

Annex to XacBank Board Resolution R-2023-35  
dated 07 July 2023



CORPORATE GOVERNANCE CODE OF  
XACBANK

Ulaanbaatar, Mongolia

## Preamble

The purpose of this XacBank Code of Corporate Governance (the “**Bank Code**”) is to enhance and streamline XacBank's (hereafter referred to as the “**Bank**”) governance structure by:

- A. Responsible, accountable, and value-driven performance management;
- B. Efficient supervision, through executive bodies committed to acting in the Bank's best interests, as well as those of all its shareholders, with a focus on augmenting shareholder value sustainably; and
- C. Suitable disclosure of information coupled with a robust risk management and internal control system.

By adopting, following, and updating the Company Code, the Company’s charter, and by-laws on a regular basis, the Company confirms its commitment to good corporate governance.

The Bank’s governing bodies and employees understand this Bank Code is their joint obligation, and accordingly, obligate themselves to ensure that its provisions and its spirit are adhered to and acted upon throughout the Bank.

## Part I. Commitment to Corporate Governance

### 1. Definition and Principles

The Bank defines corporate governance as a set of structures and processes for the direction and control, which involves a set of relationships between the Bank’s shareholders, Board of Directors (the “**Board**”), and executive bodies with the purpose of creating long-term shareholder value. It views corporate governance as an important element for the long-term sustainable growth and development of the Bank.

The Bank Code sets out the Bank’s corporate governance framework and is based on Mongolian legislation, the Corporate Governance Code 2022 of the Financial Regulatory Commission (FRC), as well as internationally recognized best practices and principles.

The Bank’s corporate governance framework is based on the following principles:

- A. Accountability: All individuals or groups within an organization, particularly the Board and the management, must be answerable for their actions, decisions, and performance, held responsible to all stakeholders through clearly delineated roles and robust monitoring mechanisms.
- B. Fairness: The Bank shall treat all shareholders equally and justly, advocating for the protection and respect of their rights, including those of minority and foreign shareholders. It shall ensure equitable participation in decision-making processes, fair allocation of profits, and non-discrimination in all corporate dealings.
- C. Transparency: The Bank is committed to providing timely and accurate information in line with the current regulations about its operations, financial performance, governance structure, and other key aspects to all its stakeholders.
- D. Responsibility: The Bank shall act responsibly, taking into account the interests of all its

stakeholders, which include shareholders, employees, customers, and the wider community. This responsibility encompasses safeguarding the Bank's long-term viability, sustainability, and success through judicious decision-making, effective strategy execution, stringent adherence to regulatory requirements, and proactive management of risks and opportunities;

- E. Ethics and Integrity: The Bank is committed to upholding the highest standards of ethics and integrity in all its operations and dealings. This involves adhering to established ethical guidelines, maintaining honesty and transparency in communications, promoting a culture of integrity across all levels of the organization, and taking swift action against any form of misconduct;
- F. Risk Management: The Bank will establish and maintain robust risk management practices, including the identification, assessment, and mitigation of potential risks that could affect its operations, financial performance, or reputation. The Bank is committed to ensuring the implementation of effective internal controls and compliance procedures to manage these risks, thereby safeguarding the Bank's assets, stakeholders' interests, and its long-term sustainability.

The Bank and all its employees will act in accordance with all applicable laws and regulations, and, furthermore, shall comply with ethical standards of business conduct as defined by this Bank Code and other applicable documents.

## **2. Internal Corporate Documentation**

This Bank Code is principle-based. More specific corporate governance structures, processes, and practices are regulated in the Bank's Charter and the by-laws of the Bank. The internal corporate documents of the Bank follow legal and regulatory requirements, and incorporate the main provisions of the Company Law of Mongolia and internationally recognized corporate governance practices.

## **3. General Governance Structure**

The Bank has the following governing and other bodies:

- A. The General Meeting of Shareholders (the “**GMS**”) is the highest governing body of the Bank which allows the shareholders to participate in the governance of the Bank;
- B. The Board is entrusted with guiding the Bank's strategic path and overseeing its management. The Board is mandated to form committees on audit, risk management, and corporate governance nominations & remuneration. Additionally, the Board holds the authority to set up other standing and ad-hoc committees as needed;
- C. The Chief Executive Officer (the “**CEO**”) and his/her team carry out the day-to-day management of the Bank and implement the strategy set by the Board and the shareholders;
- D. The Corporate Secretary ensures that the governing bodies follow internal rules and external regulations to facilitate clear communications between the governing bodies, and acts as an adviser to directors; and

- E. The Internal Auditor develops and monitors internal control procedures for the business operations of the Bank. The Internal Auditor reports directly to the Board through the BAC (as defined below), and reports administratively to the CEO.

