

Building trust and delivering sustained outcomes

Proposal to provide external audit
services to
Public Safety Mutual Benefit Fund
(PSMBFI) Incorporated



Isla Lipana & Co.



Isla Lipana & Co.

Atty. Joel Napoleon M. Coronel
President and CEO
Public Safety Mutual Benefit Fund (PSMBFI) Incorporated
No. 318-320 Boni Serrano Avenue
Corner 1st and 2nd West Streets
San Juan City, Philippines

18 October 2022

Proposal to provide external audit services to Public Safety Mutual Benefit Fund (PSMBFI) Incorporated for the year ending 31 December 2022

Dear Atty. Coronel,

Thank you for giving us the opportunity to propose external audit services for Public Safety Mutual Benefit Fund (PSMBFI) Incorporated (hereinafter referred to as the "Association") for the year ending 31 December 2022.

We understand that the core expectations revolve around understanding of the Association's needs and making sure that the audit fits your objectives, providing the right people to deliver the service that you deserve, and maintaining proactive engagement between you and your external auditor.

This document demonstrates how we will achieve your expectations. Ultimately, we aim to create an audit relationship that is productive and that will provide good value for money to you – that is, not just to sign the audit report, but also to be your business partner.

We are sending this proposal, which also includes our standard Terms of Business (TOB) (Appendix 1) and Data Sharing/Outsourcing Agreement (Appendix 2), to outline the complete terms of our engagement once we are appointed as the external auditor of the Association.

Should you have questions or concerns on this proposal or other related matters, please let us know so we can discuss them with you.

You may reach me at +63 (2) 8459 3074 or through my email address at imelda.dela.vega@pwc.com if you wish to discuss any item in this proposal.

Yours truly,


Imelda Dela Vega Mangundaya
Partner

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Isla Lipana & Co. is the Philippine member firm of the PwC network. PwC refers to the Philippine member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details

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*Our
understanding of
the engagement*

Our understanding of the engagement

Services and related reports

You have requested that we audit the financial statements of the Association, which comprise the statement of financial position as at 31 December 2022, and the related statement of total comprehensive income, changes in fund balance and cash flows for the year then ending, and the notes to the financial statements prepared in accordance with Philippine Financial Reporting Standards (PFRS). We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

Upon completion of our audit, we will provide you with our audit report on the financial statements referred to above in accordance with Philippine Standards on Auditing (PSA). Refer to the attached sample of our audit report in Appendix 3. Please note, however, that the form and content of our audit reports may need to be amended in the light of our audit findings.

In addition to the above services, we will also:

- a. Submit to you copies of the Association's audited financial statements for your filing with the Securities and Exchange Commission ("SEC");
- b. Review the Association-prepared annual income tax return and its attachments for filing with the Bureau of Internal Revenue ("BIR") but management remains ultimately responsible for the information contained therein;
- c. Furnish you with copies of our *Client Advisory Letter*, a compilation of recent laws, regulations, and rulings issued by government regulatory bodies affecting business and the economy; and,
- d. Prepare a memorandum on our major recommendations to improve the Association's internal accounting control system arising from our audit, if any.

Scope of the audit

The objective of an audit is the expression of an opinion on the financial statements. Our audit will be conducted in accordance with PSA. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit will involve performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation 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. 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.

SEC reportorial requirements

Under Part I, Section 3.B(viii) of the Revised SRC Rule 68, part of our responsibility is to report to the SEC any of the following matters which may have been discovered by us in the conduct of our audit of the Association's financial statements prepared in accordance with PFRS:

- a. Any findings of (i) violation of Revised SRC Rule 68, (ii) offering of securities without prior registration with the SEC under the Revised SRC, or (iii) engaging in the business of financing or lending without a secondary license;
- b. Any material findings involving fraud or error as defined under Part I, Section 1.B of said Rule;
- c. Losses or potential losses the aggregate of which amounts to at least 10% of the total assets of the Association;
- d. Any finding to the effect that the assets of the Association, on a going concern basis, are no longer adequate to cover the total claims of creditors; and,
- e. Material internal control weaknesses which may lead to financial reporting problems.

Our responsibilities shall include the following:

- a. Submit findings to the Association's management/Audit Committee or Board of Trustees and discuss the same with the said body;
- b. Document management's explanations and/or corrective action taken; and,
- c. File a report (SEC Form Au-Rep) to the SEC if the Association fails to notify the SEC of the above within 30 business days from the submission of our findings to the Association.

Our disclosure of information as required by the SEC shall not constitute a breach of confidentiality nor shall it be a ground for civil, criminal or disciplinary proceedings against us. It is, however, understood that our responsibility as an external auditing firm is based on matters within the normal coverage of an audit conducted in accordance with PSA.

Insurance Commission (“IC”) reportorial requirements

Under IC Circular Letter No. 2019-39, dated August 18, 2019, “Revised Framework on the Selection of External Auditors”, Section 4, part of our responsibility as an accredited auditor of the IC is to directly report any of the following cases which may have been discovered based on our audit conducted in accordance with PSA, within fifteen (15) calendar days after discovery:

- a. Any material findings involving fraud or error, as defined under Sections 3.3 and 3.4 of the Circular Letter No. 29-2009;
- b. Losses or potential losses the aggregate of which amounts to at least ten percent (10%) of the assets of the Association;
- c. Significant doubt as to the ability of the Association to continue as a going concern;
- d. 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 Association;
- e. Material internal control weaknesses which may lead to financial reporting problems; and,
- f. 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 15 calendar days after the closing of the audit engagement a notarized certification that there is none to report.

The disclosure of information above shall not constitute a breach of confidentiality on our part nor shall it be ground for civil, criminal or disciplinary proceedings against us.

It is understood that our accountability as external auditor is based on matters within the coverage of an audit conducted in accordance with PSA. The financial statements, together with the supplemental report, submitted to the IC are the primary responsibility of the Association’s management and Board of Trustees.

The Association shall be responsible for keeping us fully informed of existing and subsequent changes to prudential regulatory and statutory requirements of the IC. The Association and the firm will comply with all the requirements of IC Circular Letter No. 2019-39, however, any additional service not included in the “Services and related reports” section of this proposal will be the subject of separate written arrangements.

We shall be allowed to read-only access to the IC’s examination report of the Association, and we shall treat the contents of the examination report appropriately and confidentially in accordance with the TOB of this proposal.

In case of pre-termination of our engagement contract or resignation/replacement as external auditor, we shall directly report to the IC within fifteen (15) calendar days and state the reason(s) thereof.

Requirements of the BIR

The Association's management is responsible for furnishing the BIR all the necessary information prepared by the Association pertinent to the year-end adjustments, in accordance with Revenue Regulations No. 7-2007 (Amending Certain Provisions of Revenue Regulations No. 21-2002, Implementing Section 6(H) of the Tax Code of 1997, Authorizing the Commissioner of Internal Revenue to Prescribe Additional Procedural and/or Documentary Requirements in Connection with the Preparation and Submission of Financial Statements Accompanying the Tax Returns). In the event the Association is unable to furnish such information to the BIR and we are required to do so, we shall be compelled to provide such information. Accordingly, our disclosure of information as required by the BIR shall not be a ground for civil, criminal or disciplinary proceedings against us.

Management's general responsibilities with respect to the financial statements

Our audit will be conducted on the basis that management acknowledges and understands their responsibility:

- a. For the preparation and fair presentation of the financial statements in accordance with PFRS;
- b. For the preparation of the supplementary information on taxes, duties and license fees paid or accrued during the taxable year as required by Revenue Regulations No. 15-2010 issued by the BIR;
- c. For the preparation of the supplementary information required by Part I, Section 4 of Revised SRC Rule 68 that may be applicable to the Association;
- d. For such internal controls as management determines are necessary to enable the preparation of financial statements in conformity with PFRS that are free from material misstatement, whether due to fraud or error, and for the preparation of the supplementary information and schedules as discussed in items (b) and (c) above;
- e. For assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so; and,
- f. To provide us with:
 - Access to all information of which management is aware that is relevant to the preparation of the financial statements such as original accounting records, documentation and other matters;
 - Additional information that we may request from management for the purpose of the audit; and,
 - Unrestricted access to management and other persons within the Association from whom we determine it necessary to obtain audit evidence.

