5.04 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed***

The table below summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the 2013 consolidated statement of financial position but for which fair value is disclosed.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><i>Financial assets:</i></b>				
Cash	P 166,640,227	P -	P -	P 166,640,227
Receivables	<u>-</u>	<u>-</u>	<u>1,879,180,084</u>	<u>1,879,180,084</u>
	<b><u>P 166,640,227</u></b>	<b><u>P -</u></b>	<b><u>P 1,879,180,084</u></b>	<b><u>P 2,045,820,311</u></b>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Financial liabilities:</b>				
Interest-bearing loans and borrowings	P -	P -	P 2,605,671,600	P 2,605,671,600
Due to customers		-	220,141,921	220,141,921
Accounts payable and other liabilities	-	-	254,422,393	254,422,393
	<u>P -</u>	<u>P -</u>	<u>P 3,080,235,914</u>	<u>P 3,080,235,914</u>

For cash, with fair value included in Level 1, fair value is based on unadjusted quoted amount from the counterparty banks.

The fair values of the financial assets and financial liabilities included in Level 3 above which are not traded in an active market is determined by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

## 6. SEGMENT REPORTING

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The following tables present revenue and profit information regarding industry segments for the years ended December 31, 2013, 2012 and 2011 and certain assets and liabilities information regarding industry segments as at December 31, 2013, 2012 and 2011.

	<u>Year Ended December 31, 2013</u>				
	<u>Securities Brokerage</u>	<u>Investment Banking</u>	<u>Leasing and Others</u>	<u>Elimination</u>	<u>Group</u>
Revenues:					
External	P 232,907,892	P 154,166,907	P 13,872,443	P -	P 400,947,242
Inter-segment	<u>1,286,322</u>	<u>44,755,148</u>	<u>11,634,079</u>	<u>( 57,675,549)</u>	<u>-</u>
	<u>237,085,670</u>	<u>198,922,055</u>	<u>25,506,522</u>	<u>( 57,675,549)</u>	<u>400,947,242</u>
Expenses:					
External	165,623,566	241,561,380	21,206,326	-	412,212,412
Inter-segment	<u>53,385,724</u>	<u>4,289,825</u>	<u>-</u>	<u>( 73,854,410)</u>	<u>-</u>
	<u>219,009,290</u>	<u>245,851,205</u>	<u>21,206,326</u>	<u>( 73,854,410)</u>	<u>412,212,412</u>
Profit (loss) before tax	<u>P 15,184,924</u>	<u>( P 46,929,150)</u>	<u>P 4,300,195</u>	<u>P 16,178,861</u>	<u>( P 11,265,170)</u>
Net loss	<u>P 10,295,956</u>	<u>( P 45,878,510)</u>	<u>P 4,165,245</u>	<u>P 16,178,861</u>	<u>( P 15,238,448)</u>
Segment assets	<u>P 965,458,377</u>	<u>P 5,649,391,788</u>	<u>P 404,853,619</u>	<u>( P 1,426,644,785)</u>	<u>P 5,593,058,999</u>
Segment liabilities	<u>P 643,324,912</u>	<u>P 2,703,168,982</u>	<u>P 253,785,895</u>	<u>( P 520,043,875)</u>	<u>P 3,080,235,914</u>
Other segment items:					
Capital expenditures	<u>P 11,316,095</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 11,316,095</u>
Depreciation and amortization	<u>P 9,463,560</u>	<u>P 5,564,021</u>	<u>P 4,631,191</u>	<u>P -</u>	<u>P 19,658,772</u>

Year Ended December 31, 2012 (As Restated – see Note 2)					
	Securities Brokerage	Investment Banking	Leasing and Others	Elimination	Group
Revenues:					
External	P 205,877,059	P 96,104,416	P 27,641,889	P -	P 329,623,364
Inter-segment	<u>529,041</u>	<u>396,746,505</u>	<u>16,804,150</u>	<u>( 414,079,696)</u>	<u>-</u>
	<u>206,406,100</u>	<u>492,850,921</u>	<u>44,446,039</u>	<u>( 414,079,696)</u>	<u>329,623,364</u>
Expenses:					
External	142,226,807	187,327,662	18,856,492	-	348,410,961
Inter-segment	<u>50,656,209</u>	<u>20,436,306</u>	<u>-</u>	<u>( 77,092,515)</u>	<u>-</u>
	<u>192,883,016</u>	<u>213,763,968</u>	<u>18,856,492</u>	<u>( 77,092,515)</u>	<u>348,410,961</u>
Profit (loss) before tax	<u>P 13,971,048</u>	<u>P 278,638,989</u>	<u>P 25,589,547</u>	<u>( P 336,987,181)</u>	<u>( P 18,787,597)</u>
Net loss	<u>P 7,438,246</u>	<u>P 293,860,510</u>	<u>P 25,346,603</u>	<u>( P 336,987,181)</u>	<u>( P 10,341,822)</u>
Segment assets	<u>P 893,128,590</u>	<u>P 5,344,597,873</u>	<u>P 310,761,456</u>	<u>( P 1,524,857,331)</u>	<u>P 5,023,630,318</u>
Segment liabilities	<u>P 582,614,201</u>	<u>P 2,303,487,907</u>	<u>P 163,311,567</u>	<u>( P 601,036,243)</u>	<u>P 2,447,377,432</u>
Other segment items:					
Capital expenditures	<u>P 1,900,219</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 1,900,219</u>
Depreciation and amortization	<u>P 8,449,160</u>	<u>P 5,240,331</u>	<u>P 4,631,185</u>	<u>P 280,000</u>	<u>P 18,600,676</u>
Year Ended December 31, 2011 (As Restated – see Note 2)					
	Securities Brokerage	Investment Banking	Leasing and Others	Elimination	Group
Revenues :					
External	P 207,832,350	P 149,055,794	P 3,967,837	P -	P 360,855,981
Inter-segment	<u>1,352,954</u>	<u>67,894,026</u>	<u>18,208,343</u>	<u>( 87,455,323)</u>	<u>-</u>
	<u>209,185,304</u>	<u>216,949,820</u>	<u>22,176,180</u>	<u>( 87,455,323)</u>	<u>360,855,981</u>
Expenses:					
External	167,091,562	157,853,458	19,161,741	-	344,106,761
Inter-segment	<u>23,836,965</u>	<u>63,338,358</u>	<u>-</u>	<u>( 87,175,323)</u>	<u>-</u>
	<u>190,928,527</u>	<u>221,191,816</u>	<u>19,161,741</u>	<u>( 87,175,323)</u>	<u>344,106,761</u>
Profit (loss) before tax	<u>P 18,256,777</u>	<u>( P 4,521,996)</u>	<u>P 3,014,439</u>	<u>P -</u>	<u>P 16,749,220</u>
Net profit	<u>P 10,844,485</u>	<u>P 7,598,651</u>	<u>P 2,742,615</u>	<u>P -</u>	<u>P 21,185,751</u>
Segment assets	<u>P 931,289,801</u>	<u>P 5,329,334,039</u>	<u>P 285,947,508</u>	<u>( P 1,970,059,593)</u>	<u>P 4,576,511,755</u>
Segment liabilities	<u>P 627,675,878</u>	<u>P 2,484,457,452</u>	<u>P 164,026,695</u>	<u>( P 1,046,700,977)</u>	<u>P 2,229,459,048</u>
Other segment items:					
Capital expenditures	<u>P 12,827,506</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 12,827,506</u>
Depreciation and amortization	<u>P 7,851,131</u>	<u>P 5,565,470</u>	<u>P 4,631,184</u>	<u>P -</u>	<u>P 18,047,785</u>

