



Annex to XacBank Board Resolution R-2024-45
dated 07 November 2024



BOARD DIRECTOR SELECTION AND NOMINATION POLICY
OF XACBANK

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Scope	Board of Directors

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One. General Provisions

- 1.1. The purpose of Board Director Selection and Nomination Policy (the “**Policy**”) is to ensure that the Board of Directors (the “**Board**”) of XacBank consists of members with the range of appropriate skills and qualities to meet the Board’s primary responsibility for providing strategic guidance and oversight of XacBank in line with the vision, mission and strategic objectives of XacBank and for protecting and promoting the interests of all shareholders and stakeholders.
- 1.2. The Policy outlines the process, guidelines and procedures for the composition and renewal of the Board of XacBank, including the selection and evaluation of potential director candidates, as well as the nomination, re-nomination, election, and appointment of Board directors.
- 1.3. The Governance, Nomination and Compensation Committee (the “**GNCC**”) of XacBank shall administer the Policy.
- 1.4. This Policy shall be supplemental to the Charter of XacBank and any matters that are not covered by this Policy shall be governed and regulated by the Charter and any other relevant laws and regulations of Mongolia.

Two. Roles and Responsibilities

- 2.1. The Board of Directors is ultimately responsible for the governance and strategic direction of XacBank. In this regard, the Board shall have the following responsibilities:
 - 2.1.1. Approving policies and procedures applicable for the selection and evaluation of potential director candidates, as well as the nomination, re-nomination, election, and appointment of Board directors;
 - 2.1.2. Ensuring the composition of the Board reflects a balance of skills, experience, and diversity;
 - 2.1.3. Overseeing the processes under this Policy and ensuring it aligns with XacBank's overall strategy and governance framework;
 - 2.1.4. Discuss the GNCC recommendations regarding the nomination or re-nomination of directors;
 - 2.1.5. Appointing interim directors, if required;
 - 2.1.6. Conducting annual evaluations of the performance of individual directors and the Board as a whole; and
 - 2.1.7. Ensuring compliance with applicable laws, regulations, and corporate governance standards.
- 2.2. The GNCC shall have the following responsibilities:
 - 2.2.1. Periodically reviewing and drafting for the Board review the policies and procedures applicable for the selection and evaluation of potential director candidates, as well as the nomination, re-nomination, election, and appointment of Board directors;

- 2.2.2. Identifying suitable candidates for Board positions based on established criteria;
- 2.2.3. Conducting preliminary screenings and interviews of potential candidates;
- 2.2.4. Upon discussions with the Board, making recommendations to the Shareholders regarding the nomination and re-nomination of directors;
- 2.2.5. Making recommendations to the Board regarding the interim appointment of directors;
- 2.2.6. Overseeing the induction and ongoing training of directors;
- 2.2.7. Ensuring an effective succession planning process is in place for directors; and
- 2.2.8. Any other responsibilities intrinsically connected to fulfilling its duties under this Policy.

Three. Structure, Size and Composition of the Board

- 3.1. The Board of XacBank shall be of an appropriate composition that allows to incorporate a variety of perspectives and skills, and to represent the best interests of XacBank as a whole rather than of individual shareholders or interest groups and at the same time ensures effective decision-making.
- 3.2. The GNCC shall assess the needs of the business currently and going forward and review the structure, size and composition of the Board to ensure that the Board is structured in a way that the Board:
 - 3.2.1. Has a proper understanding of, and competence to deal with, the current and emerging issues of the business;
 - 3.2.2. Has an appropriate balance of executive and non-executive mix;
 - 3.2.3. Exhibits strong independence and the ability to exercise impartial judgment;
 - 3.2.4. Encourages enhanced performance of XacBank; and
 - 3.2.5. Can effectively review and, where appropriate, challenge the performance of management.

