

# INDEPENDENT DIRECTOR REPORT OF XACBANK

By: Amy Choi  
Quarter III, 2023



## STATEMENT

I, Amy Choi, the Independent Director at the Board of Directors of XacBank, have prepared this Independent Director's Report (the "**Report**") pursuant to: (i) the Company Law and the Banking Law; (ii) banking regulations issued by the Bank of Mongolia ("**BoM**") – Procedures on Good Governance Review of Banks (the "**Good Governance Review**"), and Regulation on Nomination, Appointment, and Resignation of Independent Directors of Banks (the "**INED Regulation**"); (iii) XacBank's Charter and other governance policies applicable.

The Report covers the period of [Quarter III 2023] (the "**Applicable Period**").

### 1. ATTENDANCE REPORT

(INED Regulation Clauses 5.2.1 and 5.2.2)

The following meetings as shown in Schedule 1 have been convened and held in the Applicable Period.

#### Board meetings in the Applicable Period

Schedule 1

Meetings	Attendance	Date
Board meeting	As an independent director	07 July, 2023 28 September, 2023
Board Audit Committee meeting (" <b>BAC</b> ")	As a member	28 September, 2023
Board Risk Management Committee meeting (" <b>BRMC</b> ")	As a member	28 September, 2023
Board Governance, Nomination and Compensation Committee (" <b>GNCC</b> ")	As a member	18 August, 2023 04 September, 2023 28 September, 2023
Shareholders' meeting	As an independent director	15 September, 2023 (EGM)

#### 1.1 BOARD MEETING[S]

- The **board regular meeting** was held on **07 July, 2023** and the agenda items were as follows:

- Update on previous board decisions and recommendations
- Reports of the Board Committees:
  - GNCC
  - BAC
  - BRMC
- Update on XacBank IPO
- Information Disclosure Policy
- Code of Conduct and Conflict of Interest Policy (amendment)
- Whistleblowing Policy Update (new)
- Anti-Bribery and Anti-Corruption Policy (new)
- Insider Trading Policy (new)
- Related Party Transaction and Conflict of Interest Policy (amendment)
- D&O insurance update
- IPO Proceeds: to reflect in XacBank JSC Charter (Share capital only)



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- 13 Management update: May 2023  
Economic and Banking Sector update  
Business-line performance  
Financial Results & NIM

14 IT & Digital Banking update

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For Agenda #7 Anti-Bribery and Anti-Corruption Policy, I recommended to revise Clause 3.3.1 to include All Directors (in addition to All Employees) responsible for complying with the Policy. Committee members agreed to my recommendation.

Agenda #12 was not discussed as it is still under preparation.

For Agenda # 13 Management Report, I observed Loan mix was RB /CB /Leasing and asked if this is the desired loan structure among the 3 business segments. CEO replied yes and said RB would continue to be the focus. I commented it is good to focus on RB but also important to keep both RB & CB as pillars for a comprehensive commercial bank operation and CB share better not to go below . I noticed the full year NII (Non-Interest Income) forecast reaching vs per YT-May run rate & asked for action plan to close the gap. CEO replied the additional NII source mainly from Card & FX business.

Besides Board Meeting, I also attended GNCC, BRMC & BAC Meeting as observer on July 6 with the following comment:

Before Committee & Board Meetings, I also participated in management sessions & 1 branch visit on July 5 with following observation/comment:

- CEO Session: I requested for a Regulator's Post IPO Training to Directors, after hearing from CEO that there was a similar training to management recently. I believed such training would be helpful for Directors. CEO replied this could be arranged towards year end.
- RB Head Session: I observed a fast growing product "Woman's Loan" volume could be doubled vs last year based on YT-May run rate. I asked about the automation capability in credit initiation/approval/disbursement to support the anticipated large number of loan transaction. RB Head responded that most of the processes were automated to maintain the market leadership in loan approval turn around time as well as credit approval quality.
- IT Head Session: I congratulated IT's success in core banking upgrade & mobile banking migration in past 2 years. After catching up with other banks' IT capability now, I suggested to start think ahead in future automation in particular . I shared a real life example of

This would lower the cost/man power requirement as well as to extend the banking service to more people & wider geographic coverage, while upholding the safety consideration.

- Branch Visit to a City branch: I observed the District Director, Branch Manager & team leader as a happy team and satisfied with the support from Head Office. Their biggest challenge is staff shortage due to young people mobility to overseas and other banks in Mongolia. This is a challenge for other banks as well. I recommended to strengthen the bank's staff recruitment/reward/training/retention program as people is the most valuable asset for the bank.