## 7. CASH

This account includes the following:

	2013	2012
Cash in banks	<b>P 166,553,606</b>	P 130,263,763
Cash on hand	<b><u>86,621</u></b>	<u>91,621</u>
	<b><u>P 166,640,227</u></b>	<u>P 130,355,384</u>

The Group maintains a special reserve bank account with a local bank in compliance with the Securities Regulation Code in relation to the securities brokerage business of the Group. The bank account has a balance of P69,354,610 and P74,320,425 as of December 31, 2013 and 2012, respectively.

Foreign currency-denominated cash amounted to P105,453 (US\$2,374) in 2013 and P161,874 (US\$3,927) in 2012.

Cash in banks generally earn interest at rates based on daily bank deposit rates.

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group's financial assets at FVTPL are composed of equity securities with fair value amounting to P655,782,861 and P557,756,995 as of December 31, 2013 and 2012, respectively.

Equity securities include investments in shares of stock of publicly-listed entities which are held solely for trading purposes. These shares are carried at fair value as determined directly by reference to published price quoted in an active market. For investments in shares of stock of publicly-listed entities which are suspended as of the end of the reporting period, the last transacted price was used in determination of fair value.

The gain on sale of financial assets at FVTPL amounted to P48,536,273 in 2013, P35,478,265 in 2012 and P20,807,103 in 2011. These are presented as part of Gain on sale of investment under Finance Income in the consolidated statements of profit or loss (see Note 20.01).

The Group recognized changes in fair value financial assets at FVTPL amounting to P19,955,493 loss in 2013, P23,592,489 gain in 2012 and P7,447,989 loss in 2011. These are presented as part of Finance Costs and Finance Income in the consolidated statements of comprehensive income (see Notes 20.01 and 20.02).

## 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

AFS financial assets pertain to the shares of stock of the following:

	<u>2013</u>	<u>2012</u>
At fair value:		
BCOR	<b>P 2,549,107,265</b>	P2,591,171,240
Others - club shares	<u><b>8,100,000</b></u>	<u>7,180,000</u>
	<u><b>2,557,207,265</b></u>	<u>2,598,351,240</u>
At cost:		
Universal Rightfield Properties (URP)	<b>144,910,130</b>	144,910,130
Philippine Central Depository (PCD)	<u><b>22,800</b></u>	<u>22,800</u>
	<b>144,932,930</b>	144,932,930
Allowance for impairment	<u><b>( 144,932,930)</b></u>	<u>( 144,932,930)</u>
	<u><b>-</b></u>	<u>-</u>
	<u><b>P 2,557,207,265</b></u>	<u>P2,598,351,240</u>

The movements of AFS financial assets follow:

	<u>2013</u>	<u>2012</u>
Balance at beginning of year	<b>P 2,598,351,240</b>	P 2,381,928,250
Fair value gains (losses)	<b>45,154,375</b>	( 259,847,206)
Realized fair value gains transferred to consolidated profit or loss	<b>( 95,408,304)</b>	( 20,305,204)
Additions	<b>25,066,250</b>	2,993,295
Disposals	<b>( 15,936,296)</b>	( 26,112,307)
Balance at end of year	<b><u>P 2,557,207,265</u></b>	<u>P 2,598,351,240</u>

AFS financial asset consist mainly of investment in companies listed in the PSE.

In 2013, 2012 and 2011, the Group sold a portion of its BCOR shares which, resulted in a gain on sale of AFS financial assets amounting to P95,408,304, P20,305,204 and P105,566,589 (net of other charges amounting to P220,204, P335,500 and P624,016), respectively, in the consolidated statements of profit or loss.

As of December 31, 2013 and 2012, the Group holds 89,425,030 shares and 92,541,830 shares in BCOR, respectively, valued at P28.50 per share in 2013 and P28 per share in 2012.

The fair values of AFS financial assets that are carried at their fair values have been determined directly by reference to published prices in an active market. Fair value gains (losses) of P45,154,375, P259,847,206 and (P471,973,440) in 2013, 2012 and 2011, respectively, on the revaluation of the AFS financial assets are presented as other comprehensive income (loss).

Investments in URP and PCD, publicly listed companies whose shares are suspended for trading, were valued at total cost amounting to P144,932,930, and were fully provided with allowance for impairment.

Sale of AFS securities resulted in gains of P95,408,304, P20,305,204 and P109,009,689 in 2013, 2012 and 2011, respectively, and recorded as part Finance Income in the consolidated statements of profit or loss (see Note 20.01).

Net cumulative fair value changes on AFS financial assets amounted to P2,360,089,037 and P2,395,848,476 as of December 31, 2013 and 2012, respectively, and are presented as part of Revaluation Reserves in the consolidated statements of financial position (see Note 17.02).



## 10. RECEIVABLES

The breakdown of this account follows:

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Customers/brokers	10.02	<b>P1,057,315,728</b>	P 603,273,960
Equity margin loans	10.01	<b>633,765,644</b>	633,765,644
Accounts receivable	10.03,11.02	<b>211,932,440</b>	204,834,157
Notes receivables	10.04	<b>107,739,251</b>	107,739,251
Interest receivables	10.04	<b>57,854,154</b>	62,854,154
Management fee	11.01	<b>29,100,000</b>	19,400,000
Others		<b><u>4,909,141</u></b>	<u>16,314,394</u>
		<b>2,102,616,358</b>	1,648,181,560
Allowance for impairment		<b>( <u>223,436,274</u> )</b>	( <u>217,514,424</u> )
		<b><u>P1,879,180,084</u></b>	<u>P1,430,667,136</u>

All receivables of the Group have been reviewed for indications of impairment. Certain receivables were found to be impaired and provisions have been recorded accordingly.

