



AUDIT COMMITTEE CHARTER

This Audit Committee Charter (this “Charter”) sets out the purpose, membership and qualifications, structure and operations, duties and responsibilities of the Audit Committee (the “Committee”) of ARDCI Microfinance, Incorporated (ARDCI) (the “Organization”), and the procedures which guide the conduct of its functions.

1. PURPOSE

The Audit Committee (the “Committee”) is appointed by the Board for the primary purposes of:

- a. Performing the Board’s oversight responsibilities as they relate to ARDCI Microfinance, Incorporated’s (ARDCI) accounting policies and internal controls, financial reporting practices and legal and regulatory compliance, including, among other things:
 - The quality and integrity of Financial Statements and reporting processes;
 - The compliance with legal and regulatory requirements as well as compliance with all documents filed by the Company with the Securities and Exchange Commission (SEC) and the Microfinance NGO Regulatory Council (MNRC);
 - The review of External Auditors qualifications, engagement, compensation, independence, and performance, their conduct of the annual audit, and their engagement for any other services;
 - The performance of the Internal Audit function and its systems of internal accounting and financial and disclosure controls and procedures; and
 - The code of business conduct as established by the Board;
- b. Maintaining, through regularly scheduled Board meetings, free and open means of communication between the Board of Trustees, the External Auditors, the Internal Auditors, and the Financial and Senior Management of ARDCI; and
- c. In the event any noncompliance is identified, immediately taking all action necessary to rectify such noncompliance or otherwise cause compliance.

2. MEMBERSHIP AND QUALIFICATIONS

2.1. COMPOSITION AND QUALIFICATION

The Audit Committee shall be appointed by the Board and shall be comprised of at least three (3) members of the Board of Trustees, at least two (2) of whom shall be Independent Trustees, including the Chairman, who preferably have accounting and finance backgrounds.

The Internal Audit Unit will provide the Audit Committee with technical support.

2.2. APPOINTMENT

The Chairperson and the members of the Committee shall be appointed by a majority vote of the members of the Board present either during the Organizational Board Meeting of the Organization or, if there is a vacancy, during any meeting of the Board. Membership shall be reviewed every year after election of the Board by ARDCI's shareholders at their annual meeting, or earlier if the Board deems necessary.

2.3. RESIGNATION/REMOVAL

In the event that the Chairperson or any member of the Committee tenders his/her resignation from the Committee, such resignation shall become effective upon acceptance by the Board. The Chairperson of the Committee or any of its members may be removed from office by action of the Board.

3. STRUCTURE AND OPERATIONS

3.1. MEETINGS

The Audit Committee shall meet at least quarterly, or as circumstances require, without the presence of Management, at such times and places as it considers appropriate and as designated in the notice. The Chairperson of the Committee, any Committee member, or the Corporate Secretary of the Corporation may call a meeting of the Committee.

Periodically, the Committee shall meet with the Management, the Internal Audit Manager and the Internal Auditors, and the External Auditors in separate executive sessions to discuss any matters that the Committee or these persons believe would be appropriate to discuss privately.

3.2. QUORUM

Attendance of at least a majority of all the Committee members shall constitute a quorum for the Committee to transact business in a meeting to be convened. The Committee shall act only on the affirmative vote of at least a majority of the members present at a meeting at which there is a quorum. Without a meeting, the Committee may act by unanimous written consent of all members.

3.3. CHAIRPERSON

The Chairperson of the Committee shall preside in all meetings of the Committee. In the absence of the Chairperson, the Committee members present shall elect one of their members as chairperson of the meeting.

3.4. SECRETARY OF THE MEETING

The Corporation's Corporate Secretary shall be the secretary of the Committee.

3.5. NOTICE OF THE MEETING

A notice of each meeting setting out the date, time, venue, and agenda shall be sent to each member of the Committee at least two (2) working days prior to the date of the meeting.

3.6. RECORD OF MEETINGS

Full minutes of the proceedings of, and resolutions made during, Committee meetings, shall be kept by the Corporate Secretary. Notices, minutes, agenda and materials presented during meetings will be made available to any Committee member upon request to the Corporate Secretary.

3.7. OTHER ATTENDEES

As necessary, the Committee may invite any officer or employee of ARDCI to attend the Committee meetings to provide relevant information or data necessary for the matters for discussion during the Committee meeting. At the discretion of the Committee, separate meetings with any of the Organization's management may be held, whenever it is deemed appropriate by the Committee for the exercise of its functions.

3.8. ACCESS TO RESOURCES

The Committee shall have full access to management, personnel and records for the purpose of performance of its duties and responsibilities hereunder. The Committee may also obtain external legal counsel or independent professional advice if it considers it necessary in the performance of its functions.

