



January 21, 2016

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

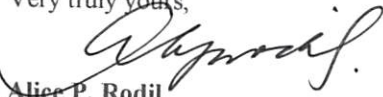
Gentlemen:

We are submitting the following attachments as compliance with the PSE requirement for newly listed companies to provide a quarterly 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, 2015.
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 21, 2016

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:

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 EIGHTY PESOS (P3,008,620,480.00).

Proceeds from primary offer of PBB shares	Php 3,192,002,100.00
Less: IPO expenses	<u>183,381,620.00</u>
Net proceeds	Php <u>3,008,620,480.00</u>

For the year ended December 31, 2015, the applications of the net proceeds are broken down as follows:

Use of Proceeds	Amount in Pesos
Financial assets at FVTPL and AFS Financial Assets	24,750,019.00
Branch Expansion	100,000,000.00
Acquisition of branch licenses	200,000,000.00
Information Technology Infrastructure	75,249,981.00
General Corporate Purpose	2,608,620,480.00
Total	3,008,620,480.00

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



P&A
Grant Thornton

An instinct for growth™

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:

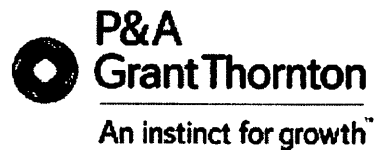
We have performed the procedures agreed-upon with you and enumerated in page 3 with respect to the attached Annual Progress Report (dated January 15, 2016) as of December 31, 2015 on the application of the P3,008.62 million net proceeds from the initial public offering (the IPO) on February 19, 2013 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.

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



We present below the summary of the application of the net IPO proceeds as of and for the year ended December 31, 2015 based on the information we obtained from the Bank.

	Application of the Net Proceeds							Total Utilization	Planned Allocation of IPO Proceeds	Balance of Unused Proceeds as of December 31, 2015
	Annual 2013	Annual 2014	1st Quarter 2015	2nd Quarter 2015	3rd Quarter 2015	4th Quarter 2015	Annual 2015			
Branch expansion	P 80,388,211	P 19,611,789	P -	P -	P -	P -	P -	P 100,000,000	P 100,000,000	P -
IT infrastructure	37,216,782	21,520,888	535,612	2,669,049	8,985,154	4,322,496	16,512,311	75,249,981	100,000,000	24,750,019
Acquisition of branch licenses	-	-	-	-	200,000,000	-	200,000,000	200,000,000	200,000,000	-
Financial assets at FVTPL and/or AFS financial assets	291,015,487	(49,753,157)	(535,612)	(2,669,049)	(208,985,154)	(4,322,496)	(216,512,311)	24,750,019	-	(24,750,019) ⁽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 -	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.

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 Circular. The list of application of proceeds in the Annual Progress Report follows:
 - a. Invested P100.00 million for branch expansion and P75.25 million to finance information technology (IT) infrastructure as of December 31, 2015;
 - b. As of December 31, 2015, P2,608.62 million was used for general corporate purpose;
 - c. Utilized the P200.00 million allocated for acquisition of branch license as of December 31, 2015.
 - d. Used the balance of P24.75 million as of December 31, 2015 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 30, 2015 and 2014, and performed the following:
 - a. Agreed the related total of the account schedules with their corresponding general ledger balances;
 - b. Compared the December 31, 2015 balances with December 31, 2014 balances of financial assets at FVTPL, 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 2015, and amounts of total utilization as of December 31, 2015.

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, 2015 to be in line with the Use of Proceeds section in the Offering Circular, except for the acquisition of branch licenses wherein 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 December 31, 2015 amounting to P24.75 million, the Bank invested such unused IPO proceeds in financial assets at FVTPL and/or AFS financial assets, as allowed under the Offering Circular.

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 P502.63 million in bank premises, furniture, fixtures and equipment for the year ended December 31, 2015. 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 2015.

For the investment in IT infrastructure (computer software), we noted a bank-wide net increase of P72.61 million in IT equipment and computer licenses for the year December 31, 2015. Of the total increase, P16.51 million pertains to IPO proceeds invested to IT infrastructure. As of December 31, 2015, the Bank made a total investment of P75.25 million in IT infrastructure. Portion of the amount was traced to information technology equipment amounting to P28.10 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
		For the Year 2013	For the Year 2014	1st Quarter 2015	2nd Quarter 2015	3rd Quarter 2015	4th Quarter 2015	Annual 2015	December 31, 2015
Computer equipment	P	2,070,282	10,965,928	535,612	2,669,049	7,532,794	4,322,496	15,059,951	28,096,161
Software		35,146,500	10,554,960	-	-	1,452,360	-	1,452,360	47,153,820
	P	37,216,782	21,520,888	535,612	2,669,049	8,985,154	4,322,496	16,512,311	75,249,981

For the acquisition of branch license, the Bank's BOD approved the utilization of IPO proceeds allocated for the acquisition of Insular during the year ended December 31, 2015. The acquisition has an agreed purchase price of P518.24 million. The Bank directly paid P101.15 million to the shareholders of Insular, while the remaining P417.10 million was deposited with the escrow agent. As of December 31, 2015, a total of P105.13 million has been released from the escrow fund as payment to Insular; hence, the Bank already fully utilized the P200.00 million allocated for acquisition of branch license.

For the year ended December 31, 2015, we noted a bank-wide net increase of P2,620.92 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.



**P&A
Grant Thornton**

An instinct for growth™

For financial assets at FVTPL and AFS financial assets, we noted a bank-wide net decrease of P129.39 million from January 1 to December 31, 2015. Of the total decrease, P16.51 million and P200.00 million pertain to the IPO proceeds that were temporarily invested to finance IT infrastructure and acquisition of branch license, respectively, in 2015. Consequently, the remaining amount of IPO proceeds temporarily invested in peso denominated financial assets at FVTPL and/or AFS financial assets aggregated to P24.75 million as of December 31, 2015.

- 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 December 31, 2015.

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)

January 15, 2016