As required by PSA, we will make specific inquiries of management and others about the representations embodied in the financial statements and the effectiveness of internal control over financial reporting. PSA also requires that we obtain a representation letter covering matters material to the financial statements from certain members of management. The results of our audit tests, the responses to our inquiries and the written representations of management comprise the evidential matter we intend to rely upon in forming our opinion on the financial statements.

Indemnification against claims

The Association agrees to indemnify and hold harmless the firm from all third-party claims, damages, liabilities and costs other than those resulting from our willful misconduct or dishonesty. If any claim, action or proceeding against us arises with respect to which we are entitled to indemnity hereunder, we shall promptly notify the Association which shall be entitled to retain counsel (who shall be satisfactory to us) to defend such action or proceeding and the Association shall be responsible to pay the costs, fees and disbursements of such defense. No admission of liability and/or settlement of any action, claim, or proceeding shall be made on behalf of, or bind us without our written consent.

Auditor's cap on liability to the Association

In no event shall the firm be liable to the Association, whether a claim be in tort, contract or otherwise for any amount in excess of the professional fees paid by the Association to us for the engagement other than for claims resulting from our willful misconduct or dishonesty. In no event shall the firm be liable to the Association, whether the claim be in tort, contract or otherwise for any consequential, indirect, lost profit or similar damages or failure to realize expected savings, relating to our services provided under this engagement contract.

Assisting firm

This proposal, if accepted, is between the Association and Isla Lipana & Co. only. In the course of providing the services set out in this proposal, Isla Lipana & Co. may, at its discretion, draw on the resources of another PwC member firm.

Unless a PwC member firm is contracted by you to provide any of the services which are the subject of this letter provision of the services remains the responsibility of Isla Lipana & Co. alone and you will not bring any claim, whether in contract, tort (including negligence) or otherwise against any PwC member firm in respect of this proposal of the services. In these circumstances, any PwC member firm who deals with you in the course of providing the services does so on behalf of Isla Lipana & Co. alone. The provisions of this clause have been stipulated by Isla Lipana & Co. expressly for the benefit of PwC member firms. PwC member firms will have the right to rely on this clause as if they were parties to the proposal and will have the right (subject to the discretion of the Court) to a stay in proceedings if you bring any claim against any PwC member firm in breach of this clause. Nonetheless, any PwC member firm assisting us in the performance of our services under this proposal is similarly bound by Isla Lipana & Co.'s confidentiality and data protection obligations as may be provided in Clause 10 and 11 of the TOB (Appendix 1) and the provisions of the Data Sharing/Outsourcing Agreement (Appendix 2).

Use of auditor's software

We may develop software, including spreadsheets, documents, databases and other electronic tools to assist us with our assignment. In some cases, these aids may be provided to the Association upon request. As these tools were developed specifically for our purposes and without consideration of any purpose for which the Association might use them, they are made available on an "as is" basis for Association's use only and should not be distributed to or shared with any third party. Further, we make no representations or warranties as to the sufficiency or appropriateness of the software tools for any purpose for which the Association may use them. Any digital and automated software tools developed specifically for the Association will be covered under a separate proposal.

In the course of performing an audit, we may also use PwC Network's and third party's digital and automated software. Further to Clause 10 of the TOB, we undertake to observe reasonable measures by which we preserve the confidentiality and security of your data that may be processed through these digital and automated software. Any personal information shared with us by you including those processed by us with the use of these software shall be subject to the provisions of the Data Sharing/Outsourcing Agreement attached to this proposal.

The use of PwC Network's and third party's digital and automated software by the firm is covered by agreements which provide for the rights and obligations of the firm (as end-user) and the developer relative to confidential information, privacy, data security and personal data.

Use of auditor's web-based communication tool

In the course of the services, we may allow your authorized representatives to access some of the tools that we use. In connection to this, you acknowledge that these systems may be accessed by your authorized representatives from any web-enabled device. You further acknowledge that you are solely responsible for:

- a. providing us the necessary personal information of your duly authorized representatives for purposes of access to our systems and ensuring that they are aware of and agree to be bound by the conditions for access;
- b. notifying us by email to our engagement manager when access rights should be terminated, and for periodically reviewing the access rights of your authorized representatives to ensure that it remains appropriate; and
- c. ensuring your authorized representatives will encrypt confidential information as needed before posting into our systems.

Other services to be subject of separate contracts

Any additional services that you may request and that we agree to provide will be the subject of separate written arrangements.

Timing and fees

Timing and fees

We present below our planned timetable to ensure that we will deliver a high-quality audit, completed and delivered, in time for the filing of the Association's annual income tax return with the BIR which is not later than 15 April 2023. We are fully aware that financial statements must be in final form, ready for Audit Committee and Board approval in time for filing with the BIR and the SEC.



| November 2022 | December 2022 | January to March 2023 |
|---|--|---|
| <ul style="list-style-type: none"> Hold formal meetings with key management team to discuss and agree requirements and deliverables, needs and expectations Deliver our Client Assistance Schedules detailing supporting schedules required by the audit team Develop audit strategy memorandum and timetable Understand and identify key systems and critical controls through discussions with management and Internal Audit Understand business issues and challenges with management and determine action required on key audit or accounting issues | <ul style="list-style-type: none"> IT specialists will test key IT management and operational systems controls Review and test management's monitoring controls Present recommendations from controls testing to management | <ul style="list-style-type: none"> Conduct validation of material balances during year-end audit Review tax calculations Perform detailed testing of non-controls reliance areas Discuss new issues with management Review financial statements prepared by management Report key audit/ accounting issues, controls matter and significant financial reporting and taxation developments to management |
| <ul style="list-style-type: none"> Client Assistance Schedule Audit Plan | <ul style="list-style-type: none"> Status Update Report | <ul style="list-style-type: none"> Completion Report Audit Report Client Satisfaction Survey Management letter on our internal control recommendations |
| <ul style="list-style-type: none"> Opportunity to formally and informally assess our performance and constructively work together for continuous improvement in the audit Audit plan and approach focused on your business Early resolution of issues by investing time "up front" Clear agreement of deliverables and timetables | <ul style="list-style-type: none"> Efficient audit approach Opportunities to enhance controls and business processes where appropriate Resolution of issues on timely basis | <ul style="list-style-type: none"> Strong and reliable assurance Timely resolution of issues Independent reports on key issues and impact on financial statements Client satisfaction evaluated |

Completion of our work within this date is subject to, among other things, appropriate cooperation from the Association's personnel including preparation of necessary schedules and timely responses to our inquiries. We will advise management periodically of our progress and notify them promptly should we believe we will be unable to complete our work by the requested dates.

Our fee will be derived from the following:

- Reducing the learning time, risk of error and cost by putting the right people on the job and making the most of our extensive experience. Aside from our proven track record of quality and accuracy, our team has the right skills and expertise on issues encountered throughout the technology value chain.
- Making sure that the audits are done right the first time to avoid duplication and to cut on cost. We optimize the balance between controls testing and substantive testing by taking advantage of your existing controls environment and processes in tandem with the assessed level of risk.
- Adopting to PSA 315 (Revised), Identifying and Assessing the Risk of Material Misstatement or the enhanced standard for identifying and assessing the risk of material misstatement which is effective for periods beginning on or after December 15, 2021. The revised standard expands on the previous requirements considerably in a number of key areas, which will in many cases impact the nature and extent of our risk assessment procedures, including broader involvement of specialists and a greater level of detail when performing and documenting our procedures.

Our fee estimates are based on the time required by the individuals assigned to the engagement. Individual hourly rates vary according to the degree of responsibility involved and experience and skill required. Our fee estimate for this engagement of Php1,099,750, inclusive of out-of-pocket expenses and actuarial costs, but still exclusive of 12 % value-added tax ("VAT").

This estimate takes into account the agreed-upon level of preparation and assistance from Association's personnel. We will advise management on a timely basis should this not be provided or should any other circumstances arise which cause actual time to exceed that estimate.

Bills including out-of-pocket expenses will be rendered on a regular basis as the assignment progresses. These progress billings will be deducted from our final bill which we will issue at the completion of all work.