#### **4. Compliance with and Adherence to Corporate Governance Policies and Practices**

The Bank's Corporate Secretary is responsible for ensuring the development of, compliance with, and periodic review of corporate governance policies and practices in the Bank.

This process involves conducting a thorough assessment, benchmarking against industry standards and leading governance frameworks, to identify gaps and areas for improvement. The Board shall prioritize these identified gaps based on their significance and potential impact on the organization's governance effectiveness. Subsequently, the Board shall develop focused areas of improvement to address the identified gaps and enhance governance practices. This will involve defining key initiatives and actions for each focus area, assigning responsible parties, and establishing realistic timelines for successful implementation.

### **Part II. Good Board Practices**

The Bank views a vigilant, professional, and independent Board as essential for good corporate governance. The Board cannot substitute for talented professional managers, nor change the economic environment in which the Bank operates. It can, however, influence the performance of the Bank through its supervision, guidance, and control of management in the interests and for the benefit of all of the Bank's shareholders. Executive bodies also play a crucial role in the governance process. The effective interaction between all governing bodies, and a clear separation of authorities is key to sound corporate governance.

#### **1. At the Board Level**

- A. Authority. The Board's scope of authority is set forth in the Bank's Charter, in conformity with relevant legislation.
- B. Size. The Board, upon the recommendation of its GNCC (as defined below), recommends the appropriate size of the Board. The Board's size is fixed in the Bank's charter. Achieving the needed quality and mix-of-skills will be the primary consideration in arriving at the overall number.
- C. Election, Term, and Dismissal. Directors are elected for a two-year term. The Board does not believe it is in the best interests of the Bank or its shareholders to introduce term limits. Experienced directors who are familiar with the Bank and the industry in which it operates are key to providing proper guidance.
- D. Composition and Independence. The Bank shall establish a visionary, creative, and effective Board, characterized by a diverse mix of skills, knowledge, and experiences, combining the representatives of various shareholder groups, including minority shareholders.

The Board's composition, competencies, and mix-of-skills are to be adequate for oversight duties, and the development of the Bank's direction and strategy. Each individual director should have the experience, knowledge, qualifications, expertise, and integrity necessary to effectively discharge the Board duties and enhance the Board's ability to serve the long-

term interests of the Bank and its shareholders. The Board should have a broad range of expertise that covers the Bank's main business, sector, and geographical areas.

The Directors are required to meet the eligibility criteria outlined in the Company Law, Banking Law, and any additional criteria established by the GNCC (as defined below) based on the evolving needs of the Bank. A full and complete set of information on the directors' qualifications is annually reviewed by the Board upon the recommendation of its GNCC (as defined below).

The primary duty of the Independent Directors is to protect the interests of the minority shareholders. To ensure that, at least 1/3 of the Board members shall be independent directors.

The Bank strives to achieve and maintain gender balance within the membership of the Board. The Bank will work towards achieving the representation of each gender of at least thirty percent, in line with the guidelines of the FRC Code. The pursuit of gender balance is not limited to the Board but extends throughout the company's executive management and employee structure. The Bank recognizes the importance of fostering gender equality at all levels and creating an inclusive work environment.

E. Structure and Committees. The Bank has established the following Board's committees:

- Bank Governance, Nomination and Compensation Committee (the "GNCC");
- Bank BAC (the "BAC"); and
- Bank Risk Management Committee (the "BRMC");

Other Committees may be created as deemed necessary by the Board. All committees have by-laws containing provisions on the scope of authority, competencies, composition, working procedures, as well as the rights and responsibilities of the committee members. After each of its meetings, the committee shall report on the meeting to the Board.

The Chair of the BAC shall not simultaneously serve as the Chairman of the Board to ensure independence and maintain effective oversight.

F. Working Procedures. The Board meets according to a fixed schedule, set at the beginning of its term, which enables it to properly discharge its duties. As a rule, the Board shall meet at least 4 (four) times a year.

Detailed procedures for calling and conducting the Board meetings are defined in the Board's by-law. All directors are provided with a concise but comprehensive set of information by the Corporate Secretary in a timely manner.

The Board keeps detailed minutes of its meetings that adequately reflect Board discussions, signed by the Chairman and the Corporate Secretary, and include voting results on an individual basis.

G. Self-Evaluation. The Board conducts a yearly self-evaluation. This process is to be organized by the Chairman of the Board and the results are to be discussed by the Board. The Chairman may invite Independent consultants to assist the Board in this process.