3.9. AUTHORITY

The Committee shall have the authority to conduct or order the investigation into any matter within its scope of responsibility and all trustees, officers and employees of ARDCI are enjoined to cooperate as requested by the Committee, without interference or censorship by management.

4. DUTIES AND RESPONSIBILITIES

4.1. FINANCIAL REPORTING, ACCOUNTING POLICIES, AND INTERNAL CONTROL

- a. Review and approves the Annual Financial Statements before their submission to the Board, with particular focus on the following matters:
 - Any change/s in accounting policies and practices
 - Areas where a significant amount of judgment have been exercised
 - Significant adjustments resulting from the audit
 - Going concern assumptions
 - Compliance with accounting standards
 - Compliance with tax, legal and regulatory requirements.
- b. Review the disposition of the recommendations in the External Auditor’s management letter.
- c. Through the Internal Audit, monitor and evaluate the adequacy and effectiveness of the Organization’s internal control system, integrity of financial reporting, and security of physical and information assets. Well-designed internal control procedures and processes that will provide a system of checks and balances should be in place in order to (a) safeguard the Organization’s resources and ensure their effective utilization, (b) prevent occurrence of fraud and other irregularities, (c) protect the accuracy and reliability of the Organization’s financial data, (d) ensure compliance with applicable laws and regulations, and (e) ensure compliance with social, financial, and governance standards.
- d. Review and consider the internal control structure and procedures for financial reporting and disclosure.
- e. Make a recommendation to the Board as to the inclusion of the audited financial statements in ARDCI’s Annual Report.

4.2. OVERSEE OF THE EXTERNAL AUDITOR COVERAGE

- a. Have a robust process for approving and recommending the appointment, reappointment, removal, and fees of the External Auditor duly accredited by the Securities and Exchange Commission (“SEC”), who undertakes an independent audit of the Corporation, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the stakeholders. The appointment, reappointment, and removal of the External Auditor shall be recommended by the Committee and approved by Board and ratified by the shareholders.
- b. Adopt and ensure compliance with a pre-approval policy with respect to services provided by the independent auditor.
- c. Evaluate and determine the non-audit work, if any, of the External Auditor, and periodically reviews the non-audit fees paid to the External Auditor in relation to the total fees paid to them and to the Organization’s overall consultancy expenses. The Committee shall disallow

any non-audit work that will conflict with his duties as an External Auditor or may pose a threat to his independence.

- d. Obtain and review, at least annually, a report by the external auditor describing: (a) all relationships between the external auditor and ARDCI; (b) any material issues raised by the most recent internal quality control review or investigation within the five (5) preceding years, and any steps taken to resolve such issues; and (c) the external auditor's internal quality-control procedures.
- e. Assess the integrity and independence of the External Auditor and exercising effective oversight to review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements, as well as be responsible for reviewing and monitoring the External Auditor's suitability and effectiveness on an annual basis.
- f. Evaluate, with the assistance of the management, the qualifications, performance and independence of the external auditor, including the lead partner of the external auditor and, if so determined by the Audit Committee, terminate the engagement of the external auditor. Ensure that partner rotation practices are in compliance with all applicable SEC rules and other related laws and regulations.
- g. Establish clear hiring policies, compliant with governing laws or regulations for employees or former employees of the external auditing firm.

The Audit Committee should present its conclusions with respect to the above matters, as well as its review of the lead partner of the external auditor to the Board.

4.2.1. AUDIT PROCESS OF THE EXTERNAL AUDITOR

- a. Prior to the commencement of the audit, discusses with the External Auditor the nature, scope, and expenses of the audit, and ensures proper coordination if more than one (1) audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts.
- b. Discuss and review with the external auditors any problems or difficulties and management's response; and hold timely discussions with the external auditors regarding the following: (1) All critical accounting policies and practices; (2) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with the management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor; and (3) Other material written communications between the external auditor and management.
- c. Review the external auditor's reports on the adequacy of the internal controls, including computerized information system controls and security.

4.2.2. APPROVAL OF SERVICES PROVIDED BY THE EXTERNAL AUDITORS

In making its pre-approval determination, the Audit Committee shall consider whether providing the non-audit services is compatible with maintaining the auditor's independence. The following services *may not be* provided by the independent auditor contemporaneously with the audit:

- a. Bookkeeping or other services related to the accounting records or financial statements;
- b. Financial information systems design and implementation;
- c. Appraisal or actuarial services, fairness opinions, or contribution-in-kind reports;
- d. Internal audit outsourcing services;
- e. Management consultancy or human resources;
- f. Broker-dealer, investment service provider, or investment banking services;
- g. Legal services;
- h. Expert services unrelated to the audit; and
- i. Any other service that the SEC or other agencies determines is impermissible.

