

Proposal to Provide Audit Services

**People's Bank of Caraga
Mutual Benefit Association, Inc.**

National Highway, Barangay 5, San Francisco, Agusan del Sur

For Calendar Year Ended December 31, 2017

Submitted by:

January 5, 2018

The Board of Trustees
PEOPLE'S BANK OF CARAGA MUTUAL BENEFIT ASSOCIATION, INC.
National Highway, Barangay 5, San Francisco, Agusan del Sur

Attention: **Ms. Carmelita B. Bilaoen**, President Emeritus and
Ms. Linda Grace B. Arevalo, General Manager

Gentlemen:

You have requested that we submit our proposal to audit the financial statements of **People's Bank of Caraga Mutual Benefit Association, Inc.** (referred to as "Association" for the rest of this letter), consisting of the statement of financial position as of December 31, 2017, and the related statement of profit or loss and comprehensive income, statement of changes in equity and statement cash flows for the year then ended.

We are pleased to submit the proposed terms and conditions of our engagement. If the following terms and conditions meet with your approval, we agree that this letter becomes the official document to bind us in this engagement.

SCOPE OF SERVICES

Objectives

The objectives of our audit are: (1) to obtain reasonable assurance about whether the financial statements as whole are free of material misstatement, whether due to fraud or error, and (2) to issue an auditor's report that includes our opinion about whether the financial statements prepared in conformity with Philippine Financial Reporting Standards (PFRSs) are fairly presented in all material respects.

If our opinion is other than unqualified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, or if circumstances may arise which make it necessary for us to withdraw from the engagement, we will communicate to the Board of Trustees in writing our reasons thereof.

Methodologies

Our audit will be conducted in accordance with Philippine Standards on Auditing (PSAs), and we will indicate so in our reports. Those PSAs require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements prepared in accordance with PFRSs are free of material misstatements, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristic of fraud. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs 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 bases of these financial statements. And because we will not perform a detailed examination of all transactions, there is a risk called audit risk that material errors, fraud, or illegal acts, may exist and not be detected. 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. In addition, an audit is not designed to detect immaterial errors, fraud, or other illegal acts or illegal acts that do not have a direct effect on the financial statements. Our engagement cannot, therefore, be relied upon to disclose errors, fraud, or other illegal acts that may exist. However, we will inform

you of any material errors that would come to our attention. We will also inform you of any other illegal acts that would come to our attention, unless clearly inconsequential.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of assets, and direct confirmation of receivables and payables and certain other assets and liabilities by correspondence with selected member-consumers, creditors, and financial institutions. Consequently, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Responsibilities of the Auditors

We will conduct our audit in accordance with Philippine Standards on Auditing (PSAs). Those PSAs require that we comply with ethical requirements. As part of an audit in accordance with PSAs, 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, designing and performing audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of your internal controls sufficient to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal controls or to identify reportable conditions, that is, significant deficiencies or material weaknesses in the design or operation of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. As part of our engagement, we will advise you about the appropriate accounting principles and their application, but the responsibility for the financial statements remains with you.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, concluding whether a material uncertainty exists related to events or conditions that may cast 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 would be 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.

Communication With Those Charged with Governance

Our audit will include obtaining an understanding of your internal controls sufficient to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal controls or to identify reportable conditions, that is, significant deficiencies or material weaknesses in the design or operation of internal control. However, during the audit, if we become aware of such reportable conditions, we will communicate with the Board of Trustees and management, (they are the ones charged with governance in the Association) regarding any significant deficiencies in internal control that we identify during our audit.

We will prepare a written management report on our consideration of internal control and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the Association's internal control and we are not obligated to search for reportable conditions as part of our audit, this report will include any reportable conditions to the extent

that they come to our attention. Reportable conditions are significant deficiencies in the design or operation of internal control, which could adversely affect the Association's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements under audit. It will indicate that it is intended solely for the information of the Association, and while we understand that our reports are submitted to the Insurance Commission (IC), we note that the reports are not intended to be, and should not be, used by, or relied upon by, anyone other than management. This note will be mentioned in our reports as submitted to the Board of Trustees and management.