H. Training and Access to Advisers. The Bank offers an orientation program for new directors on the Bank, its business, and other issues that will assist them in discharging their duties.

The Bank will provide general access to training courses to its directors in accordance with the training program approved by the GNCC. The Board shall have access to external professional assistance, in accordance with the applicable policies and procedures, with the cost covered by the Bank if approved by the Board.

- I. Remuneration. The remuneration of non-executive directors will be competitive and appropriate for the responsibilities. Executive directors are not paid beyond their executive remuneration package. The GNCC periodically reviews the remuneration paid to directors. All directors must sign a contract with the Bank.
- J. Duties and Responsibilities. Directors act in good faith, with due care and in the best interests of the Bank and all its shareholders — and not in the interests of any particular shareholder — on the basis of all relevant information. Each director is expected to attend all Board and applicable committee meetings.

The Board must decide as to whether its directors can hold positions in the governing bodies of other companies. The Bank shall not prohibit its directors from serving on other boards of directors as long as there is no conflict of interest. Directors are expected to ensure that other commitments are not in conflict and do not interfere in the discharge of their duties.

Directors shall not divulge or use confidential or insider information about the Bank anytime during or after their assignment with the Bank.

Directors shall abstain from actions that will or may lead to a conflict of interest with the Bank. When such a conflict exists, directors shall disclose information about the conflict of interests to the other directors and shall abstain from voting on such issues.

## **2. At the Executive Management Level**

The Bank understands that the day-to-day management of the Bank requires strong leadership from the CEO. It also recognizes the challenge and complexity of running a Bank and believes in teamwork, a collective rather than individual approach.

- A. Authority. The CEO carries out the Bank's day-to-day management, implementing its goals and objectives, and carrying out its strategy.
- B. Election, Term, and Dismissal. The Board appoints the CEO on the recommendation by the Governance, Nominating and Compensation Committee

The Board may dismiss the CEO. Grounds include, among other things, providing false information to the Board, willful neglect of his duties and responsibilities, or conviction of a criminal act.

- C. Succession Planning. The Board is to adopt and annually review a succession plan outlining how it will effectively deal with the temporary or permanent loss of senior executive officer. The CEO is to provide the Board with a list of individuals best suited to replace the Bank's key executive management, including the position of the CEO.
- D. Remuneration and Evaluation. The Board sets the amount of remuneration of the CEO. The remuneration shall have a fixed and variable component, and the latter is tied to key performance indicators, in-line with the input into the Bank's long-term development and

creation of shareholder value.

- E. Duties and Responsibilities. The CEO and other executive officers shall act in good faith and with due care, on the basis of all relevant information, in the best interests of the Bank and all its shareholders and not just in the interests of any particular shareholder or a group of shareholders.

The CEO and other executive officers shall abstain from actions that will or may lead to a conflict between them and the Bank's interests. When such a conflict exists, members of the executive bodies shall disclose information about the conflict of interests to the Board, and shall abstain from deliberating and voting on such issues.

### **3. Interaction between the Board and executive management and the Role of the Corporate Secretary**

As per the Charter, the authority to guide the CEO or any other executive officers, or to solicit information, rests solely with the decisions sanctioned by the Board, rather than individual Board members. Communication between individual Board members and the executive management should as much as reasonably possible be organized through the CEO on a mutually convenient basis.

The Bank's Corporate Secretary is employed on a full-time basis. The Corporate Secretary possesses the necessary qualifications and skills to ensure that the governing bodies follow internal rules and external regulations; facilitates clear communications between the governing bodies in-line with the Bank's charter, by-laws, and other internal rules; and keeps the Bank's key officers abreast of the latest corporate governance developments.

## **Part III. Shareholder Rights**

### **1. General Meetings of Shareholders**

The Bank has a by-law for the GMS, in line with the provisions of the Company Law of Mongolia, that provides a detailed description of all the procedures for preparing, conducting, and making decisions at the GMS.

- A. Preparation. Every shareholder that holds voting shares is entitled to participate and vote during the GMS, and receive advance notification, an agenda, as well as accurate, objective, and timely and sufficient information, in line with the regulations, for making informed decisions about the issues to be decided at the GMS. The Bank's executive bodies will be responsible for this process, which is to be implemented by the Corporate Secretary.

The Bank has a fair and effective procedure, in line with the Company Law of Mongolia, for submitting proposals to the agenda of the GMS, including proposals for the nomination of the Board members. The agenda of the GMS is not changed after the Board approves it.

- B. Conducting the GMS. The Bank takes all the steps necessary to facilitate the participation of shareholders in the GMS and vote on the agenda items.

