



October 3, 2019

**Corporate Guarantee and Insurance Company, Inc.**

2nd Floor, CGIC Building  
Jose Abad Santos Avenue  
San Fernando City, Pampanga

Attention: **Mr. Raymund S. Mungkal**  
FVP and CFO

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Gentlemen:

We are pleased to submit our proposal to audit the financial statements of **Corporate Guarantee and Insurance Company, Inc.** (the Company) as at and for the year ending December 31, 2019.

Our audit will be made with the objective of expressing an opinion on the financial statements of the Company.

**The Responsibilities of the Auditor**

We will conduct our audit in accordance with Philippine Standards on Auditing (PSA). Those standards require that we comply with ethical requirements and Company and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with PSA. In making our risk assessments, we consider internal controls relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing any significant deficiency in internal control relevant to the audit of the financial statements.

The work papers for this engagement are the property of Reyes Tacandong & Co. (RT&Co. or our Firm).

## **Reporting and Deliverables**

At the conclusion of our audit, we will furnish the Company with signed Independent Auditors' Report prepared in accordance with PSA 700, *Forming an Opinion and Reporting on Financial Statements*. Our audit report will be addressed to the Board of Directors (BOD).

## **Reportorial Requirements to the Insurance Commission (IC)**

In compliance with the provisions of the IC Circular Letter (CL) No. 2019-39 issued on August 8, 2019, we shall include the following undertakings of the Company and our Firm as provided for under Section 4:

- a) The Company shall be responsible for keeping us fully informed of the existing and subsequent changes to prudential, regulatory and statutory requirements of the IC and that both parties shall comply with the requirements;
- b) The required and supplemental disclosures of information and reports, such as those enumerated in Section 4.3, by our Firm to the IC shall not constitute a breach of confidentiality on RT&Co's part nor shall it be ground for civil, criminal, or disciplinary proceedings against RT&Co.
- c) That our Firm shall be allowed read-only access to the IC's examination report on the Company and that our Firm shall treat the contents of the examination report appropriately and confidentially; and
- d) That both the Company and RT&Co. shall comply with all the requirements of the CL 2019-39.

Our Firm shall directly report to IC within 15 calendar days after discovery of any matter adversely affecting the financial condition of the Company, such as, but not limited to the following cases:

- Any material findings involving fraud or error;
- Losses or potential losses, the aggregate of which amounts to at least 10% of the assets of the Company;
- Significant doubt as to the ability of the Company to continue as a going concern;
- Material breach of laws or the 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 weakness which may lead to financial reporting problems; and
- Findings on matters of corporate governance that may require urgent action by the IC.

Where a thorough investigation or evaluation of facts is necessary on the noted case, an initial report shall be submitted within the prescribed timeline. Provided, that a complete report is submitted not later than 15 calendar days from the completion of investigation or evaluation.

In case there are no adverse matters to report (e.g. fraud, error, breach of laws, etc.), our Firm shall submit directly to the IC within 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 our Firm is based on matters within the coverage of an audit conducted in accordance with the PSA. The financial statements, together with the supplemental report, submitted to the IC are primary responsibility of the Company's BOD and management. Other than those mentioned in the provisions of this engagement letter, we do not specifically review the Company's compliance with the IC regulations.

Our Firm shall directly report to the IC within 15 calendar days from the pre-termination of the engagement or from the date of resignation/replacement as external auditor, and stating the reason(s) thereof.

All reports, as discussed in the foregoing, shall be submitted to the Financial Examination Group of the IC.

### **The Responsibilities of Management**

Our audit will be conducted on the basis that management acknowledge and understand that they have responsibility:

- a) For the preparation and fair presentation of the financial statements in accordance with Philippine Financial Reporting Standards;
- b) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- c) To provide us with:
  - i. Access 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 persons within the Company from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

### **Timetable**

We will agree to a timetable with you that will enable you to meet your statutory obligations in relation to the filing of financial statements with the Bureau of Internal Revenue and any other reportorial deadline that you will bring to our attention.

The completion of work within the timetable will greatly depend on the availability of documents, schedules and information. Timetable may be adjusted/agreed to fit the deadline of management.