We will also provide the Board of Trustees and management with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. We will communicate with the Board of Trustees verbally or in writing any disagreements with management or any serious difficulties encountered in performing our audit services. We will also read the minutes of the Board of Trustees' meetings for consistency with our understanding of the transactions implemented by management.

Assistance in Implementing the Requirements of New PFRSs

The Association is using Philippine Financial Reporting Standards as its financial reporting framework. PFRSs are continually evolving and every year new provisions are required to be implemented. Our responsibility will include ensuring that the Association implements the requirements of the new PFRSs in the financial statements being audited. We emphasize however that the primary responsibility of ensuring that the Association adopt the necessary standards is that of the management of the Association.

Auditors' Responsibility Over Regulatory Requirements

Regulatory Requirements with SEC

Our Firm, the Partner In-Charge and the Concurring Partner are presently applying for accreditation with the Securities and Exchange Commission (SEC) and they are presently awaiting the SEC approval after submitting the required comments on our application documents. The Engagement Partner however is presently accredited by the SEC under Group C.

As part of our responsibility as SEC accredited external auditors, we shall report to the Commission any of the following cases which may be discovered based on PSAs, if the Association (as a corporation registered with SEC) fails to disclose the same to the Commission:

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

Under the Insurance Commission (IC)

As part of our responsibility as accredited auditors of the Insurance Commission (IC), we shall report to the Commission any of the following cases which may be discovered based on Philippine Standards on Auditing, if the Association fails to disclose the same to the Commission under its current reports:

- o Any material findings involving fraud or error, as defined under Section 3.3 and 3.4 of the Insurance Code;
- o Under-reserving of Incurred But Not Reported (IBNR) losses/policy reserves, the aggregate of which leads to capital deficiency/impairment;
- o Any findings to the effect that the consolidated assets of the Association, on a going-concern basis, are no longer adequate to cover the total liabilities;
- o Material internal control weaknesses which may lead to financial reporting problems;
- o Termination or resignation of our engagement with your Association and stating the reason therefor;
- o Discovery of a material breach of laws or IC rules and regulations, and
- o Findings on matters of corporate governance that may require urgent action by IC.

Should our audit disclose any or all the foregoing cases, we shall submit to the Association's management or the Audit and Supervisory Committee our findings and shall document management's explanation and the corrective actions taken thereof. The disclosure of such information to the Insurance Commission (IC) should not be a ground for civil, criminal or disciplinary proceedings against us.

Extent of Responsibility

Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods of which we are not engaged as auditors.

RESPONSIBILITIES OF MANAGEMENT

Responsibilities of Management

Our audit will be conducted on the basis that management and the Board of Trustees acknowledge and understand that they have responsibilities:

- (a) For the preparation and fair presentation, in accordance with PFRSs, of the financial statements and all representations contained therein.
- (b) For adopting sound accounting policies, for maintaining an adequate and efficient accounting system, for safeguarding assets, for authorizing transactions, for retaining supporting documentation for those transactions, and for devising a system of internal controls that will, among other things, help assure the preparation of proper financial statements.
- (c) For management decisions and functions, for designating a competent employee to oversee the audit services we provide, and for evaluating the adequacy and results of these services.
- (d) For the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the Association involving the management and employees who have significant roles in internal control, and other stakeholders where the fraud could have a material effect on the financial statements.
- (e) For informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Association received in communications from employees, former employees, regulators, or others.
- (f) For identifying and ensuring that the Association complies with laws, regulations, contracts and grants applicable to its activities, and for informing us of any known material violations of such laws and regulations.
- (g) For providing us with:
 - (i) Access to all records, documentation and 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 audit and be responsible for the accuracy and completeness of that information, and
 - (iii) Unrestricted access to persons within the Association from whom we determine it necessary to obtain audit evidence and an assurance of their full cooperation.
- (h) For adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
- (i) For reviewing the adjusting or correcting journal entries to your financial statements that we may propose and for understanding the nature of any proposed entries and the impact they have on the financial statements.