The venue of the GMS should be easily accessible for the majority of shareholders. Registration procedures should be convenient and allow for quick and easy admittance to

the GMS.

The Bank's executive bodies are to help shareholders exercise their voting rights in the event they are unable to physically attend the GMS. The executive bodies will do so by providing shareholders with a power of attorney form, based upon which the shareholder will have an opportunity to instruct his proxy on how to vote on agenda items.

The Bank ensures that members of the Board, executive bodies, and External Auditor are present during the GMS to answer questions. Each shareholder has the right to raise relevant questions on the agenda items during the meeting. The chairman of the GMS conducts the meeting professionally, fairly, and expeditiously.

The Bank has effective shareholder voting mechanisms in place to protect minority shareholders against unfair actions, as regulated in its Charter, Shareholders Agreement and by-law for the GMS. The procedures for counting votes at the GMS are transparent and exclude the possibility of manipulating voting results.

- C. Results. The voting results and other relevant materials are disclosed to shareholders in a timely manner under applicable laws and regulations.

## **2. Minority Shareholder Rights Protection**

The Minority Shareholder Protection Principles prioritize the equal treatment of all shareholders, underscoring the rights of minority stakeholders in areas of voting, appointment at the Board of a number of independent directors in accordance with Bank of Mongolia's regulations, and access to timely, accurate and easily accessible information in accordance with the applicable laws and regulations. All shareholders should be provided with sufficient and information to enable them to make informed decisions about the exercise of their rights.

The Bank shall ensure that all shareholders are treated equally. Acts such as transactions that disproportionately benefit majority shareholders, will be avoided. In cases of issuance of new securities, buyouts and mergers, fair and equal treatment should be ensured for all shareholders.

## **3. Related Party Transactions**

Related party transactions must be conducted at arm's length and on market terms, ensuring fairness and avoiding any preferential treatment. These transactions should be disclosed transparently in accordance with applicable laws and regulations. The approval for such transactions shall comply with all applicable laws and regulations. The bank should establish an internal policy to govern all related party transactions, ensuring they are conducted in accordance with the Bank Code.

## **4. Dividend Policy**

The Bank adheres to a well-defined, written dividend policy that it has officially established. This policy offers a clear method for determining the dividend amount within a reasonable range. It guarantees a straightforward and effective procedure for dividend payment and ensures punctual and full payment of declared dividends.

## **Part IV. Information Disclosure and Transparency**



Timely, accurate and transparent information disclosure is a key corporate governance principle for the Bank.

## **1. Disclosure Policies and Practices**

The Bank discloses and provides easy access to all material information, including the financial performance, ownership, and the governance structure of the Bank to shareholders free of charge, in accordance with the regulations. The Board approves a by-law on information disclosure and makes it publicly available on the Bank's website. The Bank publishes a comprehensive annual report that includes a corporate governance section, and prepares other reports in accordance with applicable laws and regulations.

The Bank takes measures to protect confidential information as defined in its by-law on information disclosure. Any inside information obtained by the Bank's employees, the members of the Board, and the shareholders may not be used for their personal benefit or shared with others.

## **2. Financial Reporting**

The Bank keeps records and prepares a full set of financial statements in accordance with International Financial Reporting Standards and discloses these in its regulatory filings, including the annual report, and on its website.

## **3. Internal Audit and Control**

- A. The Internal Auditor. The Bank has an office of the Internal Auditor who is responsible for the daily internal control of the Bank's finances and operations. The Internal Auditor is staffed by a highly respected and reputable person, and reports to the Board's BAC functionally and to the CEO administratively. The Internal Auditor's authority, composition, working procedures, and other relevant matters are regulated in its by-law.
- B. BAC. The BAC is to focus on two key areas: financial reporting, and internal and external audit. This committee is to be chaired by an independent director and composed of non-executive directors, each of whom is recognized for his or her financial literacy. Its exact authority, composition, working procedures, and other relevant matters are regulated in its charter.

## **4. The External Audit**

An External Auditor audits the Bank's financial statements. The External Auditor is a publicly recognized independent auditing firm, where independent means independence from the Bank, the Bank's management, the Directors and its major shareholders. The Bank ensures that the external auditor is changed periodically in line with the regulations.

The remuneration of the auditor is disclosed to shareholders. The External Auditor is selected as provided in the Charter.

The external auditor shall be present at the annual general meetings of shareholders, during which they share information pertaining to the audit process and its related matters with the shareholders.

## **5. Ownership Structure**

The Bank ensures that the beneficial owners of five percent or more of the voting shares are disclosed.