We will notify you as soon as practicable if it appears likely that there will be any significant delays in the agreed timetable. For any concerns relating to this engagement, you may also contact the following:

Emmanuel V. Clarino – Audit Head  
Pamela Ann P. Escudro – Engagement Partner

evclarino@reystacandong.com  
papescuadro@reystacandong.com

## **Fees**

We estimate that our fees for the services will be [REDACTED]

Our professional fees are exclusive of out-of-pocket expenses (OPE) and value-added tax (VAT). The OPEs include actual transportation and allowances of RT&Co. personnel who may have to render overtime work, report production expenses, telecommunications costs, office and computer supplies, and other expenses directly related to the audit execution. On our part, we shall endeavor to keep OPE to the minimum.

Our fees assume that we will receive appropriate assistance from the Company's staff in the preparation of required schedules and analyses, and in making available the relevant information required to enable us to perform the audit. The Company shall also make available their personnel for interview relevant to the audit.

We will bill you as follows:

Initial billing	50%
Progress billing	40%
Upon issuance of report	10%

Billings are payable within agreed schedule of collection.

If due to some unforeseen circumstances that the scope of the work should change or if any problem arises that may result in an increase in the fee estimate, we will discuss this with you fully and secure your written approval before incurring any additional charge.

## **Additional Services**

We would be pleased to discuss with you the other services we can provide. In the event that we are asked to provide taxation or any other services, we would normally issue a separate engagement letter at that time.

## **Limitation of Liability**

Our report will be made solely to the Company, in accordance with PSA. Our audit work will be undertaken so that we might report on the Company's audited financial statements and for no other purpose. In those circumstances, to the fullest extent permitted by law, we will not accept or assume responsibility to anyone other than the Company for our audit work, for the audit report, and for the opinions we form.

## **Confidential Information**

“Confidential Information” when used herein means any proprietary, confidential, and/or trade secret information of the Company, possessed by the Company relating to, among other things, the Company’s products, services, technology, methodologies, specifications, business relationships, lists of and information relating to suppliers, customers, clients, and employees, or any information which, given the totality of the circumstances, we have reason to believe is proprietary, confidential, or competitively sensitive, together with any portion of evaluations, ideas, analyses, and reports derived from the Confidential Information, whether in paper, electronic, or other form. Confidential Information may be in documentary form, or orally or visually or in other non-documentary form.

Excluded from Confidential Information is information which the recipient had in its possession without confidential limitation prior to disclosure, which is independently developed by either party without breach of this Agreement, which is known or becomes known to the general public without breach of this Agreement or which is received rightfully and without confidential limitation from a third party.

We undertake and warrant that we (a) will not disclose Confidential Information to anyone, except members of the engagement team, and in each case only to the extent necessary to achieve the purposes contemplated by agreement, (b) will not use Confidential Information except solely for the purpose of executing the service, (c) will use at least the same degree of care to safeguard Confidential Information that we use to protect our own confidential and proprietary information, and in any event not less than a reasonable degree of care under the circumstances, and (d) will not make copies of materials bearing Confidential Information.

## **Data Protection**

In any case that we or the Company receive any personal data as defined by the Data Privacy Act of 2012 (“the Act”), we shall ensure that we fully comply with the provisions of the Act and only deal with the data to fulfill our obligations under the engagement.

In fulfillment of our obligations under the Act, both we and the Company shall ensure that we take reasonable administrative, organizational, physical and technical security measures to protect personal data in our possession in order to prevent unauthorized access, collection, use, disclosure, copying, modification, disposal or similar risks.

In the event of security incident or personal data breach involving personal data we received in relation to this engagement, we will immediately take steps to address any and all Personal Data Breach, Security Incident, or any incident in which an unauthorized person acquires or gains access to Personal Data (“Unauthorized Access Incident”), and immediately notify the Company without any delay.

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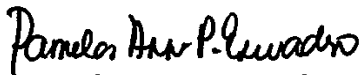
**Acknowledgment**

If the foregoing terms are acceptable to you, kindly indicate your conformity thereto by signing on the space provided below and return a signed copy to us. The signed proposal shall be our exclusive mandate to commence the engagement.

Thank you for giving us the opportunity to offer our services to the Company. We look forward to working with you on this engagement.

Very truly yours,

**REYES TACANDONG & CO.**

  
**Pamela Ann P. Escudro**  
Engagement Partner

**CONFORME**

We hereby confirm our agreement to the terms of the foregoing letter.

\_\_\_\_\_ Date  
**Mr. Raymund S. Mungkal**  
FVP and CFO  
For and on behalf of **Corporate Guarantee and Insurance Company, Inc.**

CC: **Ms. Rowena D. Sta. Ana**  
FAVP and Financial Controller