Other matters

Other matters

Applicable law and governing jurisdiction

The contract formed by this engagement letter, when accepted by you, shall be governed by, and construed in accordance with the laws of the Philippines and it is hereby irrevocably agreed and accepted that the proper courts of the Philippines shall have exclusive jurisdiction to settle any claim, difference or dispute, including, without limitation, claims for set-off or counterclaims which may arise out of or in connection with such contract. Each party irrevocably waives any claim that the action has been brought in an inconvenient forum or that such courts do not have jurisdiction.

Execution and Delivery

This Agreement shall be deemed executed by both parties when any one or more counterparts hereof or thereof, individually or taken together, bears the signatures of each of the parties. This Agreement, once executed by a party, may be delivered to the other party by facsimile, electronic mail, or other means of electronic transmission of a copy thereof bearing the signature of the party so delivering it.

Electronic signatures

Each party agrees that this Agreement and any other documents to be delivered in connection herewith may be electronically signed, and that any electronic signatures appearing on this Agreement and related documents entered into in connection with this agreement, are the same as handwritten signatures for the purposes of validity, enforceability, and admissibility.

Termination

This contract may be terminated by either of us by giving written notice which will have immediate effect. Where either of us terminates the contract, you will pay us reasonable fees and expenses, taking into account the circumstances of termination, for time spent in providing the service up to the date of termination.

Other matters

This engagement letter reflects the entire agreement between us relating to the services covered by this letter. It replaces and supersedes any previous proposals, correspondence and understandings, whether written or oral.

Should any dispute arise between us, we will attempt to resolve the dispute in good faith by senior level negotiations. Where both of us agree that it may be beneficial, we will seek to resolve the dispute through mediation using the services of an appropriate and agreed mediator to facilitate the mediation process. If the dispute is not resolved through negotiation or mediation, both of us agree that the proper Philippine courts will have exclusive jurisdiction in connection with the resolution of the dispute.

The Association agrees that Isla Lipana & Co. may use the Association's name in experience citations.

We are pleased to have the opportunity to provide services to the Association. It is our desire to provide you at all times with a high-quality service to meet your needs. If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the engagement partner. If, for any reason, you would prefer to discuss these matters with someone other than the engagement partner, please contact Aldie P. Garcia, Assurance Managing Partner, at tel. no. +63 2 8459-3078. In this way, we are able to address your concerns carefully and promptly.

*Auditor signatory
and conforme*

Auditor signatory and conforme

If the services outlined herein are in accordance with your requirements and if the above terms are acceptable to you, please have one copy of this letter signed in the space provided below and returned to us. If you require further information or wish to discuss the terms of our engagement further before replying, please do not hesitate to contact Imelda Dela-Vega Mangundaya, Partner, who will lead the engagement team, at tel. no. +63 2 8459-3074.

Yours very truly,

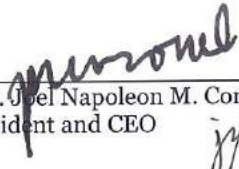
Isla Lipana & Co.

Conforme:

The terms of this engagement are accepted by Atty. Joel Napoleon M. Coronel on behalf of the Association who represents that he is authorized to accept these terms on behalf of the Association.

Public Safety Mutual Benefit Fund (PSMBFI) Incorporated

By:



Atty. Joel Napoleon M. Coronel
President and CEO

Appendices

Appendix 1 - Terms of Business

Terms of Business of Isla Lipana & Co., the Philippine member firm of PwC (PricewaterhouseCoopers) global network

These Terms of Business apply in respect of the Services described in the Audit Engagement Letter to be performed by Isla Lipana & Co., the Philippine member firm of PwC global network ("PwC" or "firm" or "we" or "our" or "us") for you and of the Company's responsibilities in relation to the provision of the Services. These Terms of Business, together with the Audit Engagement Letter to which it is attached, form the Contract between you and PwC. The Contract forms the entire agreement between you and PwC relating to the Services.

The terms used in the Audit Engagement Letter have the same meaning in these Terms of Business.

1 Services

We will provide the Services described in the Engagement Letter.

2 Responsibility for preventing and detecting fraud and errors and non-compliance with laws and regulations

Management is responsible for safeguarding the Company's assets and for the prevention and detection of fraud and error. Management is responsible for identifying and ensuring that the Company complies with the laws and regulations applicable to its activities. We will design our audit to obtain reasonable, but not absolute, assurance of detecting errors or fraud that would have a material effect on the financial statements as well as other illegal acts having a direct and material effect on the financial statements. Our audit will not include a detailed audit of transactions, such as would be necessary to disclose errors or fraud that did not cause a material misstatement of the financial statements. It is important to recognize that there are inherent limitations in the auditing process. Audits are based on the concept of selective testing of the data underlying the financial statements, which involves judgment regarding the areas to be tested and the nature, timing, extent and results of the tests to be performed. Audits are, therefore, subject to the limitation that material errors, fraud or other illegal acts having a direct and material financial statement impact, if they exist, may not be detected. Because of the characteristics of fraud, particularly those involving concealment through collusion and falsified documentation, an audit designed and executed in accordance with Philippine Standards on Auditing (or International Standards on Auditing) might not detect a material fraud. Further, while effective internal control reduces the likelihood that errors, fraud or other illegal acts will occur and remain undetected, it does not eliminate that possibility. For these reasons we cannot ensure that errors, fraud or other illegal acts, if present, will be detected. However, we will communicate to you any illegal act, material errors, or evidence that fraud may exist as these are identified during our audit.

3 Responsibility for identifying and reporting internal control weaknesses

Our audit is not designed to identify all significant weaknesses in the Company's system of internal financial controls. Our review of internal financial control systems is performed only to the extent required to express an opinion on the Company's financial statements. This consideration will not be sufficient to enable us to provide assurance on the effectiveness of internal control over financial reporting. However, we shall report to management in writing any significant weaknesses in the internal control over financial reporting which come to our notice during our normal audit work. Any such report may not be provided to a third party without our prior written consent. Such consent will be granted only on the basis that such reports are not prepared for the use or benefit of anyone other than the Company.

4 Responsibility for other documents accompanying audited financial statements

Philippine Standards on Auditing (or International Standards on Auditing) require that we read any annual report or other documents that contain our audit report. The purpose of this procedure is to consider whether other information in the annual report or other documents, including the manner of its presentation, is materially inconsistent with information appearing in the financial statements. We assume no obligation to perform procedures to corroborate such other information as part of our audit.

5 Responsibility relating to electronic distribution of our opinion

If management intends to publish or otherwise reproduce, in printed form or electronically (e.g., on an Internet Web Site) our report together with the financial statements (or otherwise make reference to our firm) in a document that contains other information, management agrees to (a) provide us with a draft document to read, and (b) obtain our approval for inclusion of our report, before the document is finalized and distributed. Where our audit report is reproduced in any medium, the complete financial statements, including notes, must also be presented.

6 Third party users of our opinion

Our audit opinion is intended for the benefit of those to whom it is addressed. The audit will not be planned nor conducted in contemplation of reliance by any third party or with respect to any specific transaction. Therefore, items of possible interest to a third party will not be specifically addressed or matters may exist that will be assessed differently by a third party, possibly in connection with a specific transaction.

7 Responsibility to seek our consent to any future use of the opinion

The Company may wish to include our report on these financial statements in an offering document/registration statement proposed to be filed under the Securities Regulation Code (Republic Act 8799) or in some other securities offering. The Company agrees that the aforementioned audit report, or reference to our firm, will not be included in any such offering without our prior permission or consent. Any agreement to perform work in connection with an offering, including an agreement to provide permission or consent, will be a separate engagement and subject to a separate engagement contract.

8 Ownership of audit files

The working papers and files for this engagement created by us in the course of the audit, including electronic documents and files, are the sole property of the firm.

9 Communications

9.1 Internet communications

During the engagement, we may wish to communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure or virus- or error-free and such information could be intercepted, corrupted, lost, destroyed, incomplete, or could arrive late or otherwise be adversely affected or unsafe to use. We recognize that systems and procedures cannot be a guarantee that transmissions will be unaffected by such hazards, but we agree to use commercially reasonable procedures to check for the then most commonly known viruses before sending information electronically. We shall not have any liability to you arising from or in connection with the electronic communication of information to you.