Written Representations

As required by PSAs, we will make specific inquiries of the Association about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from the Association about these matters. The responses to our inquiries, the written representations and the results of audit tests comprise the evidential matter we will rely upon in forming an opinion on the financial statements. Because of the importance of the Association's representations to the effective performance of our services, the Association agrees to release Quilab & Garsuta, CPAs and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to misrepresentations in the representation letter referred to above and to indemnify Quilab & Garsuta, CPAs and its personnel against any claims or legal actions resulting.

Association's Counterpart

We may be requested to assist the Association in drafting the financial statements and notes. In that respect, you confirm that the Association will: (a) designate the MBA Manager to be responsible and accountable for overseeing the drafting of the financial statements; (b) establish and monitor the performance of the engagement to ensure that it meets management's objectives; (c) make decisions that involve management functions related to the engagement and accept full responsibility for such decisions, and (d) evaluate the adequacy of the financial statements and notes.

In the conduct of our audit procedures, we understand that your employees will prepare all cash, loans and accounts receivable, and other confirmations we request and will locate any documents selected by us for testing. Any failure to provide such cooperation, on a timely basis, will impede our services, and may hinder us from achieving the objectives of this engagement. We look forward to the full cooperation of your staff in the conduct of our audit.

AUDIT TEAM, COMPANY PROFILE/ BRIEF RESUME OF AUDIT TEAM

Audit Team

This engagement will therefore be handled by the following Audit Team:

- | | | |
|-------------------------------------|---|------------------------|
| ○ Mr. Rico P. Quilab | - | Engagement Partner |
| ○ Ms. Ana Mariae Michelle D. Quilab | - | Concurring Partner |
| ○ Ms. Estrella B. Bonggo | - | Audit Manager |
| ○ To be assigned later | - | Audit Staff Assistants |

Our staffing may change in the actual conduct of the audit in consideration of the availability of staffs at the time of our scheduled fieldworks.

We also reserve the right to change the Audit Team composition, particularly that the other partners' IC accreditation is currently in process. We will send you an amended proposal should Ms. Ana Mariae Michelle D. Quilab's accreditation application with the Insurance Commission (IC) is approved. Such amendment should only be for her to act as the Engagement Partner and the Undersigned (presently IC-accredited) will act as the Concurring Partner.

Profile of Quilab & Garsuta, CPAs (Q&G, CPAs)/Brief Resumé of Partners

The Quilab & Garsuta, CPAs (Q&G, CPAs) is a regional organization of Certified Public Accountants with Head Office in Cagayan de Oro City and a Branch Office in General Santos City, organized in July 2017 by practitioners in public accounting that have accumulated a total of 66 years of practice experience. The Firm is composed of four (4) founding partners, with two partners operating in the Head Office and the other two partners operating in the Branch. The more senior of the partners are active practitioners in public accountancy and have common bond being once senior audit staffs of SyCip Gorres Velayo & Co., CPAs having about five (5) years of working experience each. Each of them embarked in public accounting practice which saw them undertake the audits and related engagements for various industries, organizations, NGOs and rural and thrift banks.

Mr. Rico P. Quilab

He is the Managing Partner and he has had 25 years practice experience as the founding partner of Quilab, Cabilin, Bato & Co., CPAs, a general professional partnership founded in 1992 and dissolved by September 30, 2017, after more than 25 years of operation. Prior to his public practice, he had joined SGV in 1980 and left in 1985 to join Xavier University as its Internal Audit Officer. In 1988, he left Xavier to join Pryce Gases, Inc., an industrial gas manufacturing company as the Finance and Administration Manager, until February 1991. After that, he joined MASS-SPECC Association Development Center, Inc., a regional development NGO also as its Finance and Administration Manager and, concurrently, as Auditing Department Consultant. During his various employments he also undertook the practice of management consultancy and auditing services having retained clients such as an educational institution, nonstock, nonprofit foundations, a trucking company, a hotel and various other entities.

Mr. Felix H. Garsuta, Jr.

Mr. Garsuta is a practitioner in public accounting based in General Santos City covering SOCSARGEN and Central Mindanao since the year 2000 having audited and provided consulting services to clients in various industries such as in fishing, tuna canning, export, cooperatives, NGOs, rural banks, manufacturing, lending, schools, distribution and retailing, appliance stores, group of companies with diversified interests, etc. He joined SGV in 1991 and left in 1995 to join a multi-national company engaged in bio-seed production as the Head of Finance Department. He left this company in 2000 to engage in public practice which spanned for 17 years before joining forces with Mr. Quilab and other partners to form this new Partnership.