- The **board regular meeting** was held on **28 September, 2023** and the agenda items were as follows:

- 1 Update on previous board decisions and recommendations
- 2 Reports of the Board Committees:
  - 2.1 GNCC
  - 2.2 BAC
  - 2.3 BRMC
- 3 Management update: Aug 2023
  - Economic and banking update
  - Business-line performance
  - Financial Results
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For Agenda#3 Management Update, I expressed concern on liquidity ratio & fee income run-rate as not much improvement observed since last Board Meeting update on 7 July.

CEO replied some actions have been taken e.g.

it would take some time to reflect the result. I commented again it is important to have both funding sources i.e. international funding & public deposit funding working for a stable & sustainable funding strategy. I requested for a Deposit Drive & Fee Income Drive Plan/Result presentation in next Board Meeting in November.

- Furthermore, I have attended the following **Board online voting meeting** as shown in Schedule 2.

#### Board online voting meetings in the applicable period

Schedule2

Meetings	Voting item	Date
Board online voting meeting	Renewed schedule for Board meetings for the second half of 2023 and 2024.	20 July-04 Aug, 2023

I agreed with the proposed dates but commented that I would prefer 4 in-person Board regular meetings instead of 2 in-person & 2 Zoom to ensure more effective communication among a diversified Board. Some other Board directors shared the same feeling. All members voted for 4 in-person regular Board meetings in 2024.

#### 1.2 BOARD AUDIT COMMITTEE MEETING[S] ("BAC")

I have attended the following **BAC meetings** as shown in Schedule 3.



### BAC meetings in the applicable period

Schedule3

Date	Agenda
28 September, 2023	<ol style="list-style-type: none"> <li>1. Election of the Committee Chair</li> <li>2. EY half-year review</li> <li>3. Audit reports <ol style="list-style-type: none"> <li>3.1 Rural branch</li> <li>3.2 IT asset management</li> <li>3.3 Continuous audit</li> <li>3.4 AML/CTF report</li> <li>3.5 Special assets</li> </ol> </li> <li>4. Related parties' quarterly reporting (BoM Guidelines)</li> </ol>

For Agenda #1, I proposed Mr. Ulambayar to continue to be the Chairman of BAC & all members agreed.

For Agenda #3, I expressed my view on the need of strengthening the 2<sup>nd</sup> line of defense to lower the overall audit issues on operation

### 1.3 BOARD RISK MANAGEMENT COMMITTEE MEETING[S] ("BRMC")

I have attended the following **BRMC meetings** as shown in Schedule 4.

#### BRMC meetings in the applicable period

Schedule4

Date	Agenda
28 September, 2023	<ol style="list-style-type: none"> <li>1. Election of the Committee Chair</li> <li>2. Risk Report as of August 2023</li> <li>3. Update Anti-bribery and anti-corruption policy</li> <li>4. Compliance Update as of August 2023</li> <li>5. Ratification of any related party / conflict of interest transactions during Q3'2023</li> </ol>

For Agenda #2 Risk Report, I observed a continuous high staff turnover rate as @ 8M'23 & requested a detail analysis on departments with top staff attrition with People Strategy Plan in next Board Meeting in November.

### 1.4 BOARD GOVERNANCE, NOMINATION AND COMPENSATION COMMITTEE MEETING[S] ("GNCC")

I have attended the following **GNCC meetings** as shown in Schedule 5.

#### GNCC meetings in the applicable period

Schedule5

Date	Agenda
18 August, 2023 (extraordinary)	1. Update on selection process for one vacant positions for Independent Directors of XacBank
04 September, 2023 (extraordinary)	1. Update on selection process for one vacant positions for Independent Directors of XacBank

28 September, 2023	<ol style="list-style-type: none"> <li>1. Election of the Committee Chair</li> <li>2. BoM Corporate Governance Assessment Annual Report</li> <li>3. Update on selection process for one vacant positions for Independent Directors of XacBank</li> <li>4. Working Group update on total comp analysis including PSP and LTIP</li> <li>5. BRMC membership</li> </ol>
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For Agenda #4, the Working Group updated on the total comp analysis including PSP and LTIP that the overall compensation cost remains at  of total operational cost. I had no further questions on this matter.

Agenda #5 was not discussed.

### 1.5 THE EXTRAORDINARY GENERAL MEETING OF THE SHAREHOLDERS (EGM) ON 15 SEPTEMBER, 2023

I have attended the following EGM as shown in Schedule 6.

