

R.R. TAN & ASSOCIATES, CPAs

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October 20, 2021

The Board of Directors
PHILIPPINE BRITISH ASSURANCE COMPANY, INC.
Penthouse, Morning Star Center Bldg.
347 Sen. Gil Puyat Ave. Extension,
Makati City

Attention: **Ms. Rosario W. Cuyegkeng**
President and CEO

Gentlemen:

In connection with the proposed engagement of our firm as external auditors of **PHILIPPINE BRITISH ASSURANCE COMPANY, INC.** for the year ended December 31, 2021, we are pleased to submit to you the terms and objectives of our engagement and the related fee arrangement as follows:

OBJECTIVE

The objective of an audit is for the expression of our opinion, whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows for your corporation in conformity with applicable financial reporting framework.

SCOPE AND AUDIT RESPONSIBILITIES

Our audit will be made in accordance with Philippine Standards on Auditing. Those Standards require us to plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. Our audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements and, assessing the accounting principles used and significant estimates made by management, as well as the overall financial statement presentation.

Our audit includes procedures designed to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements. However, since the examination is based on the concept of selective testing of the data being examined, there is a risk that some material misstatements if they exist may not be detected.

You recognize that the responsibility for the preparation of the financial statements including disclosure is that of the management of the company. This includes the establishment and maintenance of adequate accounting records and internal structure, the selection and application of accounting policies, and the safeguarding of the assets of the company.

However, as part of our responsibility as an accredited external auditor, we shall report to the Securities and Exchange Commission (SEC) and Insurance Commission (IC) any of the following cases which may have been discovered based on Philippine Standards on Auditing, if the company fails to disclose the same to the SEC and IC as follows:

SEC

- Any material findings involving fraud or error which will reduce the total assets of the company by five percent (5%).
- Losses or potential losses, the aggregate of which, amounts to at least ten percent (10%) of the total assets of the company;
- Any findings to the effect that the assets of the company, on a going concern basis are no longer adequate to cover the total claims of creditors.

IC

- Any material findings involving fraud or error;
- Losses or potential losses, the aggregate of which, amounts to at least ten percent (10%) of the total assets of the Company;
- Significant doubt as to the ability of the Company to continue as a going concern;
- Material breach of laws or IC rules and regulations, such as but not limited to the prescribed net worth and risk-based capital requirements, of the Company;
- Material internal control weaknesses which may lead to financial reporting problems; and.
- Findings on matters of corporate governance that may require urgent action by IC.

In case there are no adverse matters to report, we shall submit directly to the IC within fifteen (15) calendar days after the close of the audit engagement a notarized certification that there is none to report.

It is however, understood that the accountability of the external auditor is based on matters within the coverage of an audit conducted in accordance with the Philippines Standards on Auditing. The financial statements, together with the supplemental report submitted to the IC, are the primary responsibility of the Company's Board and Management.

It is possible that because of unexpected circumstances, we may determine that we cannot render a report or otherwise complete the engagement. If, in our professional judgement, the circumstances require, we will advise you and those charged with governance promptly and take such action as we deem appropriate.

MANAGEMENT'S RESPONSIBILITIES

Our audit will be conducted on the basis that management and where appropriate, those charged with governance, acknowledge and understand that they have responsibility:

- For the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework,
- For such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatements, whether due to fraud or error, and
- To provide us with (i) access, on a timely basis, to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters; (ii) additional information that we may request from management for the purpose of the audit; and (iii) unrestricted access to documents or persons within the Company from whom we determine it necessary to obtain audit evidence.

We will make specific inquiries of management representations contained in the financial statements. At the conclusion of our audit, we will also obtain a written representations from management about these matters, and that management: (i) has fulfilled its responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and that all transactions have been recorded and are reflected in the financial statements; and (ii) has provided us with all the relevant information and access as contemplated in this engagement . These representations and the results of our audit procedures comprise the evidence on which we will rely in forming an opinion on the financial statements.

IC Circular Letter 2019-39

In accordance with Section 4.2 of IC Circular Letter No. 2019-39, the following provisions are herein provided:

- The Company shall be responsible for keeping the external auditor fully informed of existing and subsequent changes to prudential, regulatory and statutory requirements of the IC and that both parties shall comply with the said requirements;
- The required and supplemental disclosures of information and reports, such as those enumerated in Section 4.3 of IC Circular Letter 2019-39, by the external auditor to the IC shall not constitute a breach of confidentiality on the part of the external auditor nor shall it be ground for civil, criminal, or disciplinary proceedings against the external auditor;

- The external auditor shall be allowed ready-only access to the IC's examination report on the Company and that the external auditor shall treat the contents of the examination report appropriately and confidentially;
- The Company and external auditor shall comply with all the requirements under this Circular Letter 2019-39; and
- The engagement contract shall be made available to the IC upon request.

WORKING ARRANGEMENTS

We adhere to what we believe to be an important philosophy in providing services to our clients. Our examination is performed as a joint venture with client personnel actively involved in our work. The experience and practical insights of client officer and staff are extremely helpful to us.

We look forward to your full cooperation and we trust that you will make available to us whatever records, documents and other information that we will need in the course of our audit.

TIMETABLE

We will start our fieldwork soon after your complete submission of our audit requirements, which will be transmitted to you upon your acceptance of this proposal.

We will also request that a suitable working area be provided to our field auditors during the course of our audit.

PROFESSIONAL FEES

Our fees are based on estimated time to be spent on the engagement. For the performance of services above-mentioned, we propose to bill you under the following terms:

- For the calendar year ended December 31, 2021: ₱300,000 exclusive of value-added tax billed at the completion of our work.
- Out-of-pocket expenses will be for your account and will be included in our bill.

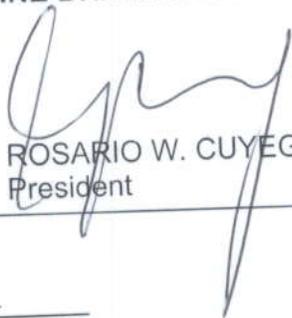
The terms and condition set forth in this engagement shall continue to apply in subsequent years except modified, amended or supplemented by the parties to this agreement. Changes in scope of audit services and estimated fees for such services in subsequent years will be communicated in supplemental letters.

If you agree to the above proposal, please signify your conformity on the enclosed copy and return it to us.

Very truly yours,


DOMINGO A. DAZA, JR.
Managing Partner

CONFORME : **PHILIPPINE BRITISH ASSURANCE COMPANY, INC.**


BY (Name and Title): **ROSARIO W. CUYEGKENG**
President

DATE: 5/20/2022