Ms. Ana Mariae Michelle D. Quilab

Ms. Quilab worked for 10 years with QCB & Co., CPAs and has held a position of Senior Audit Manager when that firm was dissolving by September 30, 2017. She is a founding partner of Quilab & Garsuta, CPAs. Ms. Quilab is a graduate of Xavier University for her Baccalaureate degree in 2006, as well as her MBA degree in 2015. While at QCB & Co., CPAs, she has handled audit engagements of various companies, including banks, cooperatives, NGOs, electric cooperatives and others.

Ms. Rita Zenaida M. Garsuta

Ms. Garsuta is the wife of Mr. Felix H. Garsuta, Jr. and she works closely as an Associate (on a part-time capacity) of his practice in public accountancy. She is presently employed as the Vice President & Administration Head of an agri-ventures corporation located in South Cotabato. She had been a full-time partner of Miguel Dizon & Co., CPAs for 8 years during the 1990s and had worked in accounting, finance and internal auditing with a group of companies that is engaged in fishing, food processing, lending and pawnshops, hardware and fishing supplies.

WORKING ARRANGEMENTS AND PROPOSED TIMETABLE

Working Arrangements

We will conduct our year-end audit procedures at the Association's office in San Francisco, Agusan del Sur, where the books and records are maintained. We look forward to the full cooperation of your staff in the conduct of our audit. We trust that they will make available to us whatever records, documentation and other information that we will request relating to our audit.

Proposed Timetables

We expect to be able to perform our audit over the timescale presented below, and provided no major unforeseen problems are encountered, we expect to perform our engagement within the following timetable:

<i>Nature of Activities</i>	<i>Proposed Timeframe</i>
Start of year-end fieldworks	First week of February 2018 or later
Finalization of audit results	On or before March 31, 2018, or earlier, if possible.

We may revise the proposed schedules after we have sat down with management and determine the specific dates and activities to be accomplished.

EXPECTED OUTPUTS

Deliverable No. 1

Auditors' Report for the Financial Statements as at and for the Year Ended December 31, 2017

In accordance with terms minimum, our Auditor's Report, which will be addressed to the Board of Trustees of the Association, should include the following:

- (1) The title and addressees, which will reflect the governance structure of the Association;
- (2) An opinion paragraphs containing (a) identification of the financial information audited and, (b) our audit opinion.
- (3) A paragraph explaining the basis for our opinion;
- (4) A paragraph describing management's responsibilities for the financial statements expanded to explain its responsibilities with respect to going concern issues, and
- (5) A paragraph listing the responsibilities of the auditors.

We may expand the report to include other information and explanations not intended as a reservation.

Deliverable No. 2

Reportorial Requirements of Insurance Commission (IC)

Our engagement will also include assistance in complying with the reports for filing with the Insurance Commission (IC) in so far as these relate to our opinion on the audited financial statements of the Association. We are not responsible for complying with the detailed information required by IC such as contained in the Annual Statement for the Year. However, we will assist the Association in ensuring that the data contained in the Annual Statements tie-up with the audited financial statements.

Deliverable No. 3

Preparation of Letter of Comments and Recommendations

Since we will study and evaluate the Association's system of internal accounting control to the extent we will consider necessary to evaluate the system as required by PSAs, we are going to provide you and the IC with a report concerning any significant matters relating to the system of internal accounting controls of the Association along with our findings, comments and recommendations on these matters, and on other matters pertaining to the general and administrative operations of the Association.

Deliverable No. 4

Filing Assistance with Bureau of Internal Revenue (BIR) and Securities and Exchange Commission (SEC)

Our engagement will also include assistance in the preparation of your annual income tax returns to the BIR and assistance in the preparation of the financial statements for filing with the SEC.

Other Services

1. Consultations with Management on Administrative and Financial Matters
Our clients are given the privilege of accessing free consultations on matters pertaining to administrative and financial natures.
2. Attendance to the Meetings of the Association's Board of Trustees
When invited, we will also attend the meetings of the Association's Board of Trustees to help the Treasurer explain the audited financial statements of the Association.

