

April 15, 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 March 31, 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,

Rolando R. Avante
President and CEO

April 15, 2014



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Attention :Ms. Janet A. Encarnacion
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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>
Net proceeds	<u>3,008,620,479.20</u>

For the quarter ended March 31, 2014, the applications of net proceeds are broken down as follows:

Use of Proceeds	Amounts in Pesos
Available-for-sale (AFS) Financial Assets	271,392,842.24
Branch Expansion	98,567,048.89
Information Technology Infrastructure	38,660,558.68
General Corporate Purpose	2,600,000,000.00
Total	3,008,620,479.80

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

Thank you.

Very truly yours,

Rolando R. Avante
President and CEO



Report on Factual Findings

20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

The Board of Directors
Philippine Business Bank, Inc. A Savings Bank
350 Rizal Avenue Extension corner 8th Avenue
Grace Park, Caloocan City

T +63 2 886-5511
F +63 2 886-5506; +63 2 886-5507
www.punongbayan-araullo.com

Gentlemen:

We have performed the procedures agreed-upon with you and enumerated below with respect to the attached Quarterly Progress Report (dated April 15, 2014) as of March 31, 2014 on the application of the P3.008 billion proceeds from the initial public offering (the IPO) as at 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 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 proceeds for the quarter ended March 31, 2014 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 March 31, 2014
	Annual 2013	1st Quarter 2014	Total Utilization		
Branch expansion	P 80,388,211	P 18,178,838	P 98,567,049	P 100,000,000	P 1,432,951
IT infrastructure	37,216,782	1,443,807	38,660,589	100,000,000	61,339,411
Acquisition of branch licenses	-	-	-	200,000,000	200,000,000
AFS financial assets	291,015,487	(19,622,645)	271,392,842	-	(271,392,842) ⁽¹⁾
General corporate purpose	2,600,000,000	-	2,600,000,000	2,608,620,480 ⁽²⁾	8,620,480
	P 3,008,620,480	P 0	P 3,008,620,480	P 3,008,620,480	P 0

⁽¹⁾ AFS financial assets has 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 used in the second quarter of 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 additional balance of P18.179 million for branch network expansion and P1.443 million to finance information technology (IT) infrastructure during the first quarter of 2014;
 - b. Used the balance of P271.393 million to invest in available-for-sale (AFS) financial assets.
3. Obtained the schedules of AFS financial assets, gross receivables from customers, bank premises, furniture, fixtures and equipment, computer software and miscellaneous assets as of March 31, 2014 and December 31, 2013, and performed the following:
 - a. Agreed related totals of these accounts with the general ledger;
 - b. Compared the March 31, 2014 balances with December 31, 2013 balances of AFS financial assets, gross receivables from customers, bank premises, furniture, fixtures and equipment, computer software, and miscellaneous assets and of all other items in the statement of financial position; and,
 - c. Obtained representation from the Bank on the movements of these accounts.

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 to be in line with the Use of Proceeds section in the Offering Circular.
3. With respect to item 3, we noted the following:
 - a. The balances in the schedules agreed with the general ledger.
 - b. The Bank generated additional funds from stock issuances in 2013 amounting to P1.987 billion. These funds were invested in loans to customers, bank premises, furniture, fixtures and equipment, and computer software.



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For the Bank's branch expansion, from period December 31, 2013 to March 31, 2014, we noted a bankwide net increase of P40,881 million in bank premises, furniture, fixtures and equipment, which is higher than the proceeds invested in branch expansion totalling P18.179 million.

As of March 31, 2014, the Bank used a total of P98.567 million of the IPO proceeds for branch expansion. The amount of P58.247 million was invested in 11 new branches enumerated in the prospectus. The details of the amounts disbursed for the quarter are as follows:

	Application of Net Proceeds		
	Annual	1st Quarter 2014	Total
Bank premises, furniture, fixture and equipment	P 47,997,220	P 5,741,339	P 53,738,559
Rental deposits, branch processing fees and computer software	4,116,025	392,221	4,508,246
	P 52,113,245	P 6,133,561	P 58,246,806

We also noted that the three 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 invested the amount of P40.320 million in 14 new branches which are in addition to the 15 branches mentioned in the prospectus. The amounts represent the estimated excess funds of the Bank for branch expansion from the allotted proceeds for the 15 branches previously mentioned. The amounts also include the funds disbursed for the relocation of the three branches mentioned above. The details of the amounts are as follows:

	Application of Net Proceeds		
	Annual	1st Quarter 2014	Total
Bank premises, furniture, fixture and equipment	P 26,724,311	P 11,042,273	P 37,766,584
Rental deposits, branch processing fees and computer software	1,550,655	1,003,004	2,553,659
	P 28,274,966	P 12,045,277	P 40,320,243

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For the investment in IT infrastructure (computer software), we noted a bankwide net increase of P13.890 million in IT equipment and computer licenses from period December 31, 2013 to March 31, 2014. As of March 31, 2014, the Bank made a total investment of P38.661 million in IT infrastructure. Portion of the amount was traced to information technology equipment amounting to P3.514 million while the remaining P35.146 million was traced to the schedule of computer software. Presented below are the details of the expenditures for the year:

	Application of Net Proceeds		
	Annual	1st Quarter 2014	Total
Computer equipment	P 2,070,282	P 1,443,807	P 3,514,089
Software	35,146,500	-	35,146,500
	P 37,216,782	P 1,443,807	P 38,660,589

For AFS financial assets, we noted a bank-wide net decrease of P188.676 million in AFS financial assets resulting partly from the temporary investments in money market placements of the unused portion of the proceeds. By March 31, 2014, the Bank has a total investment of P6.221 billion in AFS financial assets, which was lower than the December 31, 2013 balance of P6.409 billion. As presented below, lesser amount was invested by the end of the year since portion of the amount was used for branch expansion and investment in IT infrastructure.

- c. For item c, we obtained representation on the movement of the accounts by confirming with the Bank's officers.



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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: Benjamin P. Valdez
Partner

CPA Reg. No. 0028485

TIN 136-619-880

PTR No. 4222741, January 2, 2014, Makati City

SEC Group A Accreditation

Partner - No. 0009-AR-3 (until Dec. 9, 2014)

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

BIR AN 08-002511-11-2011 (until Sept. 22, 2014)

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

April 15, 2014



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PUNONGBAYAN & ARAULLO

By:  **Benjamin P. Valdez**
Partner

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