Four. Board Directorship Criteria

- 4.1. The GNCC shall assess potential new candidates for nomination to the Board based on the following criteria:
 - 4.1.1. Specific expertise and contacts, business experience and competence with understanding the business issues in the industries and sectors relevant to XacBank's business;
 - 4.1.2. Candidates must demonstrate the highest standards of integrity and ethical behavior;
 - 4.1.3. Candidates must be able and willing to devote sufficient time, energy, and attention to fulfill their responsibilities as a director;

- 4.1.4. Candidates must align with XacBank’s core values, mission, and code of conducts and demonstrate a commitment to promoting the interests of all shareholders; and
 - 4.1.5. Candidates must not be a Politically Exposed Person as defined in the Law of Mongolia on Regulating Public and Private Interests in Public Service and Preventing Conflicts of Interest.
- 4.2. Any candidate for a Board director, both prior to and subsequent to their election/re-election or appointment as a director and during the entirety of their tenure, must meet the following Banking Law requirements for directors:
- 4.2.1. no overdue debt obligations arising from loans, guarantees, or warranty agreements;
 - 4.2.2. have not been convicted of economic crimes, corruption, and crimes against property rights, public safety, public interests, national security, humanity or peace;
 - 4.2.3. ethical and business reputations must not conflict with their ability to manage XacBank;
 - 4.2.4. if a candidate holds a governing position in another professional financial market organization, then it would not create conflicts of interest that could negatively impact decision-making processes of XacBank. For the purpose of this clause, a candidate is deemed to have a conflict of interest if they meet any of the following conditions:
 - i. they are or were, within the last 12 months, a governing person, employee, or shareholder with 1% or more of the issued shares of a bank in Mongolia, excluding XacBank; or
 - ii. they are or were, within the last 12 months, a governing person, employee, or influential shareholder (shareholder with 5% or more of the issued shares) of a Financial Group (excluding TFG, the holding company of XacBank), NBFi, or loan aggregator in Mongolia, whose total assets constitute 2% or more of the total assets of XacBank.
 - 4.2.5. If a candidate has previously held a governing position in a bank or non-bank financial institution at the time its license was revoked due to violations, at least three years must have passed since the revocation;
 - 4.2.6. If a candidate has been held accountable under the Law on Violations while holding a governing position in a professional financial market organization, at least three years must have passed since the imposition of such accountability;
 - 4.2.7. Must hold at least undergraduate degree in banking, finance, economics, law, information technology, or corporate governance, with at least ten years of professional experience, including a minimum of five years in a governing position in a bank or financial institution; and
 - 4.2.8. Must have completed training in corporate governance and obtained a certification.

- 4.3. A candidate for an independent director, both prior to and subsequent to their election/re-election or appointment as a director and during the entirety of their tenure, must fulfill the following Banking Law and Company Law requirements in addition to the requirements stated before:
 - 4.3.1. Must not personally or jointly with related parties own more than five percent of XacBank common shares or any of its group companies' shares;
 - 4.3.2. Must not have held any governing position other than an independent member of the Board of Directors at XacBank or any of its group companies in the past five years, nor been employed by them in any other capacity in the past three years;
 - 4.3.3. Must not have received or currently receive any bonuses based on the performance indicators of XacBank;
 - 4.3.4. Must not hold any political or public office in the governmental organizations other than the Service Roles as defined in the State Personnel Law of Mongolia;
 - 4.3.5. Must not have any circumstances that would impede his/her supervision of XacBank's operations or executive management;
 - 4.3.6. Must not have held a governing position in legal entities that become bankrupt or insolvent, if such positions were held, then must have proof that the bankruptcy or insolvency was not caused by their actions;
 - 4.3.7. Must not be a related party to an influential shareholder of XacBank or any of its group companies;
 - 4.3.8. Must not be a related party to anyone who holds or has held any position at XacBank or any of its group companies in the past three years; and
 - 4.3.9. Must not have any business relations with XacBank.
- 4.4. When selecting from among the candidates, the following conditions will be considered an advantage:
 - 4.4.1. Preferred residency in Mongolia;
 - 4.4.2. In case the target for gender equality has not been reached, candidates of the underrepresented gender;
 - 4.4.3. Relevant skills complementary to the other Directors;
 - 4.4.4. Recognized reputation in the international and/or Mongolian business community and society and significant experience and proven accomplishments in professional endeavors; and
 - 4.4.5. Ability to fulfil long-term leadership needs and contribute to governance continuity in line with XacBank's succession planning goals.
- 4.5. Based on the assessment of the current Board's skills, experience and expertise, the GNCC may refine or make more specific the selection criteria, in addition to identifying any additional criteria deemed necessary for each director selection.

