



Report on Factual Findings

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 2288
F +63 2 886 5506
grantthornton.com.ph

The Board of Directors
Philippine Business Bank, Inc., A Savings Bank
350 Rizal Avenue Extension corner 8th Avenue
Grace Park, Caloocan City

Gentlemen:

We have performed the procedures agreed-upon with you and enumerated in the next page with respect to the attached Quarterly Progress Report (dated October 14, 2016) as of September 30, 2016 on the application of the P3,008.62 million net proceeds from the initial public offering (the IPO) on February 19, 2013 of Philippine Business Bank, Inc., A Savings Bank (the Bank). The procedures were performed solely to comply with the Philippine Stock Exchange (PSE) requirement to submit external auditors' report on the accuracy of the information provided by the Bank relating to the application of proceeds whenever a report is submitted to the PSE. Our engagement was undertaken in accordance with Philippine Standard on Related Services 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*, applicable to agreed-upon procedures engagements.

We present below the summary of the application of the net IPO proceeds as of and for the quarter ended September 30, 2016 based on the information we obtained from the Bank.

	Application of the Net Proceeds							Planned Allocation of IPO Proceeds	Balance of Unused Proceeds as of September 30, 2016
	Annual 2013	Annual 2014	Annual 2015	1st Quarter 2016	2nd Quarter 2016	3rd Quarter 2016	Total Utilization		
Branch expansion	P 80,388,211	P 19,611,789	P -	P -	P -	P -	P 100,000,000	P 100,000,000	P -
IT infrastructure	37,216,782	21,520,888	16,512,311	7,953,980	928,690	3,503,620	87,636,271	100,000,000	12,363,729
Acquisition of branch licenses	-	-	200,000,000	-	-	-	200,000,000	200,000,000	-
Financial assets at FVTPL and/or AFS financial assets	291,015,487	(49,753,157)	(216,512,311)	(7,953,980)	(928,690)	(3,503,620)	12,363,729	-	(12,363,729) ^[1]
General corporate purpose	2,600,000,000	8,620,480	-	-	-	-	2,608,620,480	2,608,620,480 ^[2]	-
	P 3,008,620,480	P -	P -	P -	P -	P -	P 3,008,620,480	P 3,008,620,480	P -

^[1] Financial assets at FVTPL and/or AFS financial assets have no specific allocation. Net proceeds from the Offer not immediately applied to the above purposes will be invested in short term demand deposits and money market placements.

^[2] General Corporate Purpose pertains to the Bank's lending activities. Most of the proceeds was used to finance this purpose. The total amount of P2.61 billion was already fully utilized as of December 31, 2014.

Certified Public Accountants

Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd

Offices in Cebu, Davao, Cavite

BOA/PRC Cert. of Reg. No. 0002
SEC Accreditation No. 0002-FR-4



Agreed-upon Procedures Performed

The agreed-upon procedures that we performed on the Quarterly Progress Report are presented below.

1. Checked the mathematical accuracy of the Quarterly Progress Report;
2. Compared the list of application of proceeds in the Quarterly Progress Report with the schedule of planned use of proceeds from the Offering Circular. The list of application of proceeds in the Quarterly Progress Report follows:
 - a. Invested P100.00 million for branch expansion and P87.64 million to finance information technology (IT) infrastructure as of September 30, 2016;
 - b. As of September 30, 2016, P2,608.62 million was used for general corporate purpose;
 - c. Utilized the P200.00 million allocated for acquisition of branch license as of September 30, 2016; and,
 - d. Used the balance of P12.36 million as of September 30, 2016 to invest in financial assets at fair value through profit or loss (FVTPL) and/or available-for-sale (AFS) financial assets.
3. Obtained the schedules of financial assets at FVTPL, AFS financial assets, gross receivables from customers, bank premises, furniture, fixtures and equipment, computer software and miscellaneous assets as of September 30, 2016 and June 30, 2016, and performed the following:
 - a. Agreed the related total of the account schedules with their corresponding general ledger balances;
 - b. Compared the September 30, 2016 balances with June 30, 2016 balances of financial assets at FVTPL, AFS financial assets, gross receivables from customers, bank premises, furniture, fixtures and equipment, computer software, and branch licenses (part of miscellaneous assets account) in the statement of financial position; and,
 - c. Obtained representation from the Bank on the movements of these accounts and amounts applied during the quarter ended September 30, 2016, and amounts of total utilization as of September 30, 2016.

