

Report on Factual Findings

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The Board of Directors
Philippine Business Bank, Inc., A Savings Bank
350 Rizal Avenue Extension corner 8th Avenue
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Gentlemen:

We have performed the procedures agreed-upon with you and enumerated in the next page with respect to the attached Quarterly Progress Report (dated October 22, 2015) as of September 30, 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.

We present below the summary of the application of the net IPO proceeds as of and for the quarter ended September 30, 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 September 30, 2015
	Annual 2013	Annual 2014	1st Quarter 2015	2nd Quarter 2015	3rd Quarter 2015			
Branch expansion	P 80,388,211	P 19,611,789	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	70,927,485	100,000,000	29,072,515
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)	(535,612)	(2,669,049)	(208,985,154)	29,072,515	-	(29,072,515) ⁽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 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.

Certified Public Accountants

Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd

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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 P70.93 million to finance information technology (IT) infrastructure as of September 30, 2015;
 - b. As of September 30, 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 September 30, 2015.
 - d. Used the balance of P29.07 million as of September 30, 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 September 30, 2015 and June 30, 2015, and performed the following:
 - a. Agreed the related total of the account schedules with their corresponding general ledger balances;
 - b. Compared the September 30, 2015 balances with June 30, 2015 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 quarter ended September 30, 2015, and amounts of total utilization as of September 30, 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 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, 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 September 30, 2015 amounting to P29.07 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 P21.50 million in bank premises, furniture, fixtures and equipment for the quarter ended September 30, 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 P18.12 million in IT equipment and computer licenses from period July 1 to September 30, 2015. Of the total increase, P8.99 million pertains to IPO proceeds invested to IT infrastructure for the same quarter. As of September 30, 2015, the Bank made a total investment of P70.92 million in IT infrastructure. Portion of the amount was traced to information technology equipment amounting to P23.77 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 September 30, 2015
	For the Year 2013	For the Year 2014	1st Quarter 2015	2nd Quarter 2015	3rd Quarter 2015	
Computer equipment	P 2,070,282	P 10,965,928	P 535,612	P 2,669,049	P 7,532,794	P 23,773,665
Software	35,146,500	10,554,960	-	-	1,452,360	47,153,820
	P 37,216,782	P 21,520,888	P 535,612	P 2,669,049	P 8,985,154	P 70,927,485

For the acquisition of branch license, the Bank's BOD approved the utilization of IPO proceeds allocated for the acquisition of Insular during quarter period ended September 30, 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 September 30, 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 quarter period ended September 30, 2015, we noted a bank-wide net increase of P1,473.57 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 P372.34 million from July 1 to September 30, 2015. Of the total decrease, P8.99 million and P200.00 million pertains to the IPO proceeds that were temporarily invested to finance IT infrastructure and acquisition of branch license, respectively, during the third quarter of 2015. Consequently, the remaining amount of IPO proceeds temporarily invested in peso denominated financial assets at FVTPL and/or AFS financial assets aggregated to P29.07 million as of September 30, 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 September 30, 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

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PTR No. 4748307, January 5, 2015, 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, 2015)

October 22, 2015