9.2 Monitoring of communications

To the extent permitted by applicable law and rules, the Company agrees that we may monitor electronic communications for the purposes of ensuring compliance with our legal and regulatory obligations and internal policies.

10 Confidentiality

10.1 Protection of Confidential Information

All data relating specifically to the Company's business and any other information which reasonably should be understood to be confidential to the Company are confidential information of the Company ("Confidential Information"). The firm agrees to take reasonable measures to keep confidential the Confidential Information and will use Confidential Information only in relation to the provision of the Services provided by us to the Company and will not disclose such Confidential Information to any third party without the Company's prior written consent, and, with respect to information to be sent outside the Philippines, without the prior approval of the designated representative of the President of the Philippines unless they are covered by limited exceptions as provided in Presidential Decree 1718. In the event that the purpose of disclosure is not covered by the exceptions, we will undertake to obtain the required consent from the appropriate government office before complying with the same, but assume no responsibility in the event that the authorization is not granted at all or obtained within the required period of time, save as provided in clauses 10.2 and 10.3 below. We will take reasonable measures to protect the confidentiality of the Confidential Information and to advise its agents and employees of the confidential nature of the Confidential Information and of the terms of this agreement. We shall not be liable to the Company for an accidental or inadvertent disclosure of Confidential Information, if the disclosure occurs notwithstanding our use of reasonable measures to maintain the confidentiality of the Confidential Information. We will show this agreement to our personnel having access to the Confidential Information and will be responsible for any breach of this agreement by our personnel.

10.2 Scope of confidentiality obligations

The firm will not be obligated to treat as confidential any information disclosed by the Company which: (i) is rightfully known to us prior to its disclosure by the Company; (ii) is released by the Company to any other person or entity without restriction; (iii) is independently developed by us without any use of or reliance on Confidential Information; (iv) is in or enters the public domain without breach of this confidentiality obligation; (v) or may be lawfully obtained by us from any third party.

The firm's confidentiality obligations under this agreement will terminate three (3) years from the date set forth in the Engagement Letter.

10.3 Possible disclosures of Confidential Information

10.3.1 In relation to engagements and the provision of services

PwC Firms ("PwC Firm" means a member of the PwC global network of firms, each of which is a separate and independent legal entity) may share Confidential Information where necessary with contractors, subcontractors and agents also in the same PwC global network, involved in the provision of services, such as in the context of international assignments or audits involving multiple PwC Firms. For example, the group auditor may need to be informed about the results of the audit work performed by PwC Firms on the financial statements of subsidiaries for group reporting purposes. Similarly, on non-audit engagements involving multiple PwC Firms Confidential Information may be shared in the context of such engagements.

We may disclose Confidential Information, including information subject to privilege, (i) to third parties such as professional advisers and insurers, and (ii) to national and international regulatory bodies, a court in criminal, civil or other litigation, or to other third parties as may be required by law, statute, rule or regulation, including any subpoena, discovery demand in litigation or other similar form of process, professional standards and obligations, and including any foreign law, statute, rule or regulation as long as it is determined by us to be applicable to a PwC Firm, provided prior written approval of the Company is obtained and, with respect to information to be supplied outside of the Philippines, the prior written approval of the designated representative of the President of the Philippines and consent of the client is obtained. A PwC Firm may also share Confidential Information with other PwC Firms for independence, risk management and quality review purposes.

10.3.2 For certain other business purposes

PwC member firms share knowledge with each other. Only by sharing knowledge, which may include Confidential Information, can member firms maintain and develop further the breadth and depth of its expertise. Confidential Information may also be transferred for various business purposes including relationship management, account management, internal financial reporting, provision of information technology services (including among others storage, hosting, maintenance, support) and outsourcing services, both to member firms and to service providers we use.

To the extent that the working relationship between the parties also involves the Company disclosing information held by its affiliates or involves disclosures by such affiliates of information directly to us or any PwC Firm, the Company authorizes the information sharing and disclosures as provided in clause 10.3.1 above and confirms that it has authority to act as agent for its affiliates.

10.4 Other matters

The firm recognizes the confidential and proprietary nature of the Confidential Information and acknowledges that, in the event it is determined by a court that a breach of the confidentiality provisions of the agreement has occurred or is likely to occur, the Company will suffer irreparable harm. Accordingly, the Company shall be entitled to seek preliminary and permanent injunctive relief in the event of a breach or threatened breach of this agreement, as well as all other applicable remedies at law or equity.

11 Data protection

Refer to Appendix 2 - Data Sharing/Outsourcing Agreement.

12 Joining a client in a financial oversight role

In some circumstances, the acceptance of employment with an audit client by a partner or a practice staff member of the accounting firm will result in the possibility of the accounting firm being prohibited from continuing to serve as the auditor for some period of time after the employment is accepted. For this reason, management agrees not to make a job offer (a) to any partner or practice staff member assigned to the audit of this particular company within a two-year period for an accounting firm in a territory that is part of the European Union or (b) if the partner or practice staff member was a member of the audit engagement team at any point during the annual reporting period prior to the commencement of the audit in progress for US SEC audit clients or related entities thereof.

13 Conflicting terms

In the event of any conflict between the Engagement Letter and these Terms of Business or any other document which forms part of the Contract, the Terms of Business will take precedence except to the extent amended in the Engagement Letter by specific reference to the relevant clause of these Terms of Business. In the event and only to the extent of any conflict between the Engagement Letter and any referenced or attached document, other than the Terms of Business, the Engagement Letter will take precedence.

Appendix 2 - Data Sharing/Outsourcing Agreement

This Data Sharing Agreement/Outsourcing Agreement (“Agreement”), together with the Engagement Letter and the Terms of Business to which it is attached, are referred to as the “Contract”. The Contract forms the entire agreement between us relating to the Services to be performed by us for you. You, the Client and PwC (“firm” or “we” or “our” or “us”) may be collectively referred to hereinafter as the “PARTIES”.

In order to execute and implement the Engagement Letter and the Terms of Business, Personal Information may be collected from the Client and the Firm. Thus, pursuant to and in compliance with Republic Act No. 10173, otherwise known as Data Privacy Act of 2012, and its implementing regulations (“DPA of 2012 and its IRR”), this Agreement, sets forth the general duties and responsibilities of the PARTIES in relation to the Personal Information that may be Processed.

The terms defined in the Engagement Letter and its Terms of Business shall have the same meaning, unless otherwise provided, in this Agreement. Further, this Agreement shall adopt all the definitions provided under the DPA of 2012 and its IRR. In case of conflict, the definition provided in the DPA of 2012 and its IRR shall prevail, but only to the extent of implementing this Agreement.

All Personal Information obtained in relation to the Contract shall be subject to the following terms and conditions:

ARTICLE I. GENERAL PROVISIONS

1. Data Subject shall be as defined in the DPA of 2012 and its IRR, who is an individual whose personal, sensitive personal, or privileged information is processed.
2. Personal Information shall mean such information as defined under the DPA of 2012 and its IRR.
3. Personal Information Controller (“PIC”) shall be as defined under the DPA of 2012 and its IRR, refers to a person or organization who controls the collection, holding, processing or use of personal information, including a person or organization who instructs another person or organization to collect, hold, process, use, transfer or disclose personal information on his or her behalf. The term excludes:
 - a) A person or organization who performs such functions as instructed by another person or organization
 - b) An individual who collects, holds, processes or uses personal information in connection with the individual’s personal, family or household affairs.
4. Personal Information Processor (“PIP”) shall be as defined in the DPA of 2012 and its IRR, refers to any natural or juridical person qualified to act as such under the DPA of 2012 and its IRR to whom a PIC may outsource the processing of personal data pertaining to a data subject.
5. Processing shall be as defined in the DPA of 2012 and its IRR, which shall include, but not limited to, the collection, recording, organization, storage, updating or modification, retrieval, consultation, use, consolidation, blocking, erasure or destruction of data.
6. Data sharing shall be as defined in the IRR of the DPA of 2012, refers to the disclosure or transfer to a third party of personal data under the custody of a PIC or PIP. In the case of the latter, such disclosure or transfer must have been upon the instruction of the PIC concerned. The term excludes outsourcing, or the disclosure or transfer of personal data by a PIC to a PIP.
7. The Client and the Firm may process the Personal Information obtained locally or internationally.
8. The Client, as a PIC and the Firm, as a PIC or a PIP, including their respective employees and/or authorized representative, acknowledge their responsibilities under the DPA of 2012 and its IRR pertaining to the Personal Information under their custody and possession.

