



Annex 1 to XacBank Board Resolution R-2024-47  
Dated 07 November 2024



CHARTER OF THE AUDIT COMMITTEE OF  
THE BOARD OF DIRECTORS OF XACBANK

AMENDED AND RESTATED

<b>Version</b>	<b>0.3</b>
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<b>Approved by</b>	Board of Directors
<b>Author</b>	Chief Auditor
<b>Related documents</b>	Board Internal Rules of Procedure
<b>Scope</b>	
<b>Reference code</b>	
<b>Revision 0.1</b>	The revision was made based on the recommendations of the Audit Committee issued on 24, March 2015 and pursuant to the discussions and decisions at its regular meeting held on 25 March 2015, the Board of Directors of XacBank.
<b>Revision 0.2</b>	The review has been performed on each clauses of The Charter for conformance with (1) BOM regulations and (2) International Professional Practices Framework (IPPF) standards of Institute of Internal Auditors (the IIA)
<b>Revision 0.3</b>	The review has been performed for conformance with (1) Governance Code approved by FRC dated 2022.03.23; (2) Banking Law; (3) Company Law.
<b>Revision 0.4</b>	The review was conducted to ensure conformance with the new The Global Internal Audit Standards of Institute of Internal Auditors (the IIA) to be effective from January 2025.

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## **ARTICLE ONE. COMMITTEE PURPOSE**

- 1.1. The Audit Committee (the "Committee") of XacBank (the "Bank") shall provide assistance to the Board of Directors (the "Board") in fulfilling its responsibility to the shareholders, potential shareholders, creditors and investors with respect to its oversight of:
  - 1.1.1. The Bank's compliance with legal and regulatory requirements;
  - 1.1.2. The external auditor's qualifications and independence;
  - 1.1.3. The performance of the Bank's internal audit function;
  - 1.1.4. For both internal and external auditors, to receive the auditor's report and management letter; meet with the auditor's as needed, and respond to the auditor's recommendations.
  - 1.1.5. The Bank's internal control system.
- 1.2. Matters pertaining to the general regulations of the Committee shall be governed under the Board Internal Rules of Procedure.

## **ARTICLE TWO. COMMITTEE STRUCTURE AND OPERATION**

- 2.1. All members must be financially literate and have accounting or related financial management expertise as defined by the Article 33, Banking Law of Mongolia. The gender composition among the members will be aimed to maintain a gender equality or at least uphold a minimum gender representation stipulated in the Governance Code approved by the Financial Regulatory Commission applicable from time to time.
- 2.2. No member of the Committee may serve on the board of any other company or bank, unless it is disclosed to the Board in advance and the Board determines that such simultaneous service would not impair the ability of the member to effectively serve on the Committee.
- 2.3. The Committee shall review and recommend for the approval by the Board the Internal Audit Division Charter and Audit Policy.
- 2.4. The Committee shall be chaired by an independent director who should not concurrently serve as the Chairman of the Board. The Chair must not have served at the current external auditing firm within the past three years.
- 2.5. Members of the executive management or staff shall participate at the Committee meeting only upon request of the Committee.
- 2.6. The audit policy and the Committee Charter along with the committee composition, meeting frequency and attendance of the members must be reported through Bank's public website on timely basis.
- 2.7. It is prohibited to appoint any member of the executive management as a member of the Committee.

### **ARTICLE THREE. RESPONSIBILITIES AND DUTIES**

3.1. The following functions shall be the primary activities of the Committee in carrying out its purposes outlined in Article I of this Charter. In addition, the Committee shall carry out any other responsibilities and duties delegated to it by the Board.

#### **3.1.1. Financial Statements and Internal Control**

- 3.1.1.1. Review and discuss with management and the external auditors, prior to distribution to the Board, the Bank's annual audited financial statements including any material issues encountered, as well as the Bank's disclosures under any "Management Letter" issued by the external auditors;
- 3.1.1.2. Perform any functions assigned according to the Banking Law of Mongolia, Recommendations to implement bank's prudent management approved by the Governor of the Bank of Mongolia, and this charter;
- 3.1.1.3. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements;
- 3.1.1.4. Mediate any disagreement between management and the external auditors regarding financial reporting;
- 3.1.1.5. Consider the effectiveness of the bank's internal control including over annual and interim financial reporting, including information technology security and control';
- 3.1.1.6. Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

#### **3.1.2. External Auditor**

- 3.1.2.1. The Committee shall recommend to the Board for its approval, retention and termination of the external auditors and negotiate the fees of the external auditors in consultation with the Internal Audit Division and Procurement Department the selection of an External Auditor should be based on rigorous criteria to ensure the highest standards of financial auditing. These criteria may include, but are not limited to, the firm's reputation, expertise, and experience in the industry, as well as the compatibility of their auditing practices with the company's requirements. The External Auditor selection process will adhere to the procurement policies applicable at the time of selection. These policies provide a framework to ensure a

fair, competitive, and transparent selection process that aligns with the company's strategic interests.