*Schedule 6*

No	Agenda	Action
1	Approval of resolution to reflect IPO proceeds in share capital	Approved
2	Approval of resolution to approve XacBank JSC charter	Approved

This is the historic first shareholders' meeting after IPO. It was conducted smoothly with the 2 decision agenda approved. There was a shareholder asked questions but answered only very briefly by management as no scheduled Q&A time

After the meeting, the Independent Directors discussed with Chairman of the Board, Chairman of GNCC & CEO on improvements for future shareholders' meeting with 3 suggestions:

1. Add a Q&A agenda to hear voice of shareholders with management response on spot.
2. Create an Investor Relationship role to ensure sufficient attention for shareholders before & after the meeting as well as proactive communication / roadshows with potential investors.
3. Add an opening video to talk about major achievements in past period & a closing video to introduce the key strategy going forward.

### 2. CONFLICT OF INTEREST TRANSACTION AND SIGNIFICANT AMOUNT TRANSACTION REPORT

(Banking law Clause 33.5 and INED Regulation Clause 5.2.3)

Pursuant to Clause 33.5 of the Banking Law, independent directors must vote on the conflict of interest transactions.

In the applicable period, on 07 July 2023, the Board approved 12 conflict of interest transactions, and on 28 September 2023, the Board approved 3 more. In total, during the applicable period, the Board approved 15 conflict of interest transactions, and I cast my votes on all of these transactions.

I note that, in cases where any of the directors had conflict of interest, such director revealed their conflict of interest at the beginning of the meeting and did not vote on the matter.

### 3. GOVERNANCE REPORT

(Company Law Clause 79.3, INED Regulation Clause 5.2.4, and Good Governance review Clause 3.5)



The above-mentioned clauses of respective laws and regulations provide for independent directors the authority in the oversight over the Board and the executive management if their acts and decisions are in the best interest of the bank and in line with the regulatory requirements for the benefit of the Bank's stakeholders, including but not limit to, shareholders, customers, depositors and employees.

My observation towards the Bank's governance is:

<b>Actions taken under the Company Law Clause 79.3 and Good Governance Review Clause 3.5</b>	
<b>Company Law Clause 79.3.1 and Good Governance Review Clause 3.5.5</b>  <b>(BANK'S COMPLIANCE WITH LAWS AND REGULATIONS)</b>	I observed that the Board & the management team made every effort to comply with laws & regulations with great attention to details, in particular throughout the IPO process despite very tight schedule & also post IPO follow-ups eg TFG merger with Xacbank & the 4 <sup>th</sup> INED recruitment.
<b>Company Law Clause 79.3.2</b>  <b>(BANK'S TRANSPARENCY)</b>	Not Applicable / Not Observed
<b>Company Law Clause 79.3.3</b>  <b>(PROVISION OF INFORMATION TO THE SHAREHOLDERS)</b>	I have attended the Shareholders' meeting held on <b>15 September, 2023 (EGM)</b> and made myself available to any questions from the shareholders at the meeting.
<b>Good Governance Review Clause 3.5.1</b>  <b>(ENSURING THE DECISIONS MADE BY THE BOARD AND THE MANAGEMENT IS IN THE BEST INTEREST OF THE BANK)</b>	I observed the decisions made by the Board & the Management is in the best interest of the Bank.
<b>Good Governance Review Clause 3.5.2</b>  <b>(THE BOARD AND THE MANAGEMENT COMPLIANCE WITH LAWS)</b>	I observed the Board & the Management have at all times endeavored to act in compliance with applicable laws and regulations.
<b>Good Governance Review Clause 3.5.3</b>  <b>(PROTECTION OF CUSTOMERS AND DEPOSITORS)</b>	Not Applicable / Not Observed
<b>Good Governance Review Clause 3.5.6</b>	Not Applicable / Not Observed

<b>(REPORTING OF VIOLATIONS TO BOM)</b>	
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4 OTHER

I attended a Strategy Day on 27 September and requested for a Digitalization Gap Analysis Report between Xacbank & Leading Banks, Xacbank & Best Practicing Banks Abroad to enable us to formulate Xacbank Digitalization Plan for coming 3 years.

I visited a rural branch in Central Province on 14 September and happy to see a very loyal Branch Manager who has been with the bank for 18 years. He is proud of the great performance turnaround of Xacbank in the past few years, the consistent strategy with strong support from HQ. His biggest challenge is staff turnover in particular the generation Z staff ie teller & personal banker. He had good ideas to keep gen Z happy such as flexi day & job interest which I shared with management team during the Strategy Day.

Date: OCT 8, 2023

Signature: \_\_\_\_\_