A reconciliation of the allowance for impairment at the beginning and end of 2013 and 2012 is shown below.

	<u>Note</u>	<u>2013</u>	<u>2012</u>
Balance at beginning of year		<b>P 217,514,424</b>	P 216,164,716
Impairment losses	20.02	<b><u>5,921,850</u></b>	<u>1,349,708</u>
Balance at end of year		<b><u>P 223,436,274</u></b>	<u>P 217,514,424</u>

The maturity profile of the Group's receivables follows:

	<u>2013</u>	<u>2012</u>
Within one year	<b>P1,079,821,035</b>	P 843,817,393
Beyond one year but less than five years	<b><u>799,359,049</u></b>	<u>586,844,625</u>
	<b><u>P1,879,180,084</u></b>	<u>P1,430,662,018</u>

Management believes that the allowance for impairment is adequate to cover any losses from its receivables. The management is in constant communication with the debtors for the settlement of the receivables.

### ***10.01 Equity Margin Loans***

Effective January 1, 2007 and until the BOD reverses the resolution, the management decided to stop recognizing interest on equity margin loans by virtue of a board resolution after the Group received requests from its customers for a moratorium on interest charges on equity margin loans. These receivables are secured by certain marketable shares of stock (pledged by certain customers) with a total market value of P837,090,393, P734,366,406 and P811,198,388 as of December 31, 2013, 2012 and 2011, respectively.

### 10.02 Receivable from Customers/Brokers

Receivables from customers/brokers result from the Group's securities trading transactions and are normally settled within three days from the date of transaction. Receivables are subjected to impairment testing based on present value of the estimated future cash flows.

### 10.03 Accounts Receivable

Accounts receivable include a receivable from Kestrel Resources Philippines, Inc. (Kestrel), a third party engaged in purchasing receivables, amounting to P116,019,882 as of December 31, 2013 and 2012 which arose from an Assignment of Receivables Agreement executed between the Group and Kestrel on April 12, 2002. Under the agreement, the amount collected by Kestrel including accrued interest, shall be payable to the Group on or before December 31, 2006 which date was subsequently extended to December 31, 2016. These receivables represent the balance of an equity margin loan of a previous customer after deducting a partial settlement through a *dacion en pago* arrangement, whereby the original debtor transferred to the Group certain condominium units valued at P65,280,000 (see Note 13.03). Under the terms of the assignment, Kestrel grants the Group a call option on all but not part of the receivables, including uncollected but accrued earnings, which have not been collected at the time of the exercise of the call option. The call option is exercisable by the Group any time prior to November 30, 2016. The exercise price of the call option is equal to the uncollected principal of the receivables. The portion of the receivables already collected prior to the exercise of the call option shall constitute the remaining obligation of Kestrel to the Group which is payable on or before December 31, 2016. The call option is considered closely related to its host contract since the exercise price on each exercise date is equivalent to the carrying amount of the host contract. The call option was eventually not exercised by the Group.

The management of the Group is confident that the receivables will be realized and the original debtor will eventually be able to settle its obligations. Allowance for impairment on receivable from Kestrel amounted to P25,000,000 as of December 31, 2012 and 2011. Kestrel made partial payments of P8,000,000 in 2012 (nil in 2013).

### 10.04 Notes and Interest Receivables

Notes and interest receivables represent outstanding claims from an individual which are due upon demand.

## 11. RELATED PARTY TRANSACTIONS

The summary of the Company's significant transactions with its related parties as of and for the years ended December 31, 2013 and 2012 follows:

Related Party Category	Notes	2013		2012	
		Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Management fees	11.01	P 23,121,406	P 29,100,000	P 68,181,486	P 19,400,000
Granting of advances	11.02	900,000	5,716,517	3,048,712	6,284,930
Key management personnel compensation	11.03	22,692,759	-	21,292,665	-

### 11.01 Management Fees

The Group earns management fees from Philippine Gaming Management Corporation (PGMC, an entity under common key management personnel) by virtue of the Management Services Agreement (the Agreement) between the Group and PGMC.

Management fees amounted to P23,121,406 and P68,181,486, and P39,673,908 in 2013, 2012 and 2011, respectively, and are presented as Management Fees in the consolidated statements of profit or loss. Management fees receivable amounted to P29,100,000 in 2013 and P19,400,000 in 2012 and are presented as part of Receivables in the consolidated statements of financial position (see Note 10).

### 11.02 Granting of Advances

The Group grants unsecured interest bearing loans to employees with interest ranging from 12.0% to 12.5%. Receivables from employees as of December 31, 2013 and 2012 amounted to P5,716,517 and P6,284,931, respectively. These are presented as part of Accounts Receivables account under Receivables in the consolidated statements of financial position (see Note 10.03).

### 11.03 Key Management Personnel Compensation

Short-term benefits given by the Group to key management personnel amounted to P22,692,759, P21,292,665 and P17,850,415, in 2013, 2012, and 2011, respectively.

## 12. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment, of property and equipment, at the beginning and end of 2013 and 2012 are shown below.

	<u>Condominium Units</u>	<u>Building Improvements</u>	<u>Transportation Equipment</u>	<u>Computer Equipment</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
December 31, 2013							
Cost	P 114,435,714	P 19,080,757	P 16,982,015	P 16,027,158	P 8,284,414	P -	P 174,810,058
Accumulated depreciation and amortization	( 66,676,161 )	( 8,152,737 )	( 7,395,256 )	( 9,629,366 )	( 5,548,641 )	-	( 97,402,161 )
Net carrying amount	<u>P 47,759,553</u>	<u>P 10,928,020</u>	<u>P 9,586,759</u>	<u>P 6,397,792</u>	<u>P 2,735,773</u>	<u>P -</u>	<u>P 77,407,897</u>
December 31, 2012							
Cost	P 114,435,714	P 52,369,380	P 20,270,493	P 71,896,348	P 26,663,636	P -	P 285,635,571
Accumulated depreciation and amortization	( 60,977,999 )	( 39,887,411 )	( 16,451,729 )	( 64,795,117 )	( 22,606,823 )	-	( 204,719,079 )
Net carrying amount	<u>P 53,457,715</u>	<u>P 12,481,969</u>	<u>P 3,818,764</u>	<u>P 7,101,231</u>	<u>P 4,056,813</u>	<u>P -</u>	<u>P 80,916,492</u>
January 1, 2012							
Cost	P 114,435,714	P 46,065,290	P 20,260,493	P 70,776,439	P 26,281,932	P 7,621,268	P 285,441,136
Accumulated depreciation and amortization	( 55,279,834 )	( 38,731,262 )	( 13,470,257 )	( 62,483,292 )	( 22,642,358 )	-	( 192,607,010 )
Net carrying amount	<u>P 59,155,880</u>	<u>P 7,334,028</u>	<u>P 6,790,236</u>	<u>P 8,293,140</u>	<u>P 3,639,574</u>	<u>P 7,621,268</u>	<u>P 92,834,126</u>

A reconciliation of the carrying amounts at the beginning and end of 2013 and 2012, of property and equipment is shown below.