9. Article III of this Agreement shall apply if the Client and the Firm both acts as a PIC while Article IV of this Agreement shall apply in cases where the Firm acts as a PIP.
10. The Client and the Firm affirm their obligations to uphold the rights of their respective employees and/or authorized representatives, and/or the Data Subjects to be informed, object to process, access and rectify, suspend or withdraw the Personal Information processed under this Contract.
11. When the Client provides personal data to the Firm about its employees, contractors, clients and other individuals, the Client confirms that it has authority to act as their agent. Document/s showing the authority of the Client and/or consent of the employees, contractors and other individuals shall be furnished to the Firm within 7 days from that date the Firm has made the request to examine said document/s showing Client's authority and/or consent of said employees, contractors and other individuals.

In the event the Client fails to provide the requested document/s, the Firm may defer processing any Personal Information provided by the former to the latter. Processing of said Personal Information will resume once the Client has provided the requested document/s to the Firm.
12. The Client and the Firm affirm that all provisions in the Engagement Letter and Terms of Business, which are not contradictory, shall be applicable to this Agreement.
13. Should there be questions or concerns relative to the Personal Information Processed under this Contract, the Client and the Firm will provide to each other and to the Data Subjects concerned, the name and contact details of their respective Data Protection Officer.

| DPO | Address | Email address |
|------------|--|----------------------|
| (Client) | | |
| (Firm) | 29/F Philamlife Tower, 8767 Paseo de Roxas 1226 Makati City, Philippines | ph_dpo@pwc.com |

ARTICLE II. A LIABILITY LIMITATION

1. The liability of the Firm to pay damages for all losses, including consequential damages, economic loss or failure to realize anticipated profits, savings or other benefits, incurred by you as a direct result of breach of contract or negligence or any other tort by us in connection with or arising out of this Agreement shall be limited to that portion only of your actual loss which was directly and solely caused by us and in any event our liability shall in no circumstances exceed the fees paid in aggregate in respect of all such Services.
2. Notwithstanding the immediately preceding paragraph, in no circumstances shall we be liable to pay any damages to you for losses arising out of or in any way connected with the provision of information to us by you in violation of your duties and obligations as PIC under the Act, its IRR and relevant issuances of the NPC.

ARTICLE III. DATA SHARING

In cases where the Client and the Firm act as PICs, the stipulations under this Article shall apply.

1. The Client and the Firm confirm that the written consent of each other's employees and/or authorized representative has been secured for the purpose of processing the Data Subjects' Personal Information in accordance with the DPA of 2012 and its IRR.
2. The Personal Information shall be processed for the purpose of executing and carrying out the Engagement Letter and this Agreement (e.g. details of signatories, information for purposes of billing and collection, details of the PARTIES' employees) in accordance with the DPA of 2012 and its IRR.

3. Provided that the prior written consent of a party to this Agreement has been secured, the other shall only share Personal Information to those who require access in the performance of their duties, as well as to third parties who have legal and/or legitimate purpose for the access of the information in relation to the engagement/project/service, etc. Such third parties include, but not limited to, the accredited vendors/suppliers/contractors, affiliates and related companies and government regulators and agencies authorized by law to process personal data, particularly when it is necessary to investigate, prevent, or respond to suspected illegal or fraudulent activities or to protect the safety, rights or property of the PARTIES, their clients or other related persons.
4. The PARTIES shall ensure that their employees and third parties will comply with the requirements of the DPA of 2012 and its IRR pertaining to any Personal Information they may come across, collect, gather, record or any other means of Processing as defined herein, under the following circumstances:
 - a) In the performance of their duty and work
 - b) Those which came to their knowledge through accident

It is the responsibility of the PARTIES to ensure that Personal Information in the possession and custody of their employees and third parties shall remain confidential in accordance with the DPA of 2012 and its IRR, and other applicable laws.

5. All Personal Information that is the subject of this Agreement shall be processed in the PARTIES' information system and shall be used until necessary for the purposes described in the Engagement Letter and/or this Agreement.
6. The PARTIES shall ensure that appropriate security measures are taken in the course of Processing the Personal Information in accordance with the requirements of the DPA of 2012 to prevent any unauthorized access, improper use or disclosure, unauthorized modification or unlawful destruction of Personal Information.
7. All copies of any Personal Information shall be destroyed, removed and/or returned under the following circumstances, whichever occurs first:
 - a) Upon termination of the Engagement Letter and with specific instruction from the other to destroy, remove and/or return all copies of Personal Information;
 - b) The Personal Information is no longer required, necessary and/or relevant in the provision of service/performance of the obligation; or
 - c) Within ten (10) years from the end of the Engagement Letter.
8. The PARTIES shall ensure that the destruction of any Personal Information shall be in accordance with the requirements of the Data Privacy Act of 2012 and its IRR to protect the confidentiality of the information. The destruction shall include, but not limited to, physical destruction by fire, shredding, deletion of soft copies, etc.

ARTICLE IV. DATA PROCESSING

In cases where the Firm acts as a PIP, the stipulations under this Article will apply.

1. The Firm, as a PIP, acknowledge our obligations under the DPA of 2012 and its IRR and shall comply thereto including the relevant issuances of the National Privacy Commission ("NPC").
2. You, as a PIC, free from threat, duress, coercion or force, give consent that we may process personal data, including sensitive personal data of the data subjects for the purposes specified and declared under the Engagement Letter and this Agreement.
3. In order for us to comply with our obligations under the Engagement Letter, you hereby give us instructions to process all Personal Information to be provided by you and/or your authorized representative, which shall include but not limited to the Personal Information of your employees, contracting parties, consultants, and shareholders. The processing of the Personal Information may be conducted in a manner and method, as well as in places where, we reasonably expect that the privacy and rights of the data subjects are maintained and protected.

You will provide us, in writing, any other special instructions for the processing of the Personal Information which shall likewise form part of this Agreement.

4. You assure us that your instructions relating to the processing of personal data is compatible with the purpose described in the Engagement Letter and this Agreement, and consistent with the DPA of 2012 and its IRR. You further certify that:
 - a) You have informed the data subjects, whose Personal Information have been shared to us, that their Personal Information will be shared to us;
 - b) You have informed the data subjects of the Personal Information to be shared, the purpose why their Personal Information is to be shared; including the manner by which it will be shared to and used by us;
 - c) You have appraised the data subjects of their rights under the DPA of 2012 and its IRR; and
 - d) You have secured the written consent of the data subjects for purposes of the foregoing.

Should there be any instructions from you, which in our opinion, constitutes as a violation of the Act, its IRR or any of the issuances of the NPC, we will inform you immediately.

5. We will not engage another processor, unless otherwise instructed by you. Any such arrangement shall implement the same obligations for data protection as implemented under this Agreement, taking into account the nature of the processing.
6. We undertake to maintain at all times the confidentiality of the personal data of the data subjects. Except in instances provided for under applicable laws and regulations, we will not disclose nor share such personal data to third parties without your and/or the data subjects' prior written authority.
7. All Personal Information that is the subject of the Engagement Letter and this Agreement shall be Processed until necessary for the purpose described in the Engagement Letter and/or this Agreement or during the subsistence of the Contract.
8. After serving the purpose of the Engagement Letter and/or this Agreement, all personal data in our custody shall be returned to you, except upon your written advice instructing us to delete said personal data. All copies of the personal data in our custody shall be destroyed within 10 years in a secure manner to prevent their further processing, unauthorized access, disclosure to third parties or prejudice the interest of the data subjects. The manner of destroying the document containing the personal data should be in accordance with the standards set forth by the Act and its IRR, which include destruction by fire.
9. We undertake to implement reasonable organizational, physical and technical security measures, which in no case be of lesser quality to what is being required by the DPA of 2012 and its IRR, to protect the personal data in our custody against natural dangers (i.e. accidental loss or destruction) and human dangers (i.e. unlawful access, fraudulent misuse, unlawful destruction, alteration and contamination). Access to the personal data shall be limited only to our authorized personnel/representatives who are aware of their confidential nature and privy to the terms of this Contract.
10. We shall provide assistance to you, by appropriate technical and organizational measures and to the extent possible, fulfill the obligation to respond to requests of the data subjects relative to the exercise of their rights. We further undertake to assist you in ensuring compliance with the DPA of 2012, its IRR, other issuances of the NPC and other relevant laws. In this regard, we shall make available to you all information necessary to demonstrate compliance with the obligations laid down in the DPA of 2012, and allow for and contribute to audits, including inspections, conducted by you or another auditor under your instructions.
11. We shall inform you immediately or within 48 hours upon knowledge of or when there is reasonable belief that a personal data breach requiring notification has occurred.

