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Report on Factual Findings

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 20, 2017) as of December 31, 2016 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 year ended December 31, 2016 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, 2016
	Annual 2013	Annual 2014	Annual 2015	1st Quarter 2016	2nd Quarter 2016	3rd Quarter 2016	4th Quarter 2016	Annual 2016	Total Utilization			
Branch expansion	P 80,388,211	P 19,611,789	P -	P -	P -	P -	P -	P -	P 100,000,000	P 100,000,000	P -	
Information technology (IT) infrastructure	37,216,782	21,520,888	16,512,311	7,953,980	928,690	3,503,620	1,077,523	13,463,813	88,713,794	100,000,000	11,286,206	
Acquisition of branch licenses	-	-	200,000,000	-	-	-	-	-	200,000,000	200,000,000	-	
Financial assets at FVTPL and/or AFS financial assets	291,015,487	(49,753,157)	(216,512,311)	(7,953,980)	(928,690)	(3,503,620)	(1,077,523)	(13,463,813)	11,286,206	-	(11,286,206) ^[1]	
General corporate purpose	<u>2,600,000,000</u>	<u>8,620,480</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,608,620,480</u>	<u>2,608,620,480</u> ^[2]	<u>-</u>	
	<u>P 3,008,620,480</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 3,008,620,480</u>	<u>P 3,008,620,480</u>	<u>P -</u>	

^[1] 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 are temporarily 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 used P88.71 million to finance IT infrastructure as of December 31, 2016;
 - b. Utilized P200.00 million for acquisition of branch license as of December 31, 2016;
 - c. Used the balance of P11.29 million as of December 31, 2016 to invest in financial assets at FVTPL and/or AFS financial assets; and,
 - d. As of December 31, 2016, 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 December 31, 2016 and 2015, and performed the following:
 - a. Agreed the related total of the account schedules with their corresponding general ledger balances;
 - b. Compared the December 31, 2016 balances with December 31, 2015 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 year ended December 31, 2016, and amounts of total utilization as of December 31, 2016.

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, 2016 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 (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, 2016 amounting to P11.29 million, the Bank temporarily invested such unused IPO proceeds in financial assets at FVTPL and/or AFS financial assets, as allowed under the Offering Circular.

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 decrease of P296.57 million in bank premises, furniture, fixtures and equipment for the year ended December 31, 2016. 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 2016.

For the investment in IT infrastructure, we noted a bank-wide net increase of P39.55 million in IT equipment and computer licenses for the year ended December 31, 2016. Of the total increase, P13.46 million pertains to IPO proceeds invested to IT infrastructure. As of December 31, 2016, the Bank made a total investment of P88.71 million in IT infrastructure. Portion of the amount was traced to IT equipment amounting to P41.56 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 December 31, 2016
	For the Year 2013	For the Year 2014	For the Year 2015	1st Quarter 2016	2nd Quarter 2016	3rd Quarter 2016	4th Quarter 2016	For the Year 2016	
Computer equipment	P 2,070,282	P 10,965,928	P 15,059,951	P 7,953,980	P 928,690	P 3,503,620	P 1,077,523	P 13,463,813	P 41,559,974
Software	35,146,500	10,554,960	1,452,360	-	-	-	-	-	47,153,820
	<u>P 37,216,782</u>	<u>P 21,520,888</u>	<u>P 16,512,311</u>	<u>P 7,953,980</u>	<u>P 928,690</u>	<u>P 3,503,620</u>	<u>P 1,077,523</u>	<u>P 13,463,813</u>	<u>P 88,713,794</u>

For the year ended December 31, 2016, we noted a bank-wide net increase of P120.33 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 year ended December 31, 2016, we noted a bank-wide net increase of P10,216.58 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 increase of P4,088.19 million from January 1 to December 31, 2016. Such net increase, however, was reduced by P13.46 million that 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 2016, the proceeds of which were used to finance IT infrastructure in 2016. Consequently, the remaining amount of IPO proceeds temporarily invested in peso denominated financial assets at FVTPL and/or AFS financial assets was reduced by the same amount and the remaining funds aggregated to P11.29 million as of December 31, 2016.

- 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 year ended December 31, 2016.

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

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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)

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 20, 2017