	<u>Condominium Units</u>	<u>Building Improvements</u>	<u>Transportation Equipment</u>	<u>Computer Equipment</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at January 1, 2013, net of accumulated depreciation	P 53,457,715	P 12,481,969	P 3,818,764	P 7,101,231	P 4,056,813	P -	P 80,916,492
Additions	-	-	8,656,161	2,571,487	88,447	-	11,316,095
Depreciation and amortization charges for the year	( 5,698,162 )	( 1,553,942 )	( 2,888,166 )	( 3,274,926 )	( 1,409,487 )	-	( 14,824,690 )
Balance at December 31, 2013, net of accumulated depreciation	<u>P 47,759,553</u>	<u>P 10,928,020</u>	<u>P 9,586,759</u>	<u>P 6,397,792</u>	<u>P 2,735,773</u>	<u>P -</u>	<u>P 77,407,897</u>
Balance at January 1, 2012, net of accumulated depreciation	P 59,155,880	P 7,334,028	P 6,790,236	P 8,293,140	P 3,639,574	P 7,621,268	P 92,834,126
Additions	-	-	-	1,505,400	314,019	80,800	1,900,219
Reclassifications	-	6,304,090	-	-	1,397,978	( 7,702,978 )	-
Depreciation and amortization charges for the year	( 5,698,166 )	( 1,156,149 )	( 2,971,417 )	( 2,697,309 )	( 1,294,758 )	-	( 13,817,853 )
Balance at December 31, 2012, net of accumulated depreciation	<u>P 53,457,715</u>	<u>P 12,481,969</u>	<u>P 3,818,764</u>	<u>P 7,101,231</u>	<u>P 4,056,813</u>	<u>P -</u>	<u>P 80,916,492</u>

Condominium units of the Group with carrying amounts of P8,142,750 and P9,209,729 in 2013 and 2012, respectively, were used to secure the Group's bank loans payable (see Note 14).

In 2013, the Group written-off fully depreciated computer equipment, leasehold improvements, furniture, fixtures and equipment, and transportation equipment with cost amounting to P58,440,677, P33,288,623, P18,647,699 and P11,944,639, respectively.

### 13. OTHER ASSETS

The breakdown of this account follows:

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Deferred tax assets – net	21	<b>P 109,960,186</b>	P 97,160,633
Goodwill	13.01	<b>84,584,951</b>	84,584,951
Creditable withholding taxes	13.02	<b>83,911,590</b>	75,335,753
Deferred oil exploration costs	13.04	<b>15,418,003</b>	15,418,003
Prepayments		<b>11,153,156</b>	160,546
Investment properties - net	13.03	<b>6,431,150</b>	10,854,574
Input VAT		<b>2,961,061</b>	1,590,855
Trading right	13.05	<b>1,408,000</b>	1,408,000
Computer software - net	13.06	<b>650,228</b>	1,060,883
Others		<b>5,040,939</b>	2,687,472
		<b>321,519,264</b>	290,261,670
Allowance for impairment of goodwill		( 49,260,596 )	( 49,260,596 )
Allowance for non-recoverability of deferred oil exploration costs		( 15,418,003 )	( 15,418,003 )
		<b>P 256,840,665</b>	<b>P 225,583,071</b>

### ***13.01 Goodwill***

Goodwill arose from the acquisition of the three subsidiaries, where the acquisition cost is higher than the fair value of the net assets acquired of each subsidiary. It is subject to annual impairment testing and whenever there is an indication of impairment. The Group did not recognize any impairment loss in 2013, 2012 and 2011.

### ***13.02 Creditable Withholding Taxes***

This account represents accumulated income tax credits of the Group that remained unapplied as of December 31, 2013 and 2012. These income tax credits will be applied against future income tax liabilities.

### ***13.03 Investment Properties***

The gross carrying amounts and accumulated depreciation and impairment losses of investment properties at the beginning and end of 2013 and 2012 are shown below.

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Cost	<b>P 72,280,000</b>	P 72,280,000	P 72,280,000
Accumulated depreciation	<b>( 63,954,172)</b>	( 59,530,748)	( 55,107,324)
Accumulated impairment losses	<b>( 1,894,678)</b>	( 1,894,678)	( 1,894,678)
Net carrying amount	<b><u>P 6,431,150</u></b>	<u>P 10,854,574</u>	<u>P 15,277,998</u>

A reconciliation of the carrying amounts at the beginning and end of 2013 and 2012, of investment properties is shown below.

	<u>2013</u>	<u>2012</u>
Balance at beginning of year, net of accumulated depreciation and impairment losses	<b>P 10,854,574</b>	P 15,277,998
Depreciation for the year	<b>( 4,423,424)</b>	( 4,423,424)
Balance at end of year, net of accumulated depreciation and impairment losses	<b><u>P 6,431,150</u></b>	<u>P 10,854,574</u>

There are no direct operating expenses incurred for the investment properties.

The Group's investment property mostly consists of condominium units. These condominium units located in Nasugbu and Batulao, Batangas were acquired and capitalized by the Group as a result of the dacion en pago arrangement with a major customer in exchange for a partial settlement of the latter's loans (see Note 10.03).

The total estimated fair values of the investment properties based on the latest available appraisal report obtained by the Group amounted to P27,956,000 as of December 31, 2013 and 2012.

### ***13.04 Deferred Oil Exploration Cost***

Deferred oil exploration costs represent mainly of costs and related expenses incurred in connection with the Group's participation in the exploration of oil under GSEC-57. The Group believes that while the result of the exploration of the first well indicated that the area covered by the first well may no longer be viable, the potential of the remaining areas is still untested and, thus, future prospects and leads remain valid. In this regard, the consortium applied for its third Non-Exclusive Geophysical Permit which was approved by the Department of Energy on October 31, 1995. The Group's management asserts that the project is still viable and no write-offs have been made by the project proponents. Nonetheless, a full allowance for non-recoverability of deferred exploration cost is provided.

