



**PHILIPPINE  
BUSINESSBANK**  
*a savings bank*

January 30, 2014

**THE PHILIPPINE STOCK EXCHANGE, INC.**  
Philippine Stock Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City

Attention : Ms Janet A. Encarnacion  
Head – Disclosure Department

Subject : Annual Progress Report on Application of  
Proceeds from IPO with External Auditor  
Certification

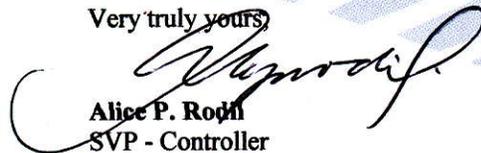
Gentlemen:

We are submitting the following attachments as compliance with the PSE requirement for newly listed companies to provide an annual progress report on the application of proceeds resulting from fund raising activities.

1. Progress report on the application of proceeds from IPO for the year ended December 31, 2013.
2. Certification of Punongbayan & Araullo on the accuracy of information provided by Philippines Business Bank in relation to the progress report.

We hope you find everything in order.

Very truly yours,



**Alice P. Rodil**  
SVP - Controller



January 30, 2014

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Makati City

Attention : Ms Janet A. Encarnacion  
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Subject : Annual Progress Report on Application of  
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Gentlemen:

In line with the Initial Public Offering (IPO) of Philippine Business Bank (“PBB”) on February 19, 2013, we submit herewith our report on the application of the net proceeds coming from the primary offer of PBB shares, amounting to THREE BILLION EIGHT MILLION SIX HUNDRED TWENTY THOUSAND FOUR HUNDRED SEVENTY NINE PESOS & 80/100 PESOS (P3,008,620,479.80).

Proceeds from primary offer of PBB shares	Php 3,192,002,100.00
Less: IPO expenses	<u>183,381,620.20</u>
Net proceeds	Php <u><b>3,008,620,479.80</b></u>

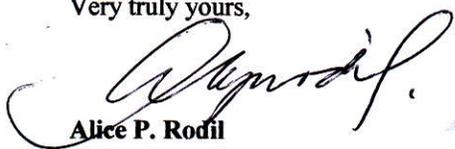
For the year ended December 31, 2013, the applications of the net proceeds are broken down as follows:

Use of Proceeds	Amount in Pesos
Available-for-Sale (AFS) Financial Assets	291,015,487.30
Branch Expansion	80,388,210.82
Information Technology Infrastructure	37,216,781.68
General Corporate Purpose	2,600,000,000.00
<b>Total</b>	<b><u>3,008,620,479.80</u></b>

Please note that General Corporate Purposes pertain to the funding of PBB’s Loans to Customers.

Thank you.

Very truly yours,

  
**Alice P. Rodil**  
SVP - Controller



## Report on Factual Findings

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

Gentlemen:

We have performed the procedures agreed-upon with you and enumerated below with respect to the attached Annual Progress Report (dated January 23, 2014) as of December 31, 2013 on the application of the P3.008 billion proceeds from the initial public offering (the IPO) as at February 19, 2013 of Philippine Business Bank, Inc. A Savings Bank (the Bank) at the Philippine Stock Exchange, Inc. (PSE). The procedures were performed solely to comply with the PSE requirement to submit an external auditor's report on the accuracy of the information being represented 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.

### ***Agreed-upon Procedures Performed***

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

1. Checked the mathematical accuracy of the Annual Progress Report;
2. Compared the list of application of proceeds in the Annual Progress Report with the schedule of planned use of proceeds from the Offering. The list of application of proceeds in the Annual Progress Report follows:
  - a. Invested the balance of P80.388 million for branch network expansion and P37.217 million to finance information technology (IT) infrastructure;
  - b. Used the amount of P2.600 billion to finance the Bank's loan growth (general corporate purpose); and,
  - c. Used the balance of P291.015 million to invest in available-for-sale (AFS) financial assets.



3. Obtained the schedules of AFS financial assets, gross receivables from customers, bank premises, furniture, fixtures and equipment, computer software and miscellaneous assets as of December 31, 2013 and 2012, and performed the following:
  - a. Agreed related totals of these accounts with the general ledger;
  - b. Compared the December 31, 2013 balances with December 30, 2012 balances of AFS financial assets, gross receivables from customers, bank premises, furniture, fixtures and equipment, computer software, and miscellaneous assets and of all other items in the statement of financial position; and,
  - c. Obtained representation from the Bank on the movements of these accounts.

***Results of the Performance of Agreed-upon Procedures***

1. With respect to item 1, we noted no exception on the mathematical accuracy of the Annual 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 Annual Progress Report to be in line with the Use of Proceeds section in the Offering Circular.
3. With respect to item 3, we noted the following:
  - a. The balances in the schedules agreed with the general ledger.
  - b. The Bank received P3.008 billion representing the net proceeds from the IPO on February 19, 2013.

The Bank also generated additional funds from new deposits during the year amounting to P11.433 billion. These funds were invested in AFS financial assets, loans to customers, bank premises, furniture, fixtures and equipment, and computer software.