Appendix 3 - Sample audit report

Independent Auditor's Report

To the Board of Trustees and Members of
Public Safety Mutual Benefit Fund (PSMBFI) Incorporated
No. 318-320 Boni Serrano Avenue
Corner 1st and 2nd West Streets
San Juan City, Philippines

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Public Safety Mutual Benefit Fund (PSMBFI) Incorporated (the "Association") as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

What we have audited

The financial statements of the Association comprise:

- the statements of financial position as at December 31, 2022 and 2021;
- the statements of total comprehensive income for the years ended December 31, 2022 and 2021;
- the statements of changes in fund balance for the years ended December 31, 2022 and 2021;
- the statements of cash flows for the years ended December 31, 2022 and 2021; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Association in accordance with Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and Code of Ethics.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and 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.

In preparing the financial statements, management is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's Report
To the Board of Trustees and Members of
Public Safety Mutual Benefit Fund (PSMBFI) Incorporated
Page 4

Report on the Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note X to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

Imelda dela Vega-Mangundaya
Partner
CPA Cert. No. XXXXX
P.T.R. No. XXXXX, issued on XXXXX, Makati City
SEC.A.N. (individual) as general auditors XXXXX Category X; effective until [date]
SEC.A.N. (firm) as general auditors XXXXX; Category X; effective until [date]
TIN XXX-XXX-XXX
BIR A.N. XXXXX XXXXX, issued on [date]; effective until [date]
BOA/PRC Reg. No. 0000, effective until [date]

Makati City
[Date of auditor's report]

Appendix 4 - Our initial risk assessment

Our audit methodology is risk-based and focuses appropriate audit effort on those business areas perceived as higher risk.

Every audit starts with a rigorous risk assessment. This takes into account the macro-level and business specific risk-drivers and their potential impact on financial reporting and audit risk. This risk assessment determines how much audit evidence we require and the associated audit effort.

It is of utmost importance that our audit is focused on the right areas. Identifying and selecting the right risks make the audit safer. We focus on risks that could have a material impact on financial reporting. Our risk assessment considers the significance of the combined nature, magnitude and likelihood of each audit risk to the financial reserves and other areas of judgment, and the Association's overall compliance with PFRS.

Based on our understanding of the Association's business operations, below are our preliminary key areas of focus, which we will use for our risk assessment:

| Assessed risk | What we will do |
|--|---|
| <p>Risk of fraud arising from management override controls</p> <p>Whilst there has been no history of management override or inappropriate use of journals, management override of controls remains a presumptive significant risk as required by the auditing standards. Possible areas of management override of controls include fraudulent journals, unusual transactions or application of inappropriate estimates. The current remote setup might also open additional opportunities for fraud to be committed.</p> | <ul style="list-style-type: none"> • We will conduct meetings with concerned units to update our understanding of the policies and procedures on fraud. • We will utilize data-enabled auditing techniques to test the completeness of journal entries and to identify high-risk journal entries and validate these, and other management adjustments, including significant and/or unusual transactions that have occurred and assess the accounting implications of these transactions. We will also incorporate unpredictable procedures by including a degree of randomness to avoid our procedures being 'predictable'. This will include varying the nature, timing, and extent of procedures. • We will also look at the related party transactions, suspense accounts, and accounting estimated to identify any management bias. |
| <p>Risk of fraud in revenue recognition</p> <p>Auditing standards mandatorily require the consideration of fraud risk in revenue recognition as a significant audit risk for companies irrespective of which industry they operate. Potential misstatement could arise from incomplete reported revenue particularly insurance premium and interest income and premature recognition of premiums.</p> | <ul style="list-style-type: none"> • We will update our understanding of controls over revenue and receivables process. • We will perform test of details over premium transactions (based on sampling) to support completeness and accuracy of recorded revenues, including review of relevant contracts. We will also incorporate unpredictable procedures by including a degree of randomness to avoid our procedures being 'predictable'. This will include varying the nature, timing, and extent of procedures. • We will also perform cut-off testing to ensure that revenues are recorded in the proper period. |

| Assessed risk | What we will do |
|--|---|
| <p>Risk of material misstatement in the valuation of insurance contract liabilities</p> <p>The determination of policy liabilities for traditional products remains a significant risk for the Association mainly due to the degree of complexity and judgment involved in selecting the appropriate methodologies and assumptions in estimating its value.</p> | <ul style="list-style-type: none"> • We will validate the methods and assumptions used in calculating the reserves and other actuarial items to ascertain conformity with local statutory requirements and sound actuarial principles. • We will test the reliability of data used by our external actuary in coming up with the insurance contract liabilities of the Association (e.g., claims development, losses paid, loss ratios, etc.) for completeness and accuracy. • We will perform a lookback analysis (estimates established vs actual results in previous years) to assess the reasonableness of the Association's insurance contract liabilities. |
| <p>Risk of material misstatement in the valuation of loans and receivables</p> <p>Due to the volume of transactions processed by management, appropriate credit approval and related credit review process may not be complied with consistently. Further, complexities underlying PFRS 9 may result in the level of allowance for financial instruments not being sufficient and reasonable in the context of the Association's historical and projected experience.</p> | <ul style="list-style-type: none"> • We will obtain and review GL-SL reconciliation prepared by management, including management's disposition of reconciling items. • We will obtain management's expected credit loss (ECL) allowance calculation for 2022 and perform procedures to assess sufficiency of allowance for impairment and assess the reasonableness of macro-economic factors used by management in coming up with the ECL allowance. |
| <p>Completeness and proper recognition of members' contributions</p> <p>Due to the highly manual nature of processing members' contribution (arising from inherent limitations in the Association's data processing system), there is risk that the recorded members' contribution and related interest expense is not complete and not recognized in the proper accounting period.</p> | <ul style="list-style-type: none"> • We will update our understanding of the process or recording members' contribution and interest revenue. • We will obtain and review GL (EV Ledger) -SL (Seriatim list) reconciliation prepared by management, including management's disposition of reconciling items. • We will perform test of details on the members' contribution including refund and additional contributions and perform substantive analytics for interest expenses |
| <p>Sufficiency and design of internal controls</p> <p>As the Association continues to grow, the overall general controls environment may no longer be effective or responsive to the new risks that the Association is facing. This also includes an assessment o the execution of the Association's controls and processes during the pandemic.</p> | <ul style="list-style-type: none"> • We will conduct meetings with management units to update our understanding of the systems, policies and procedures in place, including any actual or expected system improvements for 2022. • We will also follow through prior year's internal control recommendations. |
| <p>Regulatory compliance</p> <p>As a regulated entity, the Association is subject to various reporting requirements of the Insurance Commission, Securities and Exchange Commission, Bureau of Internal Revenue, Data Privacy Commission and the Anti-Money Laundering Council.</p> | <ul style="list-style-type: none"> • We will conduct meetings with the Association's Legal Department and other concerned units to update our understanding of functions and responsibilities, including a review of the Association's controls in place, over regulatory compliance. • We will design audit procedures to evaluate the Association's compliance with relevant laws and regulations, including relevant disclosure requirements, as well as review management's income tax calculations. |

Appendix 5 - About Isla Lipana & Co.

Isla Lipana & Co. is PwC in the Philippines

We at Isla Lipana & Co. are working with our clients and communities to build trust in society and solve important problems.

Isla Lipana & Co. is a Philippine member firm of the PwC global network, each member firm of which is a separate legal entity.

Among the auditing firms in the Philippines, we have the longest affiliation with a major global accounting firm that dates back to 1958. The firm has rendered professional service in the Philippines for 98 years. Established in 1922, it became a member firm of the Price Waterhouse Worldwide Organization in 1973. On July 1, 1998, the merger of two venerable firms—Price Waterhouse and Coopers & Lybrand—created PwC.