### ***13.05 Trading Right***

Trading right is assessed as having an indefinite useful life and is carried at cost less accumulated impairment loss. It is tested annually for impairment by comparing its recoverable amount, and recognizing any excess of the carrying amount over the recoverable amount as an impairment loss.

As certified by the PSE, the last transacted price of an exchange right is P8,500,000, which was recorded last December 14, 2011. Hence, based from the comparison of the trading right's carrying amount of P1,408,000 as of December 31, 2013, and the recoverable amount, the Group's trading right is not impaired.

### ***13.06 Computer Software***

The gross carrying amounts and accumulated amortization at the beginning and end of 2013 and 2012 are shown below.

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Cost	<b>P 13,389,323</b>	P 13,389,323	P 12,262,712
Accumulated amortization	( <u>12,739,095</u> )	( <u>12,328,440</u> )	( <u>11,969,037</u> )
Net carrying amount	<b><u>P 650,228</u></b>	<u>P 1,060,883</u>	<u>P 293,675</u>

A reconciliation of the carrying amounts at the beginning and end of 2013 and 2012, of computer software is shown below.

	<u>2013</u>	<u>2012</u>
Balance at beginning of year,		
net of accumulated amortization	<b>P 1,060,883</b>	P 293,675
Amortization for the year	( <u>410,655</u> )	( <u>359,399</u> )
Additions	<u>-</u>	<u>1,126,607</u>
Balance at end of year,		
net of accumulated amortization	<b><u>P 650,228</u></b>	<u>P 1,060,883</u>

#### 14. INTEREST-BEARING LOANS AND BORROWINGS

As of December 31, this account consists of:

	<u>2013</u>	<u>2012</u>
Notes payable	<b>P 2,541,162,351</b>	P1,998,516,882
Bank loans	<u><b>64,509,249</b></u>	<u>13,543,152</u>
	<u><b>P 2,605,671,600</b></u>	<u>P2,012,060,034</u>

Notes payable represents short-term unsecured loans from various funders bearing annual interest at rates ranging from 5.0% to 8.3% in 2013 and 5.0% to 9.30% in 2012. Bank loans are secured by the Group's condominium units (see Note 12).

Management considers the carrying amounts of short-term interest-bearing loans and borrowings recognized in the consolidated statements of financial position to be reasonable approximation of their fair values due to their short duration.

The fair values of long-term financial liabilities have been determined by calculating their present values at the consolidated statements of financial position date using fixed effective market interest rates applicable to the Group. No fair value changes have been included in the consolidated statements of comprehensive income for the period as financial liabilities are carried at amortized cost in the consolidated statements of financial position.

The contractual maturities of these interest-bearing loans and borrowings as of December 31 follow:

	<u>2013</u>	<u>2012</u>
Within one year	<b>P 2,604,813,857</b>	P 2,009,459,201
Within two to five years	<u><b>857,743</b></u>	<u>2,600,833</u>
	<u><b>P 2,605,671,600</b></u>	<u>P 2,012,060,034</u>

Interest expense pertaining to these interest-bearing loans and borrowings, which are presented as part of Finance Costs in the consolidated statements of profit or loss, amounted to P179,213,236, P153,269,552 and P142,519,818 in 2013, 2012 and 2011, respectively, which include accrued interests of P16,144,239 and P17,411,427, as of December 31, 2013 and 2012, respectively, presented as part of Accrued Expenses under Accounts Payable and Other Liabilities account in the consolidated statements of financial position (see Notes 16 and 20.02).

## 15. DUE TO CUSTOMERS

Due to customers arise from the Group's securities brokerage activities. These are normally settled within three days after the respective trading dates and are all non-interest bearing. Management considers the carrying amounts recognized in the consolidated statements of financial position to be the reasonable approximation of their fair values. Outstanding balances as of December 31, 2013 and 2012 amount to P220,141,921 and P274,815,850, respectively.

## 16. ACCOUNTS PAYABLE AND OTHER LIABILITIES

This account consists of:

	Notes	2013	2012
Accrued expenses	14	P 130,741,789	P 88,220,572
Payable to clearing house		57,796,921	-
Retirement benefit obligation	18.02	45,860,331	46,847,179
Dividend payable		5,470,302	2,046,953
Taxes payable		2,537,669	13,883,048
Others		12,015,381	9,503,796
		<u>P 254,422,393</u>	<u>P 160,501,548</u>

Management considers the carrying amounts of accounts payable and other liabilities recognized in the consolidated statements of financial position to be reasonable approximation of their fair values due to their short duration.

## 17. EQUITY

### *17.01 Capital Stock and Treasury Shares*

As of December 31, 2013 and 2012, these accounts consist of:

	Shares	Amount
Capital stock – P1 par value		
Authorized – 1,800,000,000 shares		
Issued shares:		
Balance at end of year	<u>1,193,200,000</u>	<u>P 1,193,200,000</u>
Treasury shares		
Balance at end of year	<u>171,413,600</u>	<u>P 385,670,581</u>



### 17.02 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the consolidated statements of changes in equity at their aggregate amount under Revaluation Reserves account, are shown below.

	<b>AFS Financial Assets</b>	<b>Post-employment Benefit Obligation</b>	<b>Total</b>
Balance as of January 1, 2013	P 2,410,342,966	(P 14,494,490)	P 2,395,848,476
Remeasurements of post-employment defined benefit obligation	-	2,258,779	2,062,576
Fair value gains on AFS financial assets	45,154,375	-	45,154,375
Fair value gains on disposed AFS financial Assets reclassified to profit or loss	( 95,408,304 )	-	( 95,408,304 )
Tax expense	-	( 196,203 )	-
Other comprehensive gain (loss)	( 50,253,929 )	2,062,576	( 48,191,353 )
Balance as of December 31, 2013	<b>P 2,360,089,037</b>	<b>(P 12,431,914)</b>	<b>P 2,347,657,123</b>
Balance as of January 1, 2012	P 2,170,800,964	(P 14,494,490)	P 2,156,306,474
Fair value gains on AFS financial assets	259,847,206	-	259,847,206
Fair value gains on disposed AFS financial Assets reclassified to profit or loss	( 20,305,204 )	-	( 20,305,204 )
Other comprehensive gain	239,542,002	-	239,542,002
Balance as of December 31, 2012	<b>P 2,395,848,476</b>	<b>P -</b>	<b>P 2,395,848,476</b>

