



# P&A Grant Thornton

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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 8<sup>th</sup> Avenue  
Grace Park, Caloocan City

Gentlemen:

We have performed the procedures agreed-upon with you and enumerated in page 2 with respect to the attached Quarterly Progress Report (dated October 12, 2017) as of September 30, 2017 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, 2017 based on the information we obtained from the Bank.

	Application of the Net Proceeds					Planned Allocation of IPO Proceeds
	For the Years 2013-2016	1st Quarter 2017	2nd Quarter 2017	3rd Quarter 2017	Total Utilization	
Branch expansion	P 100,000,000	P -	P -	P -	P 100,000,000	P 100,000,000
Information technology (IT) infrastructure	88,713,794	8,025,415	2,668,691	592,100	100,000,000	100,000,000
Acquisition of branch licenses	200,000,000	-	-	-	200,000,000	200,000,000 <sup>[1]</sup>
General corporate purpose	2,608,620,480	-	-	-	2,608,620,480	2,608,620,480
Financial assets at FVTPL and/or AFS financial assets <sup>[2]</sup>	11,286,206	( 8,025,415 )	( 2,668,691 )	( 592,100 )	-	-
	<b>P 3,008,620,480</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P 3,008,620,480</b>	<b>P 3,008,620,480</b>

<sup>[1]</sup> General Corporate Purpose pertains to the Bank's lending activities. Most of the proceeds was used to finance this purpose. The total amount of P2,608.62 million was already fully utilized as of December 31, 2014.

<sup>[2]</sup> Financial assets at fair value through profit or loss (FVTPL) and/or available-for-sale (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.

**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 used P100.00 million to finance IT infrastructure as of September 30, 2017;
  - b. Utilized P200.00 million for acquisition of branch license as of September 30, 2017;
  - c. As of September 30, 2017, P2,608.62 million was used for general corporate purpose.
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, 2017 and June 30, 2017, and performed the following:
  - a. Agreed the related total of the account schedules with their corresponding general ledger balances;
  - b. Compared the September 30, 2017 balances with June 30, 2017 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, 2017, and amounts of total utilization as of September 30, 2017.

### ***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, 2017 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. 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.

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 P10.77 million in bank premises, furniture, fixtures and equipment for the quarter ended September 30, 2017. 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 2017.

For the investment in IT infrastructure, we noted a bank-wide net increase of P16.13 million in IT equipment and computer software licenses for the quarter ended September 30, 2017. Of the total increase, P0.59 million pertains to IPO proceeds invested to IT infrastructure. As of September 30, 2017, the Bank made a total investment of P100 million in IT infrastructure. Portion of the amount was traced to IT equipment amounting to P52.85 million while the remaining P47.15 million was traced to the schedule of computer software licenses. Presented below are the details of the expenditures since the IPO:

	Application of Net Proceeds				As of September 30, 2017
	For the Years 2013-2016	1st Quarter 2017	2nd Quarter 2017	3rd Quarter 2017	
IT equipment	P 41,559,974	P 8,025,415	P 2,668,691	P 592,100	P 52,846,180
Computer software licenses	47,153,820	-	-	-	47,153,820
	<b><u>P 88,713,794</u></b>	<b><u>P 8,025,415</u></b>	<b><u>P 2,668,691</u></b>	<b><u>P 592,100</u></b>	<b><u>P 100,000,000</u></b>

For the quarter ended September 30, 2017, we noted a bank-wide net increase of P25.09 million in miscellaneous assets. However, there was no amount pertaining to the acquisition of branch licenses since the Bank has already fully utilized as of December 31, 2015 the allocated amount from IPO proceeds for the acquisition of branch licenses.

For the quarter ended September 30, 2017, we noted a bank-wide net increase of P8,218.22 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 decrease of P1,091.46 million from July 1 to September 30, 2017. Of the total net decrease, P0.59 million pertains to the part of unutilized IPO proceeds which was temporarily invested as financial assets at FVTPL and/or AFS financial assets but disposed in the second quarter of 2017, the proceeds of which were used to finance IT infrastructure in 2017.

- 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 as of and for the quarter ended September 30, 2017.

Because the foregoing 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.

This report is intended solely for the use of the Bank to comply with the requirements of PSE as stated in the first paragraph of this report and should not be used for any other purpose. We have no responsibility to update this report for events or circumstances occurring after the date of this report.

**PUNONGBAYAN & ARAULLO**



**By: Leonardo D. Cuaresma, Jr.**  
Partner

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TIN 109-227-862

PTR No. 5908621, January 3, 2017, Makati City

SEC Group A Accreditation

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

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October 12, 2017