For the Bank’s branch expansion, we noted a bankwide net increase of P182.220 million in bank premises, furniture, fixtures and equipment, which is higher than the proceeds invested in branch expansion totalling P80.388 million.

The amount of P52.113 million was invested in 11 new branches enumerated in the prospectus. The details of the amounts disbursed are as follows:

	Application of Net Proceeds			
	2nd Quarter 2013	3rd Quarter 2013	4th Quarter 2013	Annual
Bank premises, furniture, fixture and equipment	P 9,918,028	P 26,743,125	P 11,336,067	P 47,997,219
Rental deposits, branch processing fees and computer software	2,537,312	1,578,713	-	4,116,025
	<u>P 12,455,340</u>	<u>P 28,321,838</u>	<u>P 11,336,067</u>	<u>P 52,113,245</u>

We also noted that the three 3 of the 15 branches mentioned in the prospectus were relocated as follows:

Original Location	New Location
Mandaluyong City	Retiro
Pasig City	Timog Rotonda
Pateros	Cagayan de Oro – Cogon

For Tagum, Davao branch (the 15<sup>th</sup> branch), the Bank has not yet decided whether this will be relocated to another site or the project will continue as originally planned.

The Bank invested the amount of P28.274 million in 8 new branches which are in addition to the 15 branches mentioned in the prospectus. The amounts represent the estimated excess funds of the Bank for branch expansion from the allotted proceeds for the 15 branches previously mentioned. The amounts also include the funds disbursed for the relocation of the 3 branches mentioned above. The details of the amounts are as follows:

	Application of Net Proceeds			
	2nd Quarter 2013	3rd Quarter 2013	4th Quarter 2013	Annual
Bank premises, furniture, fixture and equipment	P -	P 8,131,640	P 18,592,671	P 26,724,311
Rental deposits, branch processing fees and computer software	-	661,455	889,200	1,550,655
	<u>P -</u>	<u>P 8,793,095</u>	<u>P 19,481,871</u>	<u>P 28,274,966</u>

For the investment in IT infrastructure, we noted a bankwide net increase of P76.566 million in IT equipment and computer licenses. As of December 31, 2013, the Bank made a total investment of P37.217 million in IT infrastructure. Portion of the amount was traced to furniture, fixtures and equipment amounting to P2.070 million while the remaining P35.146 million was traced to the schedule of computer software. Presented below are the details of the expenditures for the year:

	Application of Net Proceeds			
	2nd Quarter 2013	3rd Quarter 2013	4th Quarter 2013	Annual
Computer equipment	P 744,500	P 964,352	P 361,430	P 2,070,282
Software	14,902,777	12,425,602	7,818,121	35,146,500
	<u>P 15,647,277</u>	<u>P 13,389,954</u>	<u>P 8,179,551</u>	<u>P 37,216,782</u>

For AFS financial assets, we noted a bank-wide net increase of P941.431 million in AFS financial assets resulting partly from the temporary investments in money market placements of the unused portion of the proceeds. By the end of the year, the Bank has a total investment of P291.015 million in AFS financial assets, which was lower than the initial investment of P380.518 million in June 30, 2013. As presented below, lesser amount was invested by the end of the year since portion of the amount was used for branch expansion and investment in IT infrastructure. We noted a net decrease of P89.502 million which was re-allocated to branch expansion and IT infrastructure.

- c. We present below the summary of the application of the net proceeds for the year ended December 31, 2013 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 December 31, 2013
	2nd Quarter 2013	3rd Quarter 2013	4th Quarter 2013	Annual		
Branch expansion	P 12,455,340	P 37,114,933	P 30,817,938	P 80,388,211	P 100,000,000	P 19,611,789
IT infrastructure	15,647,277	13,389,954	8,179,551	37,216,782	100,000,000	62,783,218
Acquisition of branch licenses	-	-	-	-	200,000,000	200,000,000
AFS financial assets	380,517,863	( 50,504,887 )	( 38,997,488 )	291,015,487	-	( 291,015,487 ) <sup>[1]</sup>
General corporate purpose	2,600,000,000	-	-	2,600,000,000	2,608,620,480 <sup>[2]</sup>	8,620,480
	<b>P 3,008,620,480</b>	<b>P 0</b>	<b>( P 0 )</b>	<b>P 3,008,620,480</b>	<b>P 3,008,620,480</b>	<b>P 0</b>

<sup>[1]</sup> AFS financial assets has 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.

<sup>[2]</sup> General Corporate Purpose pertains to the Bank's lending activities. Most of the proceeds will be used to finance this purpose. The total amount of P2.6 billion was already used in the second quarter.



**Punongbayan & Araullo**

An instinct for growth™

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: Benjamin P. Valdez**  
Partner

CPA Reg. No. 0028485

TIN 136-619-880

PTR No. 4222741, January 2, 2014, Makati City

SEC Group A Accreditation

Partner - No. 0009-AR-3 (until Dec. 9, 2014)

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

BIR AN 08-002511-11-2011 (until Sept. 22, 2014)

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

January 30, 2014