### 17.03 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt.

The Group has existing loans with a local bank and various funders. A reasonable level of debt-to-equity is maintained to properly manage the Group's operations. Presented below is the 2013 and 2012 debt-to-equity ratio of the Group:

	<u>2013</u>	2012 (As Restated - see Note 2)
Total liabilities	<b>P 3,080,235,914</b>	P 2,447,377,432
Total equity	<b>2,512,823,085</b>	2,576,252,886
Debt-to-equity ratio	<u><b>0.82:1.00</b></u>	<u>1.05:1.00</u>

#### ***17.04 Capital Requirements for ASC***

##### ***17.04.01 Minimum Capital Requirement - SEC***

On November 11, 2004, the SEC approved memorandum Circular No. 16 which provides for the guidelines on the adoption in the Philippines of the Risk-Based Capital Adequacy (RBCA) Framework for all registered broker dealers in accordance with the Securities Regulation Code. These guidelines cover the following risks:

- (a) Position on market risk;
- (b) Credit risks such as counterparty, settlement, large exposure and margin financing risks; and,
- (c) Operational risks.

ASC monitors capital on the basis of RBCA ratio and Net Liquid Capital (NLC). RBCA requirement is the minimum level of capital that has to be maintained by firms which are licensed, or securing a broker dealer license, taking into consideration the firm size, complexity and business risk. Such risks that are considered in determining the capital requirement include, among others, Operational, Position and Credit Risk (which include counterparty, large exposure, underwriting, and margin financing risks).

RBCA ratio is the quotient of the NLC and the sum of the requirements for operation risk, credit risk and position or market risk. NLC, on the other hand, represents the equity eligible for NLC adjusted for non-allowable current and non-current assets as described under the circular.

In order to maintain or adjust the capital structure, ASC may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Under the guidelines set-out by the SEC, all registered brokers dealers should maintain the following RBCA and NLC requirements:

- (a) RBCA ratio of greater than or equal to 1:1.1;
- (b) NLC should be at least P5.0 million or 5.0% of aggregate indebtedness, whichever is higher;

- (c) A dealer who deals only with proprietary shares and does not keep shares in its custody shall maintain a net capital of P2.5 million or 2.5% of aggregate indebtedness, whichever is higher;
- (d) In cases where in order to meet an RBCA ratio of at least 1.1, an NLC higher than P5.0 million is required, the higher NLC shall be maintained; and,
- (e) No broker dealer shall permit its aggregate indebtedness to exceed 2000% of its NLC.

As of December 31, 2013 and 2012, ASC is in compliance with minimum capital requirement set out by the RBCA framework. The Group's RBCA ratio is 143% and 155.0% as of December 31, 2013 and 2012, respectively.

#### ***17.04.01 Minimum Capital Requirement – Philippine Stock Exchange's Rules Governing Trading Rights and Trading Participants***

On May 28, 2009, the SEC approved PSE's Rules Governing Trading Rights and Trading Participants which provides among others the following provisions:

- (a) Trading participants should have a minimum unimpaired paid-up capital (defined as the trading participant's total paid up capital less any deficiency in the retained earnings account) of P20,000,000 effective December 31, 2009, provided further that effective December 31, 2010 and onwards, the minimum unimpaired paid up capital shall be P30,000,000; and,
- (b) Each trading participant shall pledge its trading right to the extent of its full value to secure the payment of all of debts and claims due to the trading participant, the government, PSE and to other trading participants of the PSE and to the Securities Clearing Corporation of the Philippines.

As of December 31, 2013 and 2012, the ASC is in compliance with PSE's Rules Governing Trading Rights and Trading Participants.

#### ***17.04.03 Retained Earnings Appropriation***

Rule 49.1 (B), Reserve Fund of SEC Memorandum Circular No. 16 requires that every broker dealer shall annually appropriate a certain minimum percentage of its audited profit after tax and transfer the same to Appropriated Retained Earnings account. Appropriation shall be 30%, 20% and 10% of profit after tax for broker dealers with unimpaired paid-up capital of between P10 million to P30 million, between P30 million to P50 million, and above P50 million, respectively.

No appropriations were made by the Company in 2013 and 2012 since the ASC has a Deficit amounting to P69,384,551 and P80,249,703 as of December 31, 2013 and 2012, respectively.

#### ***17.05 Capital Requirements for ACIC***

Under the provisions of Section 8 of RA No. 8366, an Act amending Presidential Decree No. 129, otherwise known as the Investment Houses Law, the ACIC is required to maintain a minimum paid-up capital of P300,000,000.

As of December 31, 2013 and 2012, ACIC is in compliance with minimum capital requirement set out by the RA No. 8366.

### ***17.06 Track Record***

On November 17, 1994, the SEC approved the listing of the Parent Company's shares totaling 1,193,200,000. The shares were initially issued at an offer price of P1.00 per share. As of December 31, 2013, there are 111 holders of the listed shares equivalent to 100% of the Parent Company's total outstanding shares. Such listed stocks closed at P0.78 per share as of December 31, 2013.

## **18. EMPLOYEE BENEFITS**

### ***18.01 Salaries and Employee Benefits***

Details of employee benefits are presented below.

	Note	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
Salaries and wages		<b>P 38,198,908</b>	P 34,858,393	P 32,981,565
Bonuses		<b>5,464,376</b>	4,569,341	5,586,729
Retirement benefits	18.02	<b>3,504,551</b>	5,776,435	8,842,208
Staff benefits		<b>2,606,945</b>	3,343,460	2,374,923
Social security costs		<b>1,006,851</b>	982,166	924,499
Other short-term benefits		<b>103,100</b>	98,500	99,572
		<b><u>P 50,884,731</u></b>	<b><u>P 49,628,295</u></b>	<b><u>P 50,809,496</u></b>

### ***18.02 Post-Employment Defined Benefit***

#### ***(a) Characteristics of the Defined Benefit Plan***

The Group maintains a tax-qualified and noncontributory retirement plan that is being administered by a trustee bank covering all regular full-time employees. The plan is partially funded as of December 31, 2013. Actuarial valuations are made each year to update the post-employment benefit costs and the amount of contributions. The latest actuarial valuation report of the Group's retirement benefit plan as of December 31, 2013 is dated April 7, 2014.

The normal retirement age is 60 with a minimum of 5 years of credited service. Normal retirement benefit is an amount equivalent to 100% of latest monthly salary for every year of credited service, and the manner of payment is lump sum.

#### ***(b) Explanation of Amounts Presented in the Financial Statements***

Actuarial valuations are obtained annually to update the retirement benefit expense. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2013 including the comparative year which has been restated in line with the adoption of PAS 19 (Revised), see Note 2.2(a)(ii).