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 156 countries with over 295,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

We stick to the highest quality standards in delivering audit and assurance, tax and advisory services within and outside the Philippines.

Our people in numbers

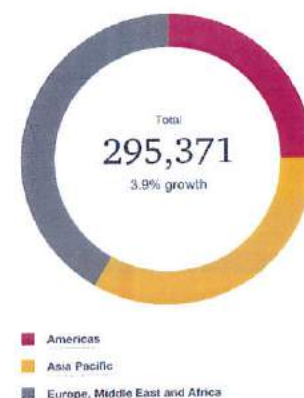
We currently have more than 295,000 professionals in 156 countries and, as part of our commitment to our new strategy, The New Equation, we plan to hire 100,000 net new professionals by 2026.

This makes it vital that our “people first” approach continues to guide our actions, as it has done over the past year. During such time, we’ve remained focused on keeping our people safe, supporting their wellbeing, providing them with the flexibility they need to manage the often-competing demands of professional and personal lives, offering them opportunities to develop new skills, and continuing to build a diverse and inclusive workforce.

PwC’s clients

Organizations today must navigate and cope with pressures including climate change, technological disruption, geopolitical turmoil, social polarization, fractured trust in institutions, rising environmental, social and governance (ESG) expectations, skills challenges and an ongoing pandemic.

As they face these challenges, we are proud that more than 200,000 organizations – including 84% of the Fortune Global 500 – choose to be our clients. We are dedicated to helping them thrive in a rapidly changing world, both managing its challenges and seizing its opportunities.



Isla Lipana & Co. performs audit, taxation and advisory services

Assurance

This is the backbone of Isla Lipana & Co. Our assurance services deliver responsive audits tailored to the size and nature of the client's business. Our audit strategy is a risk-based, top-down approach that focuses on client's business objectives and risks, and those that impact on financial reporting. We apply the full rigor of our global audit methodology (PwC Audit) which provides a robust assurance process and upholds a superior and distinctive audit that is of global standards.

Tax

We perform various corporate and tax related services that respond to the needs of your business to help minimize your tax liabilities and meet tax compliance obligations. We recommend options, solutions, and relief as taxation becomes more complicated and costly; and offer advantageous and cost-effective strategies for optimizing your taxes and duties.

We understand the environment in which you operate and how concerns related to transfer pricing, documentation and strategy, intellectual property management, and mergers and acquisitions impact your tax planning and compliance requirements.

Advisory

Clients engage us to help solve their strategic and day-to-day problems. We do this by creating unique, value-added solutions based on the combination of industry knowledge, subject matter expertise in Consulting and Deals, and our collective experience from all areas of PwC.

Consulting

We help organizations to work smarter and grow faster. We consult with our clients to build effective organisations, innovate & grow, reduce costs, manage risk & regulation and leverage talent. Our aim is to support you in designing, managing and executing lasting beneficial change.

Our client-side advisory services are related to strategy advice, strategy implementation, transformation, process improvement, customer relationship management, change management, organizational design and reorganization, business process re-engineering, cost reduction, operations and supply chain, forensics and risk management.

We do technology-related advisory services such as IT transformation, managing IT implementation, or working with a systems integrator as part of a wider transformation, evaluating an IS organization's efficiency, IT strategy, IT architecture, IT governance, advice on the best technology to meet a company's requirements, helping a client negotiate with or manage technology vendors, advice on specific enterprise applications, IT programme management and advice on data and security.

Deals and Corporate Finance

We help clients do better deals and create value through mergers, acquisitions, disposals and restructuring. We work together with them to help develop the right strategy before the deal, execute their deals seamlessly, identify issues and points of negotiation and value, and implement changes to deliver synergies and improvements after the deal.

Financial due diligence review, vendor assistance, vendor due diligence review, commercial and market due diligence review, valuation consulting, structuring services, feasibility studies and market research, post deal services, M&A advisory, fundraising advice, bid support services, public-private partnership advisory, business recovery services, dispute analysis and investigations.

Our people

We deliver quality services to our clients through our main office in Makati City and our branch offices in Cebu City and Iloilo City. As of February 23, 2021, we have over 1,680 professional and support people.

The number represents employees on probationary, permanent, support, on overseas assignment, contractual, and trainee status. They belong to PwC Philippines, i.e., Philippine member firms of the PwC network: Isla Lipana & Co., Cabrera and Company, PricewaterhouseCoopers Consulting Services Philippines Co. Ltd., and PricewaterhouseCoopers Business Services Philippines Co. Ltd.

Our diverse team of experienced professionals includes accountants, tax advisers, systems analysts, economists, human resources professionals, project development managers, industrial engineers, and investment advisors.

Our people are active in various professional, public and private sector organizations and participate in public forums involving taxation, investment incentives, and advocacy issues. We make sure we keep up with the latest developments so we can give clients informed advice on different issues that might affect their businesses.

Our client portfolio

We provide audit, tax or advisory services to a number of clients in the Philippines. Our clients range from some of the world's largest and most international organizations to local entrepreneurs. We work closely with all our clients to provide them with tailored services that meet their specific needs, irrespective of their size, location and sector.

In the Philippines, we have 6,203 clients that include leading corporations, both local and foreign, across different industries:

| Main industry | Audit clients | Non-audit clients | Total |
|--|---------------|-------------------|--------------|
| Industrial manufacturing and automotive | 468 | 1,118 | 1,586 |
| Consumer markets | 489 | 845 | 1,334 |
| Financial services | 484 | 569 | 1,053 |
| Technology, media, and telecommunications | 310 | 671 | 981 |
| Energy, utilities, and resources | 204 | 391 | 595 |
| Government and public services | 172 | 121 | 293 |
| Health industries | 77 | 175 | 252 |
| Private equity, real asset, and sovereign investment funds | 12 | 74 | 86 |
| Other services | - | 23 | 23 |
| Total | 2,216 | 3,987 | 6,203 |

As at December 9, 2021

The following summarizes our local audit clients in “BusinessWorld Top 1000 Corporations in the Philippines list (2020 edition)”

