



July 22, 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 :Quarterly Progress Report on Application of  
Proceeds from IPO with External Auditor  
Certification

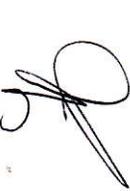
Gentlemen:

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 quarter ended June 30, 2014.
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,

  
Roselle M. Baltazar  
FVP – Assistant Controller



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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 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>
<b>Net proceeds</b>	<b><u>3,008,620,479.20</u></b>

For the quarter ended June 30, 2014, the applications of net proceeds are broken down as follows:

Use of Proceeds	Amounts in Pesos
Financial Assets at FVTPL and/or Available-for-sale (AFS) Financial Assets	261,311,343.98
Branch Expansion	100,000,000.00
Information Technology Infrastructure	47,309,135.82
General Corporate Purpose	2,600,000,000.00
<b>Total</b>	<b>3,008,620,479.80</b>

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

Thank you.

Very truly yours,

*Roselle M. Baltazar*

Roselle M. Baltazar  
FVP – Assistant 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 Quarterly Progress Report (dated July 22, 2014) as of June 30, 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 for the quarter ended June 30, 2014 and as of June 30, 2014 based on the information we obtained from the Bank.

	Application of the Net Proceeds			Total Utilization as of June 30, 2014	Planned Allocation of IPO Proceeds	Balance of Unused Proceeds as of June 30, 2014
	For the Year 2013	1st Quarter 2014	2nd Quarter 2014			
Branch expansion	P 80,388,211	P 18,178,838	P 1,432,951	P 100,000,000	P 100,000,000	p -
IT infrastructure	37,216,782	1,443,807	8,648,547	47,309,136	100,000,000	52,690,864
Acquisition of branch licenses	-	-	-	-	200,000,000	200,000,000
General corporate purpose	2,600,000,000	-	-	2,600,000,000	2,608,620,480 <sup>[2]</sup>	8,620,480
Financial assets at FVTPL and/or AFS financial assets	291,015,487	( 19,622,645 )	( 10,081,498 )	261,311,344	-	( 261,311,344 ) <sup>[1]</sup>
	<b>P 3,008,620,480</b>	<b>P -</b>	<b>P -</b>	<b>P 3,008,620,480</b>	<b>P 3,008,620,480</b>	<b>P -</b>

<sup>[1]</sup> 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.

<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 2013.

***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. The list of application of proceeds in the Quarterly Progress Report follows:
  - a. Invested P100.00 million for branch expansion and P47.31 million to finance information technology (IT) infrastructure as of June 30, 2014;
  - b. As of June 30, 2014, P2,600.00 million was used for general corporate purpose;
  - c. Used the balance of P261.31 million as of June 30, 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 June 30, 2014 and March 31, 2014, and performed the following:
  - a. Agreed the related total of the account schedules with their corresponding general ledger balances;
  - b. Compared the June 30, 2014 balances with March 31, 2014 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 quarter ended June 30, 2014, and amounts of total utilization as of June 30, 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 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 June 30, 2014 to be in line with the Use of Proceeds section in the Offering Circular. However, we noted that the Bank incurred a total of P110.60 million as of June 30, 2014 for branch expansion which is already in excess of the allocated amount of P100.00 million. The excess balance of P10.60 million was funded through the Bank's operations.

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 P15.27 million in bank premises, furniture, fixtures and equipment for the quarter ended June 30, 2014, which includes the amount invested in branch expansion totalling P1.43 million for the same quarter. This amount of P1.43 million incurred for branch expansion for the quarter ended June 30, 2014 represents the additional costs for the (i) 11 new branches out of the 15 new branches included in the prospectus of P1.32 million; and, (ii) for the 18 new branches which are in addition to the 15 branches mentioned in the prospectus of P0.11 million, as can be seen below.

For the 11 new branches out of the 15 new branches enumerated in the prospectus, the amount of P59.57 million was already incurred as of June 30, 2014 as follows:

	Application of Net Proceeds			
	For the Year 2013	1st Quarter 2014	2nd Quarter 2014	As of June 30, 2014
Bank premises, furniture, fixture and equipment	P 47,997,220	P 5,741,339	P 1,325,947	P 55,064,506
Rental deposits, branch processing fees and computer software	4,116,025	392,221	-	4,508,246
	<b>P 52,113,245</b>	<b>P 6,133,561</b>	<b>P 1,325,947</b>	<b>P 59,572,753</b>

We also noted that 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 15th branch), the Bank has not yet decided whether this branch will be relocated to another site or the project will continue as originally planned.

The Bank also invested in 18 new branches, which are in addition to the 15 branches mentioned in the prospectus. Including the relocated 3 branches mentioned above, the amount invested amounting to P40.43 million represents the estimated excess funds of the Bank for branch expansion from the allotted proceeds for the 15 branches previously mentioned. The details of the amounts are as follows:

	Application of Net Proceeds			
	For the Year 2013	1st Quarter 2014	2nd Quarter 2014	As of June 30, 2014
Bank premises, furniture, fixture and equipment	P 26,724,311	P 11,042,273	P 107,004	P 37,873,588
Rental deposits, branch processing fees and computer software	1,550,655	1,003,004	-	2,553,659
	<b>P 28,274,966</b>	<b>P 12,045,277</b>	<b>P 107,004</b>	<b>P 40,427,247</b>



For the investment in IT infrastructure (computer software), we noted a bank-wide net increase of P9.89 million in IT equipment and computer licenses from period March 31, 2014 to June 30, 2014. Of the total increase, P8.65 million pertains to IPO proceeds invested to IT infrastructure for the same quarter. As of June 30, 2014, the Bank made a total investment of P47.31 million in IT infrastructure. Portion of the amount was traced to information technology equipment amounting to P6.76 million while the remaining P40.55 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 June 30, 2014
	For the Year 2013	1st Quarter 2014	2nd Quarter 2014	
Computer equipment	P 2,070,282	P 1,443,807	P 3,248,127	P 6,762,216
Software	35,146,500	-	5,400,420	40,546,920
	<u>P 37,216,782</u>	<u>P 1,443,807</u>	<u>P 8,648,547</u>	<u>P 47,309,136</u>

For the quarter period ended June 30, 2014, we noted a bank-wide net increase of P1,745.29 million in gross receivables from customers. However, the Bank has informed us that it did not utilize any amount of the IPO proceeds for general corporate purpose for the second quarter of 2014.

For financial assets at FVPL and AFS financial assets, we noted a bank-wide net decrease of P5.90 billion from March 31, 2014 to June 30, 2014. Of the total decrease, P10.08 million pertains to the IPO proceeds that were temporarily invested which was used to finance the branch expansion and IT infrastructure incurred during the second quarter of 2014. Consequently, the remaining amount of IPO proceeds temporarily invested in financial assets at FVPL and/or AFS financial assets aggregated to P261.31 million as of June 30, 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 quarter ended and as of June 30, 2014.

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 08-002511-7-2011 (until Sept. 21, 2014)

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

July 22, 2014