The amounts of post-employment defined benefit obligation recognized and recorded as part of Accounts Payable and Other Liabilities (see Note 16) in the consolidated statements of financial position are determined as follows:

	<u>2013</u>	2012 (As Restated - see Note 2.02)
Present value of the obligation	<b>P 50,860,331</b>	P 46,847,179
Fair value of plan assets	<b>( 5,000,000)</b>	-
	<b><u>P 45,860,331</u></b>	<b><u>P 46,847,179</u></b>

The fair value of plan assets represents cash and cash equivalents which the Group has contributed during the year in setting up the retirement plan totalling to P5,000,000.

The movements in present value of the retirement benefit obligation recognized in the books follow:

	<u>2013</u>	2012 (As Restated - see Note 2.02)
Balance at beginning of year	<b>P 46,847,179</b>	P 41,062,436
Current service cost	<b>3,504,551</b>	5,776,435
Interest cost	<b>2,767,380</b>	8,308
Remeasurements:		
Actuarial loss (gain) arising from:		
Experience adjustments	<b>2,357,809</b>	-
Changes in financial assumptions	<b>( 4,616,588)</b>	-
	<b><u>P 50,860,331</u></b>	<b><u>P 46,847,179</u></b>

The components of amounts recognized in consolidated statements profit or loss and in other comprehensive income in respect of the post-employment defined benefit plan are as follows:

	<u>2013</u>	<u>2012</u> (As Restated - see Note 2.02)	<u>2011</u> (As Restated - see Note 2.02)
<i>Reported in profit or loss:</i>			
Current service cost	<b>P 3,504,551</b>	P 5,776,435	P 8,842,208
Net interest cost (income)	<u><b>2,767,380</b></u>	<u>8,308</u>	<u>(935,182)</u>
	<u><b>P 6,271,931</b></u>	<u>P 5,784,743</u>	<u>P 7,907,026</u>
<i>Reported in other comprehensive income:</i>			
Actuarial gain (loss) arising from changes in			
Experience adjustments	<b>(P 2,357,809)</b>	P -	(P 4,751,907)
Financial assumptions	<u><b>4,616,588</b></u>	<u>-</u>	<u>9,304,230</u>
	<u><b>2,258,779</b></u>	<u>-</u>	<u>4,552,323</u>
Tax effect	<u><b>(196,203)</b></u>	<u>-</u>	<u>(571,657)</u>
	<u><b>P 2,062,576</b></u>	<u>P -</u>	<u>P 3,980,666</u>

Current service cost is recorded as part of Employee Benefits in the consolidated statements of profit or loss (see Note 18.01).

Net interest income (expense) is included as part of Finance Income (Costs) in the consolidated statements of profit or loss (see Notes 20.01 and 20.02).

Amount recognized in other comprehensive income is included and is presented as item that will not be reclassified subsequently to profit or loss.

In determining the retirement benefit obligation, the following actuarial assumptions were used:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Discount rates	<b>4.13% - 4.85%</b>	5.65% - 6.29%	5.81% - 8.38%
Expected rate of salary increases	<b>8%</b>	8.00%	8.00%

(c) *Risks Associated with the Retirement Plan*

(i) *Interest Rate Risk*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(iii) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2013:

	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	+/-1%	(P 1,432,811)	P 1,524,229
Salary growth rate	+/-1%	1,485,677	( 1,150,094)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

## 19. OTHER EXPENSES

This account consists of:

	2013	2012	2011
Fines and penalties	P 4,241,470	P 1,651,918	P 666,309
Condominium dues	2,004,432	1,683,199	1,491,385
Office supplies	1,742,450	2,184,926	1,464,107
Insurance	1,490,736	1,493,355	1,395,965
Transportation	1,319,967	2,689,539	3,252,688
Repairs and maintenance	1,226,161	1,685,304	1,677,165
Bank charges	113,245	101,382	126,365
Miscellaneous	2,751,768	2,419,396	1,498,304
	<u>P 14,890,229</u>	<u>P 13,909,019</u>	<u>P 11,572,288</u>

## 20. FINANCE INCOME (COSTS)

The breakdown of this account follows:

### 20.01 Finance Income

	Notes	2013	2012 (As restated - see Note 2)	2011 (As restated - see Note 2)
Gain on sale of investments - net	8, 9	<b>P 143,944,577</b>	P 55,783,469	P 129,816,792
Interest income		<b>1,138,635</b>	996,842	962,209
Fair value gains on financial assets at FVTPL	8	-	23,592,489	-
Net interest income on post-employment defined benefit plan		<u>-</u>	<u>-</u>	<u>935,182</u>
		<b><u>P 145,083,212</u></b>	<b><u>P 80,372,800</u></b>	<b><u>P 131,714,183</u></b>

### 20.02 Finance Costs

	Notes	2013	2012 (As restated - see Note 2)	2011 (As restated - see Note 2)
Interest expense	14	<b>P 179,213,236</b>	P 153,269,522	P 142,519,818
Fair value loss on financial assets at FVTPL	8	<b>19,955,493</b>	-	7,447,989
Impairment loss	10	<b>5,921,850</b>	1,349,708	-
Net interest cost on post-employment defined benefit plan		<u>2,767,380</u>	<u>8,308</u>	<u>-</u>
		<b><u>P 207,857,959</u></b>	<b><u>P 154,627,538</u></b>	<b><u>P 149,967,807</u></b>



## 21. TAXES

The components of tax expense (income) reported in the consolidated statements of profit or loss follow:

	<u>2013</u>	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
<i>Recognized in profit or loss:</i>			
Regular corporate income tax (RCIT) at 30%	<b>P 14,580,567</b>	P 8,244,047	P 9,858,410
Minimum corporate income tax (MCIT) at 2%	<b>2,314,831</b>	2,471,612	2,293,813
Final tax at 20%	<u><b>73,636</b></u>	<u>112,720</u>	<u>151,084</u>
	<b>16,969,034</b>	10,828,379	12,303,307
Deferred tax income relating to origination and reversal of temporary differences	<u><b>( 12,995,756)</b></u>	<u>( 19,274,154)</u>	<u>( 16,739,838)</u>
	<u><b>P 3,973,278</b></u>	<u>(P 8,445,775)</u>	<u>(P 4,436,531)</u>
<i>Recognized in other comprehensive income</i>	<u><b>P 196,203</b></u>	<u>P -</u>	<u>(P 571,657)</u>

The reconciliation of tax on pre-tax profit (loss) computed at the applicable statutory rate to tax expense is as follows:

	<u>2013</u>	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
Tax on pre-tax profit (loss) at 30%	<b>(P 3,379,551)</b>	(P 5,636,279)	P 5,024,766
Adjustments for income subjected to lower income tax rates	<b>( 36,818)</b>	( 56,361)	( 75,542)
Tax effects of:			
Non-taxable income	<b>( 22,054,372)</b>	( 17,996,400)	( 32,752,396)
Expired net-operating loss carry over (NOLCO)	<b>19,763,757</b>	19,920,544	-
Recognition of previously unrecognized deferred tax assets	<b>10,069,098</b>	1,283,855	16,564,698
unrecognized deferred tax asset	<b>( 8,794,977)</b>	( 10,581,142)	-
Applied MCIT	<b>459,585</b>	-	-
Non-deductible expenses	<u><b>-</b></u>	<u>4,670,402</u>	<u>6,801,943</u>
	<u><b>P 3,973,278</b></u>	<u>(P 8,445,775)</u>	<u>(P 4,436,531)</u>

The net deferred tax assets which are presented as part of other assets in the consolidated statements of financial position as of December 31 relates to the following (see Note 13):

	Statement of Financial Position		Statement of Profit or Loss		Statement of Other Comprehensive Income	
	2013	2012	2013	2012	2013	2012
NOLCO	P 73,590,870	P 69,748,633	(P 3,842,237)	(P 16,607,236)	P -	P -
Allowance for impairment	38,063,250	38,063,250	-	-	-	-
Fair value gain on investments at FVTPL	( 10,764,586)	( 20,187,807)	( 9,423,221)	( 1,875,261)	-	-
Accrued defined benefit obligation	9,868,099	10,092,074	141,094	( 791,657)	82,881	-
Actuarial gain/losses	( 1,118,056)	( 1,004,734)	-	-	113,322	-
Unamortized past service cost	196,855	-	196,855	-	-	-
Accrued short-term employee benefits	123,754	123,754	-	-	-	-
MCIT	-	325,463	325,463	-	-	-
Net deferred tax assets (liabilities)	<u>P 109,960,186</u>	<u>P 97,160,633</u>	<u>(P 12,995,756)</u>	<u>(P 19,274,154)</u>	<u>P 196,203</u>	<u>P -</u>
Deferred tax expense (income)						

The details of unrecognized deferred tax assets as of December 31 are summarized below.

	2013		2012	
	Amount	Tax Effect	Amount	Tax Effect
Allowance for impairment losses	P 96,558,768	P 28,967,630	P 90,636,917	P 27,191,075
NOLCO	17,017,036	5,105,111	1,874,017	562,205
Allowance for non-recoverability of deferred oil exploration costs	15,418,003	4,625,401	15,418,003	4,625,401
Retirement benefit obligation	15,318,627	4,595,588	16,556,047	4,966,814
MCIT	6,965,750	6,965,750	6,360,965	6,360,965
Past service cost	689,720	206,916	-	-
Accrued short-term employee benefits	581,750	174,525	581,750	174,525
	<u>P 152,509,282</u>	<u>P 45,752,785</u>	<u>P 131,427,699</u>	<u>P 43,880,985</u>

The breakdown of NOLCO, which can be claimed as deductions from future taxable income within three years from the year the taxable loss was incurred, is shown below.

Year Incurred	Parent	Subsidiaries	Balance	End of Availment
2013	P 78,686,647	P 17,017,036	P 95,703,683	2016
2012	56,747,031	19,219,562	75,966,593	2015
2011	45,792,853	44,857,807	90,649,660	2014
2010	33,471,767	32,407,243	-	2013
	<u>P 214,698,298</u>	<u>P 113,500,648</u>	<u>P 262,319,936</u>	

The Group is subject to MCIT which is computed at 2% of gross income, as defined under the tax regulations or RCIT at 30%, whichever is higher. MCIT which is available for offset against future income tax payable for income tax purposes follows:

Year Incurred	Parent	Subsidiaries	Balance	End of Availment
2013	P 1,894,250	P -	P 2,314,831	2016
2012	2,074,778	-	2,471,612	2015
2011	2,022,755	-	2,179,307	2014
2010	2,192,061	2,192,061	-	2013
	<u>P 8,183,844</u>	<u>P 2,192,061</u>	<u>P 6,965,750</u>	

## 22. EARNINGS (LOSS) PER SHARE

Earnings per share amounts for the years ended December 31, are computed as follows:

	<u>Note</u>	<u>2013</u>	<u>2012 (As Restated - see Note 2)</u>	<u>2011 (As Restated - see Note 2)</u>
Net profit (loss)		<b>(P 15,238,448)</b>	<u>(P 10,341,822)</u>	<u>P 21,185,751</u>
Divided by the weighted average number of outstanding shares:				
Issued shares	17.01	<b>1,193,200,000</b>	1,193,200,000	1,193,200,000
Treasury shares	17.01	<b>( 171,413,600)</b>	<u>( 171,413,600)</u>	<u>( 171,413,600)</u>
Outstanding shares		<b>1,021,786,400</b>	<u>1,021,786,400</u>	<u>1,021,786,400</u>
Earnings (losses) per share		<b>(P 0.0149)</b>	<u>(P 0.0101)</u>	<u>P 0.0207</u>

As of December 31, 2013, 2012, and 2011, the Group has no outstanding potentially dilutive shares, hence, basic earnings (losses) per share are equal to diluted earnings (losses) per share.

## 23. COMMITMENTS AND CONTINGENCIES

### *23.01 Legal Claims*

The Group is either a defendant or plaintiff in lawsuits and legal actions arising from its various business activities. Management believes that the claims against the Group are either without merit or that the ultimate liability, if any, resulting from lawsuits and legal actions will not materially affect the Group's consolidated financial statements.

### *23.02 Operating Leases*

The Group is a lessor under non-cancellable operating leases covering its condominium units. The leases have terms of one to two years with renewal options. The future minimum rentals receivable under these non-cancellable operating leases as of December 31, 2013 and 2012 amounted to P659,375 and P1,709,644, respectively, to be collected within one year.

Total rentals from these operating leases amounted to P1,130,357, P1,449,242 and P1,503,505, in 2013, 2012, and 2011, respectively, and are presented as part of Other Revenues account in the consolidated statement of profit or loss.

### *23.03 Others*

There are other commitments and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the accompanying consolidated financial statements. As of December 31, 2013, management is of the opinion that losses, if any, from these events and conditions will not have a material effect on the Group's consolidated financial statements.