FEES AND INCIDENTAL EXPENSES

Professional Fees

Based on the scope outlined above, we propose to bill you for our professional fees, the amount of pesos:

SIXTY THOUSAND PESOS ONLY (₱60,000.00).

Our fees are based on the estimated time required by the staffs who will be assigned to the engagement. The individual hourly rates of our staffs vary according to the degree of responsibility involved and the experience and skills required. The staffs that would be assigned to this engagement are already experienced staffs and maintaining them has increased the costs of our practice.

Moreover, we quoted this fixed fee under the following conditions:

- Matters requiring audit attention are not significantly different from those encountered in the previous year;
- Work that is to be completed by your staff is completed and made available to us in accordance with an agreed timetable;
- Accounting records and other financial information that we wish to examine are properly kept and in the format that makes them readily accessible to our staff; and
- We will not have to stop work and/or make follow up visits because of delays caused by your staff or the unavailability of information required for the audit.

Should we encounter difficulties in the conduct of this engagement, we will let you know in advance before going further with our work. If this situation arises, there might be a need to request for an upward adjustment of our professional fees should we find it inadequate to cover our cost, subject however to your prior approval.

Billing Procedures

We propose to bill you as follows: (a) 50% upon your acceptance of this engagement, and (b) the 50% remaining at the submission of the audited financial statements for filing of financial statements with appropriate Government agencies.

Our billings will include the mandated twelve percent (12%) VAT on professionals. Our billings are also exempted from the expanded withholding taxes owing to our being a general professional partnership (RMC 60-2014 and RR 14-2002).

Out-of-Pocket Costs (To be Claimed as Refund)

We will bill you for the actual expenses we will incur in this engagement representing substantially the cost of transportation, board and lodging during visits to the bank, audit supplies and the cost of reproducing our reports. Our charges (which will be claimed as refund of expenses hence no longer subjected to the value-added taxes), would be guided by the following policies:

a) **Food Expenses**

An employee on official business outside of Cagayan de Oro City shall receive a fixed per diem for food expenses in the amount of FIVE HUNDRED PESOS (₱500) per day for meals not provided by clients. In case of broken claims for meal allowance, an employee may claim ONE HUNDRED PESOS (₱100) for breakfast and TWO HUNDRED PESOS (₱200) each for lunch and dinner. No receipts are required in liquidating meals per diem.

b) **Lodging Expenses**

Unless provided by client, employees on official business trips are required to secure safe and decent lodgings in their destinations. Lodging expenses are based on actual rates and must be liquidated with actual receipts using the Travel Liquidation Report.

c) **Transportation**

Employees on mission outside of the home base shall have their actual transportation expenses reimbursed based on actual receipts submitted.

d) **Report Reproduction**

We shall charge the Company with a fixed cost for report reproduction of SIX HUNDRED PESOS (₱600) per printed reports for the Board of Directors and Management and FIVE HUNDRED PESOS (₱500) per printed reports to be submitted to the BIR and the SEC.

Our normal quantities for printing are the following:

For BOD and management	-	2
For IC	-	3
For SEC	-	7
For BIR	-	3
Total		15

Please let us know in advance if you need more or less of the copies for BOD and management.

e) Other Costs

Other necessary costs that would be incurred (such as reproduction costs of audit-related documents, mailing, communication and others) would also be charged to you based on reimbursements basis.

OTHER MATTERS

Efficacy of this Contract/Termination of our Services

This proposal letter, once approved by you, will be effective for the audit of the year 2017 only. Should you wish to request our services in the audit of the financial statements of the Association during 2018, we will send you a new proposal letter.

Our services may be terminated by the Association any time, provided a written notice of termination is sent to us at least thirty (30) days prior to the date it becomes effective. This will allow us to complete any audit procedures already started, and to bill whatever is due us based on the audit procedures already performed.

Confidentiality Clause

We will ensure the secrecy and confidentiality of all information that may come to our attention during the performance of this engagement.