Results of the Performance of Agreed-upon Procedures

1. With respect to item 1, we noted no exception on the mathematical accuracy of the Quarterly Progress Report as summarized in the Bank's letter to the PSE.

2. With respect to item 2, we found the list of application of proceeds in the Quarterly Progress Report as of September 30, 2016 to be in line with the Use of Proceeds section in the Offering Circular, except for the amount of P200.00 million, which was used in the acquisition of branch licenses wherein such branch licenses were indirectly acquired through the purchase of Insular Savers Bank (Insular). Such utilization of the IPO proceeds for the acquisition of branch licenses was approved by the Bank's Board of Directors (BOD) in their meeting on July 27, 2015.

With regard to the IPO proceeds that remain unused as of September 30, 2016 amounting to P12.36 million, the Bank invested such unused IPO proceeds in financial assets at FVTPL and/or AFS financial assets, as allowed under the Offering Circular.

3. With respect to item 3, we noted the following:
- The total in the schedules of the pertinent accounts agreed with their corresponding general ledger balances.
 - For the Bank's branch expansion, we noted a bank-wide net increase of P11.23 million in bank premises, furniture, fixtures and equipment for the quarter ended September 30, 2016. However, since the Bank has already fully utilized the amount of the IPO proceeds for bank expansion as of June 30, 2014, no amount of IPO proceeds was utilized for the third quarter of 2016.

For the investment in IT infrastructure, we noted a bank-wide net increase of P5.98 million in IT equipment and computer licenses for the period July 1 to September 30, 2016. Of the total increase, P3.50 million pertains to IPO proceeds invested to IT infrastructure. As of September 30, 2016, the Bank made a total investment of P87.64 million in IT infrastructure. Portion of the amount was traced to IT equipment amounting to P40.48 million while the remaining P47.15 million was traced to the schedule of computer software. Presented below are the details of the expenditures since the IPO:

	Application of Net Proceeds						As of September 30, 2016
	For the Year 2013	For the Year 2014	For the Year 2015	1st Quarter 2016	2nd Quarter 2016	3rd Quarter 2016	
Computer equipment	P 2,070,282	P 10,965,928	P 15,059,951	P 7,953,980	P 928,690	P 3,503,620	P 40,482,451
Software	35,146,500	10,554,960	1,452,360	-	-	-	47,153,820
	<u>P 37,216,782</u>	<u>P 21,520,888</u>	<u>P 16,512,311</u>	<u>P 7,953,980</u>	<u>P 928,690</u>	<u>P 3,503,620</u>	<u>P 87,636,271</u>

For the quarter ended September 30, 2016, we noted a bank-wide net decrease of P17.65 million in miscellaneous assets. However, there was no amount pertaining to the acquisition of branch licenses since the Bank has already fully utilized the allocated amount from IPO proceeds for the acquisition of branch licenses.

For the quarter ended September 30, 2016, we noted a bank-wide net increase of P2,828.09 million in gross receivables from customers. However, the Bank has already fully utilized the amount for IPO proceeds for general corporate purpose as of December 31, 2014.



For financial assets at FVTPL and AFS financial assets, we noted a bank-wide net increase of P246.63 million from July 1 to September 30, 2016. Of the total decrease, P3.50 million pertains to the IPO proceeds which was temporarily invested to finance IT infrastructure during the third quarter of 2016.

Consequently, the remaining amount of IPO proceeds temporarily invested in peso denominated financial assets at FVTPL and/or AFS financial assets aggregated to P12.36 million as of September 30, 2016.

- c. For item c, we obtained written representation from the appropriate Bank officers on the movement of accounts and the use of the IPO proceeds for the quarter ended and as of September 30, 2016.

Because the above procedures do not constitute either an audit or a review made in accordance with Philippine Standards of Auditing (PSA) or Philippine Standards on Review Engagement (PSRE), respectively, we do not express an assurance on the use of proceeds from the IPO based on the said standards. Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with PSA or PSRE, respectively, other matters might have come to our attention that would have been reported to you.

PUNONGBAYAN & ARAULLO

By: Leonardo D. Cuaresma, Jr.
Partner

CPA Reg. No. 0058647

TIN 109-227-862

PTR No. 5321721, January 4, 2016, Makati City

SEC Group A Accreditation

Partner - No. 0007-AR-4 (until Apr. 30, 2018)

Firm - No. 0002-FR-4 (until Apr. 30, 2018)

BIR AN 08-002511-7-2014 (until Aug. 5, 2017)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

October 14, 2016