- 3.1.2.2. To maintain the integrity of the audit process, it is essential that the External Auditor remains independent, both in fact and appearance. Potential risks to audit independence may arise from conflicts of interest, provision of non-audit services, long-term auditor tenure, or any financial or personal relationships between the company and the External Auditor.

To manage these potential risks, the Committee shall ensure the following:

**Conflicts of Interest:** The Bank and the External Auditor must disclose any relationships or services that may pose a conflict of interest. Such situations will be assessed and managed accordingly to ensure audit independence.

**Non-Audit Services:** The External Auditor's engagement in non-audit services for the company should be limited to avoid impairing independence. The management team has an authority to engage with non-audit services if the total fees of such services do not exceed 25% of the current audit contract, all the other services will be pre-approved by the Audit Committee.

**Auditor Tenure:** The company will consider periodic rotation of the External Auditor to prevent any familiarity threats to audit independence.

**Transparency:** The company will promote transparency in its relationships and transactions with the External Auditor. Any potential threats to audit independence will be disclosed to the Audit Committee, and appropriate actions will be taken.

- 3.1.2.3. The Committee shall review and approve the external auditors' all audit services, including proposed audit scope and approach, and coordination of audit effort with the Internal Audit Division.
- 3.1.2.4. Review, at least annually, the qualifications, performance and independence of the external auditors.
- 3.1.2.5. On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.
- 3.1.2.6. Review with the external auditor (i) any audit issues or other difficulties encountered by the auditor in the course of the audit process, including any restrictions on the scope of the auditor's activities or on access to requested information, (ii) any significant

disagreements with management and (iii) management's responses to such matters.

- 3.1.2.7. The external auditors shall participate at the Annual General Meeting of the Company and provide information with regard to the audit upon the request of the Shareholders.

### 3.1.3. Internal Audit

- 3.1.3.1. The Committee has the sole authority to appoint the Chief Auditor.
- 3.1.3.2. The Committee shall be responsible for the approval of the Internal Audit Division's charter, policy and planning, staffing, procedures and structure of internal audit function and shall review their compliance with the Global Internal Audit Standards. The Internal Audit Division's structure, composition, information with regard to objectives of the internal audit and amendments to these documents must be published through Bank's public website on timely basis.
- 3.1.3.3. The Committee shall discuss with the management on the appropriate authority, role, responsibilities, scope, and services of the internal audit function as well as topics that should be included in the internal audit charter.
- 3.1.3.4. The Committee shall collaborate with senior management to determine the qualifications and competencies of the Chief Auditor.
- 3.1.3.5. The Committee shall review annually the independence of the internal auditors.
- 3.1.3.6. The Committee shall review the involvement of the internal auditors in the training sessions, and approve qualification upgrade programs and monitor its implementation.
- 3.1.3.7. Review quarterly the annual internal audit plan as well as actual progress against the plan and any significant changes to the Bank's risk profile.
- 3.1.3.8. The Committee shall review and give recommendations on audit reports and fraudulent activities which have occurred in the banking system.
- 3.1.3.9. Review all significant recommendations to management prepared by Internal Audit Division, as well as management's responses thereto.

- 3.1.3.10. The Committee shall ensure effective quality assurance improvement program is developed and the results are reviewed annually.
- 3.1.3.11. On a regular basis, the Committee shall meet or communicate separately with the Chief Auditor to discuss any matters that the Committee or Chief Auditor believes should be discussed privately.
- 3.1.3.12. At least once per year, the Committee shall review the performance of the Chief Auditor and concur with his/her annual compensation and salary as well as that of his/her department in comparison with similar functions in the Bank taking into account qualifications, responsibilities and demands.

#### 3.1.4. Compliance

- 3.1.4.1. Review the effectiveness of the system for monitoring compliance with the laws and regulations and the results of management's investigation and follow-up of any instances of non-compliance.
- 3.1.4.2. Review the findings of any examinations by the regulatory agencies, and any auditor observations.
- 3.1.4.3. Establish procedures for:
  - 3.1.4.3.1. The receipt of comments or complaints received by the Bank regarding accounting practices, internal accounting controls, or auditing matters; and
  - 3.1.4.3.2. The confidential, anonymous submission of such concerns by employees regarding questionable accounting or auditing matters or practices.
- 3.1.4.4. Review the process for communicating the Code of Conduct to company personnel, and for monitoring compliance therewith.
- 3.1.4.5. Review and discuss, periodically, compliance matters and/or reports with management, company risk officer and/or compliance officer.
- 3.1.4.6. Report to Board on any issues that arise with respect to the quality or integrity of the Banks' financial statements and compliance with legal or regulatory requirements.
- 3.1.4.7. Review and approve annually significant financial and compliance policies which fall under the responsibility of the Committee.

#### 3.1.5. Others

- 3.1.5.1. As appropriate, obtain advice and assistance from outside legal, accounting or other advisors.