4.3. OVERSEE OF THE INTERNAL AUDITOR COVERAGE

- a. Recommend the approval of the Internal Audit Charter, which formally defines the role of Internal Audit and the audit plan, as well as oversee the implementation of the Internal Audit Charter.
- b. Ensure that the Audit Plan is aligned with the overall plan strategy and budget and is based on robust risk assessment.
- c. Review and advice on the appointment, replacement, reassignment or dismissal of the Internal Audit Manager, the adequacy and qualifications of the Internal Audit staff, and the responsibilities, organization structure and budget of the Internal Audit function.
- d. Establish and identify the reporting line of the Internal Audit Unit Manager to enable him to properly fulfill his duties and responsibilities. For this purpose, the Internal Audit Manager shall directly report to the Committee
- e. Reporting to the Board of Trustees on the status of accomplishments of the audit activities.
- f. Periodically, review with the external auditor, the budget, staffing, and responsibilities of the Internal Audit function.
- g. Annually, review and recommend changes (if any) to the Internal Audit charter.
- h. Reviewing the internal audit reports and the corresponding recommendations to address the weaknesses noted, discussing the same with the head of the Internal Audit and reporting significant matters to the Board of Trustees.
- i. Review and consider significant findings during the year and the management's responses thereof.

- j. Periodically review with the Internal Audit Manager any significant difficulties, disagreements with management, or scope restrictions encountered in the course of the Internal Audit function's work.
- k. Reporting to the Board of Trustees the annual performance appraisal of the Internal Audit Manager.
- l. Overseeing senior management in establishing and maintaining an adequate, effective, and efficient internal control framework.
- m. Ensuring that the internal audit service provider comply with sound internal auditing standards such as the Institute of Internal Auditors' International Standards for the Professional Practice of Internal.

4.4. COMPLIANCE, LEGAL AND ETHICAL CONDUCT MATTERS

- a. Review periodically with the management, external auditors, and legal advisors, as appropriate, legal matters that may have a material impact on the financial statements, the regulatory and compliance policies, and any material reports or inquiries received from regulators or governmental agencies.
- b. Coordinates, monitors, and facilitates compliance with applicable laws and regulations.
- c. Establish and maintain procedures for the receipt, retention, and treatment of complaints received regarding accounting, internal accounting controls, or auditing matters.
- d. Establish and maintain procedures for the confidential, anonymous submission by employees of ARDCI of concerns regarding questionable accounting or auditing matters.

5. REPORTING PROCESS

5.1. REPORT OF MEETINGS CONVENED

The Chairperson of the Committee, or in his absence, the chairperson of the meeting, shall report to the Board on the decisions and recommendations made by the Committee during the meeting it has convened in the next scheduled Board meeting.

5.2. OTHER REPORTS

The Committee shall prepare such reports as may be necessary to document the activities of the Committee in the performance of its functions and duties. Such reports shall be included in the Organization's annual report and other corporate disclosures as may be required by the Securities and Exchange Commission and/or the Microfinance NGO Regulatory Council (MNRC).

6. PERFORMANCE EVALUATION

6.1. PERIODIC ASSESSMENT

The Committee shall assess its effectiveness periodically, with the end in view of ensuring that its performance accords with best practice. Such assessment must compare its performance with the requirements of this Charter and the Amended Manual, which shall be the basis of its formulation of objectives and plans to improve its performance, including any recommendations for amendments to this Charter for approval by the Board.

The Committee shall assess its performance through a self-assessment worksheet (the "Assessment") that substantially adopts the pertinent and relevant guidelines of the SEC.

The Assessment shall be accomplished by the Committee on an annual basis or in such shorter intervals as may be set by the Board. The results of the Assessment shall be validated by the Compliance Officer.

A feedback mechanism shall be in place to receive comments from management, the internal audit function, the general counsel and external auditor. This should facilitate dialogue within the organization about possible ways to improve its performance.

The entire assessment process shall be documented and shall form part of the records of the Corporation that may be examined by the SEC and/or the Exchange, where appropriate, from time to time.

6.2. ANNUAL REVIEW

This Charter shall be reviewed annually, updated as required, and copies of this Charter shall be made available to any requesting party upon written request to the Corporate Secretary.

7. AMENDMENT

This Charter shall not be amended, altered or varied unless such amendment, alteration or variation shall have been approved by a resolution of the Board.

Adopted by the Board of Trustees on XXXXXXXX XXX, 2018.