- PMFTC, Inc.
- Toshiba Information Equipment (Philippines) Inc.
- Bank of the Philippine Islands
- Chevron Philippines, Inc.
- Watsons Personal Care Stores (Philippines), Inc.
- Techlog Center Philippines
- Philippine American Life and General Insurance Co., The
- Ford Group Philippines, Inc.
- Familyhealth & Beauty Corp.
- BPI-Philam Life Assurance Corp. (BPLAC)
- Chevron Malampaya LLC
- Amkor Technology Philippines, Inc.
- Alaska Milk Corp.
- Nidec Philippines Corp.
- BPI Family Savings Bank, Inc.
- PTT Philippines Corp.
- Shin-Etsu Magnetics Philippines, Inc.
- Mondelez Philippines, Inc.
- JPMorgan Chase Bank, N.A.-Philippine Global Service Center
- Colgate-Palmolive Philippines, Inc.
- Avon Cosmetics, Inc.
- SCAD Services (S) Pte. Ltd.
- Phil. Gold Processing & Refining Corp.
- Pilipinas Kao, Inc.
- Philip Morris Philippines Manufacturing, Inc.
- Hongkong and Shanghai Banking Corp. Ltd., The
- Oleo-Fats, Inc.
- Alorica Teleservices, Inc.
- EDS Manufacturing, Inc.
- PTT Philippines Trading Corp.
- Sitel Philippines Corp.
- Monark Equipment Corp.
- Lazada E-Services Philippines, Inc.
- RMS Collect Phils., Inc.
- Converge ICT Solutions, Inc.
- Rose Pharmacy, Inc.
- IBM Philippines, Inc.
- ON Semiconductor Philippines, Inc.
- New San Jose Builders, Inc.
- Cognizant Technology Solutions Philippines, Inc.
- St. Luke's Medical Center (Global City), Inc.
- Toyota Aisin Philippines, Inc. (formerly Toyota Autoparts Philippines, Inc.)
- TeleTech Customer Care Management Philippines, Inc.
- Cignal TV, Inc.
- Toyota Tsusho Philippines Corp.
- IBM Business Services, Inc.
- Nidec Subic Philippines Corp.
- Medical Doctors, Inc.
- IM Digital Phil Inc.
- Nike Philippines, Inc.
- Benby Enterprises, Inc.
- OceanaGold (Philippines), Inc.
- Nippon Express Philippines Corp.
- HSBC Electronic Data Processing (Philippines), Inc.
- Alorica Philippines, Inc.
- Merck Sharp & Dohme (I.A.) LLC
- Metroworks ICT Construction, Inc.
- Sony Philippines, Inc.
- Ericsson Telecommunications, Inc.
- Toyota Camarines Sur, Inc.
- DHL Express (Philippines) Corp.
- Muramoto Audio-Visual Philippines, Inc.
- Toyota Commonwealth, Inc.
- Knowles Electronics (Philippines) Corp.
- Philippine Geothermal Production Co., Inc.
- Brandlines Enterprises, Inc.
- Mars Philippines, Inc.
- IBM Solutions Delivery, Inc.
- Transitions Optical Philippines, Inc.
- Schenker Philippines, Inc.
- SPi Technologies, Inc.
- 3M Philippines, Inc.
- Fonterra Brands Philippines, Inc.
- LF (Philippines), Inc.
- EMD Technologies Philippines, Inc.
- Concepcion Durables, Inc.
- Amcor Specialty Cartons Rizal Corp.
- Murata Electronics Philippines, Inc.
- Chevron Holdings, Inc.
- Maxim Phil. Operating Corp.
- Novartis Healthcare Philippines, Inc.
- CJ Philippines, Inc.
- Japan Airlines International Co. Ltd.
- FIC Marketing, Inc.
- Filminera Resources Corp.
- ON Semiconductor Cebu Philippines, Inc. (formerly Fairchild Semiconductor Philippines, Inc.)
- Chemrez Technologies, Inc.
- Toyota Pasong Tamo, Inc.
- Toyota Batangas City, Inc.
- Conduent Business Services Philippines, Inc.
- Qualfon Philippines, Inc.
- Infor PSSC, Inc.
- Toyota Bacoor, Cavite, Inc.
- BPI/MS Insurance Corp.
- L'Oreal Philippines, Inc.
- Allianz PNB Life Insurance, Inc.
- Shang Properties, Inc.
- Shang Global City Properties, Inc.
- DHL Global Forwarding (Philippines), Inc.
- Toyota Global City, Inc.
- Menarini Philippines, Inc.
- Wills International Sales Corp.
- Ortigas Commercial Corp. (formerly Capital Commons Corp.)
- BPI Direct BanKo, Inc., A Savings Bank
- Tupperware Brands Philippines, Inc.
- Johnson & Johnson International (Singapore) Pte. Ltd.
- Braun Avitum Philippines, Inc.
- Tecnimont Philippines, Inc.
- Toyota Fairview, Inc.
- Rolex Centre Phil. Ltd.
- Toyota Angeles Pampanga, Inc.
- Avon Products Mfg., Inc.
- AstraZeneca Pharmaceuticals (Phils.), Inc.
- Pioneer Hi-Bred Philippines, Inc.
- Microsourcing Philippines Inc.
- ALFM Peso Bond Fund, Inc.
- Gymboree Marketing International, Inc.
- AIG Shared Services - Business Processing, Inc.
- Lindberg AG A4-Branch
- QBE Group Shared Services Ltd. - Philippine Branch
- Juken Sangyo (Phils.) Corp.
- Toyota Boshoku Philippines Corp.
- Harada Automotive Antenna (Philippines), Inc.
- D&L Polymer and Colours, Inc.
- Nidec Precision Philippines Corp.
- D&L Industries, Inc.
- Ingram Micro Philippines BPO LLC
- Shearwater Health Advisors, Inc.
- Daiho (Phils.), Inc.
- FactSet Philippines, Inc.
- Brenntag Ingredients, Inc.
- Cypress Manufacturing Ltd.
- ON Semiconductor SSMP Philippines Corp.
- East West Ageas Life Insurance Corp.
- Delfi Marketing, Inc.
- Connell Bros. Co. Pilipinas, Inc.
- AIG Shared Services Corp. (Philippines)
- Majorel Philippines Corp. (formerly Arvato Corp.)
- Diageo Philippines, Inc.
- Automated Technology (Phil.), Inc.
- Futaba Corp. of the Philippines
- Air Liquide Pipeline Utilities Services (ALPLUS), Inc.
- Taisho Pharmaceuticals (Philippines), Inc.
- Elematec Philippines, Inc.
- Natasha Sales & Marketing Corp.
- Robert Bosch, Inc.
- Arcadis Consulting Middle East Ltd.
- Sandoz Philippines Corp.
- Hawaiian-Philippine Co.
- Tann Philippines, Inc.
- Air Liquide Phils., Inc.
- Allfirst Equity Holdings, Inc.

In coming up with the Top 1000, BusinessWorld ranked the companies according to their gross revenue for the most recent year. For purposes of this ranking, gross revenue is the sum of net sales and non-operating income. Data used in computing the gross revenue and all other information in the tables were gathered from the audited financial statements submitted to the Securities and Exchange Commission in the case of private firms, the annual reports disclosed to the Philippine Stock Exchange for the publicly listed companies, and to the Commission on Audit for government-owned and -controlled corporations. Only audited financial statements covering the fiscal year ending between May and December of the previous calendar year, and between January and April for the current calendar year, were collected. The fiscal year for most companies ends on December 31; otherwise, a specific firm's fiscal year is indicated in the end notes section of the publication.

Delivering an exceptional PwC Experience

The PwC Experience is our commitment to make PwC distinctive through consistent behaviors that enable the success of our clients and people. That means...

Our clients feel as if PwC understands and cares about them, will deliver results to them, and can contribute to their success. They seek us out, want to be associated with the PwC brand, and ask us to become involved in an expanding number of projects.

Our people see us as a great place to work — one that offers them unparalleled opportunities for development. They believe that our culture is strong, healthy, and geared toward high performance and innovation, and that their ideas are welcomed, and their contributions are valued.

Our firm is widely recognized as the profession's leader and competitors regularly target their own performance against ours. Stakeholders see PwC as the firm that sets the professional standard, and on matters of public policy our opinions are sought and highly regarded.

Appendix 6 - Your PwC engagement team



Imelda dela Vega-Mangundaya

Engagement Partner

Imelda is an Assurance Partner of PwC Philippines since 2007.

Her expert knowledge of US Generally Accepted Accounting Principles, International Financial Reporting Standards, Philippine Financial Reporting Standards, International Standards on Auditing, Philippine Auditing Standards, and Sarbanes-Oxley compliance strengthens her qualifications in assurance work covering multinational companies, and listed companies locally and overseas.

She serves as one of the subject matter experts on initial public offerings and capital market transactions for the local assurance practice.

Imelda graduated Cum Laude with a degree in Bachelor of Science in Accountancy in Central Colleges of the Philippines and has units toward Master of Business Administration at the Ateneo de Manila University.

To further strengthen her international exposure, she attended PwC's International Experience Program in the San Jose, California office of PwC US, as well as the Learning and Education Program in PwC Malaysia.



John-John Patrick V. Lim

Quality Review Partner

John is the Lead Partner in our firm's Financial Services Industry Practice. He is also the Lead Partner of Risk Management and Independence. He also led the Accounting Consulting Services and the Assurance Risk Management of the Philippine firm until June 30, 2016 and June 30, 2013, respectively.

He passed the Uniform CPA exams in the USA.

John is a member of Auditing and Assurance Standard Council.

John brings over 25 years of experience in the financial audits of banks, including financing companies, leasing companies, insurance companies, investment houses, stockbrokers and dealers in securities, BPOs, and real estate companies. He participated in a number of due diligence reviews covering either the selling or acquisition of financial service institutions and BPOs.

He gained extensive international exposure from two years of combined service in PwC US' Philadelphia and New York offices. He attended the Strategic Business Economics Program of the University of Asia and the Pacific. He is a lecturer and speaker in public and internal seminars on accounting and auditing.

John participated in a number of due diligence reviews covering either the selling or acquisition of financial service institutions.

He managed the work related to the US GAAS/US GAAP audits and bond offerings of a multilateral bank, including the review of the prospectus and the preparation of the comfort letter.

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