Use of Electronic Media

This proposal letter, once approved, shall serve as the Association's authorization for us to use e-mail and other electronic methods to transmit and receive information, including confidential information, between Quilab & Garsuta, CPAs and the Association. It is acknowledged that e-mails travel over the public internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of Quilab & Garsuta, CPAs.

Rights of Quilab & Garsuta, CPAs Over Publishing of Audit Report

If the Board of Trustees publishes a copy of the Association's financial statements and our audit report on the Association's website, or print the audit report together with the Association's audited financial statements in its Souvenir Programs or other printed organs, the following matters shall be agreed upon:

- 1) When information is presented on a website, the security and control over information on the website to maintain its integrity are the responsibility of management. We would be pleased to review the suitability of these arrangements before any decision is taken to publish our report on the website. If we believe that use of our audit report on the website is misleading, we reserve the right to require the report to be presented in a manner that is not misleading.
- 2) Should the Association also publish a copy of its financial statements and our audit report in a souvenir program, or in its printed organ, we reserve the right to review the draft of the souvenir program or printed organ before this is run for printing. We shall not be held liable for omissions in the souvenir program or printed organ when we have not reviewed the draft.

Liability of Quilab & Garsuta, CPAs in Case of Litigation

The Association agrees that Quilab & Garsuta, CPAs, its partners and staff shall not be liable to the Association for any actions, damages, claims, liabilities, costs expenses, or losses in any way arising out of or relating to the audit services performed hereunder for an aggregate amount more than the fees paid by the

Association to Quilab & Garsuta, CPAs under this engagement. In furtherance and not in limitation of the foregoing, Quilab & Garsuta, CPAs will not be liable in respect of any decisions made by the Association or any other parties as a result of the performance by Quilab & Garsuta, CPAs of its services hereunder. The provisions of this paragraph shall apply regardless of the form of action, claim, liability, cost, expense or loss, whether in contract, statute, tort (including, without limitation, negligence), or otherwise.

Governing Law and Jurisdiction

This engagement shall be governed by and shall be construed to be in accordance with the laws of the Republic of the Philippines. We agree that all disputes or questions arising therein or in relation to or incidental to this engagement shall be resolved in the Courts of Cagayan de Oro City, Philippines only.

Release from Legal Responsibility

By approving this engagement, you agree to release Quilab & Garsuta, CPAs and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter, except to the extent determined to have resulted from the intentional, gross negligent or deliberate misconduct of Quilab & Garsuta, CPAs personnel. In the event Quilab & Garsuta, CPAs is required pursuant to subpoena or other legal process to produce its documents relating to the engagements for the Association in judicial or administrative proceedings to which Quilab & Garsuta, CPAs is not a party, the Association shall reimburse Quilab & Garsuta, CPAs for its professional time and expense, including reasonable legal fees, incurred in responding to such requests.

Work Paper Access and Others

In accordance with PSA 230, the working papers of this engagement are the property of Quilab & Garsuta, CPAs. Pursuant to the request by the Association, we may be required to make certain that work papers are available when requested. Access to the requested work papers will be provided under the supervision of Quilab & Garsuta, CPAs personnel.

In the event Quilab & Garsuta, CPAs is requested pursuant to subpoena or other legal process to produce its documents relating to this engagement in judicial or administrative proceedings to which Quilab & Garsuta, CPAs is not a party, the Association shall reimburse Quilab & Garsuta, CPAs at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such request.

Requirement for Amending this Proposal

This engagement letter is contractual in nature, and includes all the relevant terms that will govern the engagement for which it has been prepared. The terms of this letter supersede any prior oral or written representations or commitments by or between the parties. Any material changes or additions to the terms set forth in this letter will only become effective if evidenced by a written amendment to this letter, signed by all the parties.

* * *

If, after full consideration and consultation with Legal Counsel if so desired, you agree that the attached terms shall govern this engagement, we will appreciate your signing on the space provided for you at the lower portion of this page and returning the duplicate copy of this letter to us to indicate that it is in accordance with your understanding of the arrangements in the audit of your financial statements.

Very truly yours,


RICO P. QUILAB
Engagement Partner

CONCURRED AND APPROVED BY:


JULIANA I. BABAO
President