



Punongbayan & Araullo

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Report on Factual Findings

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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 below with respect to the attached Annual Progress Report (dated January 17, 2015) as of December 31, 2014 on the application of the P3,008.62 million 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 an external auditor's 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 year ended December 31, 2014 based on the information we obtained from the Bank.

	Application of the Net Proceeds					Annual 2014	Total Utilization	Planned Allocation of IPO Proceeds	Balance of Unused Proceeds as of December 31, 2014
	Annual 2013	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter				
Branch expansion	P 80,388,211	P 18,178,838	P 1,432,951	P -	P -	P 19,611,789	P 100,000,000	P 100,000,000	P -
IT infrastructure	37,216,782	1,443,807	8,648,547	9,266,577	2,161,957	21,520,888	58,737,670	100,000,000	41,262,330
Acquisition of branch licenses	-	-	-	-	-	-	-	200,000,000	200,000,000
Financial assets at FVTPL and AFS financial assets	291,015,487	(19,622,645)	(10,081,498)	(9,266,577)	(10,782,437)	(49,753,157)	241,262,330	-	(241,262,330) ^[1]
General corporate purpose	2,600,000,000	-	-	-	8,620,480	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 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 will be used to finance this purpose. The total amount of P2.6 billion was already fully utilized in 2014.



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 P100.00 million for branch expansion and P58.74 million to finance information technology (IT) infrastructure as of December 31, 2014;
 - b. As of December 31, 2014, P2,608.62 million was used for general corporate purpose;
 - c. Used the balance of P241.26 million as of December 31, 2014 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 December 31, 2014 and 2013, and performed the following:
 - a. Agreed the related total of the account schedules with their corresponding general ledger balances;
 - b. Compared the December 31, 2014 balances with December 30, 2013 balances of AFS financial assets, gross receivables from customers, bank premises, furniture, fixtures and equipment, computer software, and miscellaneous assets in the statement of financial position; and,
 - c. Obtained representation from the Bank on the movements of these accounts and amounts applied during the year ended December 31, 2014, and amounts of total utilization as of December 31, 2014.

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 as of December 31, 2014 to be in line with the Use of Proceeds section in the Offering Circular.



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3. With respect to item 3, we noted the following:

- a. The total in the schedules of the pertinent accounts agreed with their corresponding general ledger balances.
- b. For the Bank's branch expansion, we noted a bank-wide net increase of P456.5 million in bank premises, furniture, fixtures and equipment for the year ended December 31, 2014.

For the investment in IT infrastructure (computer software), we noted a bank-wide net increase of P99.39 million in IT equipment and computer licenses for the year ended December 31, 2014. Of the total increase, P21.52 million pertains to IPO proceeds invested to IT infrastructure. As of December 31 2014, the Bank made a total investment of P58.74 million in IT infrastructure. Portion of the amount was traced to information technology equipment amounting to P13.04 million while the remaining P45.70 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	
		For the Year	2014				Annual	December 31,
		2013	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	2014	2014
Computer equipment	P	2,070,282	P 1,443,807	P 3,248,127	P 4,112,037	P 2,161,957	P 10,965,928	P 13,036,210
Software		35,146,500	-	5,400,420	5,154,540	-	10,554,960	45,701,460
	P	<u>37,216,782</u>	P <u>1,443,807</u>	P <u>8,648,547</u>	P <u>9,266,577</u>	P <u>2,161,957</u>	P <u>21,520,888</u>	P <u>58,737,670</u>

For the year ended December 31, 2014, we noted a bank-wide net increase of P8,604.9 million in gross receivables from customers. The Bank has fully utilized the IPO proceeds for general corporate purpose in 2014.

For financial assets at FVPL and AFS financial assets, we noted a bank-wide net decrease of P6,060.66 million from January 1, 2014 to December 31, 2014. Of the total decrease, P49.75 million pertains to the IPO proceeds that were temporarily invested in 2013 which was used to finance the branch expansion and IT infrastructure incurred in 2014. Consequently, the remaining amount of IPO proceeds temporarily invested in peso denominated financial assets at FVPL and/or AFS financial assets aggregated to P241.26 million as of December 31, 2014.

- 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 year ended and as of December 31, 2014.



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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. 4222750, January 2, 2014, Makati City

SEC Group A Accreditation

Partner - No. 0007-AR-3 (until Jan. 18, 2015)

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

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

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

January 17, 2015