Five. Director Nominations/Re-Nominations

- 5.1. The GNCC shall identify, review, and recommend qualified candidates for election to the Board through open announcements and other methods. The GNCC may seek input from current directors, executive management, shareholders, and third-party advisors during the identification process.
- 5.2. Shareholders may nominate candidates for election to the Board in accordance with the procedures set forth in the Company Law. Nominations must be submitted to the Board or the Executive Management within the timeframe specified in the said law (within 60 days after the end of preceding financial year) and must include the following information:
 - 5.2.1. the candidate's name (given name and surname) and number of shares owned in XacBank if any;
 - 5.2.2. the nominating shareholder's name (given name and surname) and number of shares owned in XacBank; and
 - 5.2.3. if applicable, reasons for nomination/re-nomination.
- 5.3. The GNCC shall evaluate all nominees, including those nominated by its members or the shareholders, using the criteria outlined in this Policy. The evaluation process may include interviews with the GNCC as a whole, one or more members of the GNCC or one or more other Board members, background checks, and discussions with references or third-party evaluators.
- 5.4. Prior to submitting to the Shareholders meeting their final recommendation, the GNCC shall consult with the Board their final slate of nominees. For the purpose of this consultation, GNCC shall provide to the Board a comprehensive report containing:
 - 5.4.1. Report on the process and timeline of shortlisting, the rationale for selecting or not selecting potential candidates, including a summary of each candidate's qualifications and how they align with the strategic needs of XacBank;
 - 5.4.2. Each shortlisted candidate's due diligence report detailing background checks, references, and potential risks or concerns identified during the vetting process;
 - 5.4.3. Feedback and input received from key stakeholders, including shareholders and institutional investors, regarding the nomination process and potential candidates;
 - 5.4.4. Whether the candidate expressed their willingness to serve on the Board if elected;
 - 5.4.5. Any significant changes were made to the selection criteria;
 - 5.4.6. Any potential conflict of interest identified during process and steps taken to mitigate such conflicts; and
 - 5.4.7. any other factors influenced the GNCC decisions.
- 5.5. The GNCC will not recommend any candidate unless they have confirmed their commitment of sufficient time to fulfil their board and committee responsibilities and willingness to sign the Director's Agreement, as effective from time to time, prior to confidential information being shared or attending the Board and/or committee meetings, if elected by the shareholders as a director or chosen by the Board as an interim director.

- 5.6. All discussions, evaluations, and deliberations related to the nomination/renomination of directors shall remain confidential. Committee members, directors, and other participants in the process shall maintain the confidentiality.
- 5.7. Any director, officer, or committee member who becomes aware of a potential conflict of interest in relation to a nominee must disclose such interest at the earliest possible opportunity and recuse themselves from the nomination deliberation and voting process concerning the nominee.

Six. Election and Appointment of Board Directors

- 6.1. The GNCC shall make recommendations for the final slate of nominees to the Shareholders' meeting of XacBank upon obtaining approval from the Bank of Mongolia. These recommendations shall require an ultra-majority vote within the GNCC.
- 6.2. In the event of an interim appointment necessitated by an unexpected vacancy on the Board, the GNCC shall submit recommendations for such interim appointments directly to the Board for consideration and approval.
- 6.3. The names of candidates submitted for re-election as Directors should be accompanied by the Director's total term of service on the Board, a comprehensive report outlining the activities, accomplishments and an evaluation of their preceding term. The process for determining the independence of a candidate nominated for an independent position on the Board, as well as their potential involvement as a Governing person in other companies, must be explained at the shareholder meeting.

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