

INDEPENDENT DIRECTOR REPORT OF XACBANK

By: Ulambayar Bayansan
Quarter III, 2023



STATEMENT

I, Ulambayar Bayansan, 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. I have also sent separate reports to Mongol Bank on 31st of July, 15th of August and 25th of September, regarding previously held meetings.

Board meetings in the Applicable Period

Schedule 1

Meetings	Attendance	Date
Board meeting	As an independent director	07 July, 2023 20 July-04 Aug, 2023 02 August, 2023 28 September, 2023
Board Audit Committee meeting (" BAC ")	As a Chair	06 July, 2023 28 September, 2023
Board Risk Management Committee meeting (" BRMC ")	As a member	06 July, 2023 28 September, 2023
Board Governance, Nomination and Compensation Committee (" GNCC ")	As a member	06 July, 2023 02 August, 2023 18 August, 2023 04 September, 2023 28 September, 2023
Shareholders' meeting	As an independent director	15 September, 2023 (EGM)

1.1 BOARD MEETINGS

○ The **board regular meeting** was held on **07 July, 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 Update on XacBank IPO
- 4 Information Disclosure Policy
- 5 Code of Conduct and Conflict of Interest Policy (amendment)
- 6 Whistleblowing Policy Update (new)

- 7 Anti-Bribery and Anti-Corruption Policy (new)
- 8 Insider Trading Policy (new)
- 9 Related Party Transaction and Conflict of Interest Policy (amendment)
- 10 D&O insurance update
- 11 IPO Proceeds: to reflect in XacBank JSC Charter (Share capital only)
- 12

- 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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- On item no.5, Code of Conduct and Conflict of Interest Policy (amendment), I made recommendation on clause 2.5.8. for revision.
- On item no.13, regarding the analysis of net income margin (NIM), I raised question and initiated discussion – what were the impacts of decrease of savings/deposit rates for Saving accounts and Currents accounts in USD, MNT (i) because of decision/action of our bank management, and (ii) because regulatory change during Covid. It is suggested that CFO would revise the NIM analysis incorporating these impacts and resend to the directors.
- Item no.2, 4, 5, 6, 7, 8, 9, 11 were approved unanimously by all members.
 - I supported these decisions and didn't have disagreement with the majority.
 - On item no.15, directors discussed thoroughly and had similar positions. I voted as abstention, whereas majority of directors disapproved the item.
- 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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- On item no.3, I asked question on whether the Bank needs to consider repricing of deposits in the near future, as the Bank has the lowest rate among systemic banks.
- On item no.4, :

- During the **board extraordinary meeting** held on **02 August 2023**, the following agenda items were discussed:
 1. Update on the TFG EGM decisions held on July 31, 2023; and
 2. Announcement of XacBank JSC EGM on September 15, 2023.
- Items were approved by the board.
 - I supported this decision and didn't have disagreement with the majority.
- Furthermore, I have attended the following **Board online voting meeting** as shown in Schedule 2.

Board online voting meetings in the applicable period
Schedule 2

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

- Items were approved by the board.
 - I supported this decision and didn't have disagreement with the majority.

1.2 BOARD AUDIT COMMITTEE MEETINGS ("BAC")

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

BAC meetings in the applicable period
Schedule 3

Date	Agenda
06 July, 2023	<ol style="list-style-type: none"> 1. Audit reports <ol style="list-style-type: none"> 1.1 Leasing Operations 1.2 Corporate Governance 1.3 IT change management 2. Update on audit recommendation follow up 3. Amendments to the Charter and internal audit documents 4. Related parties' semi-annual reporting (BoM Guidelines)
28 September, 2023	<ol style="list-style-type: none"> 1. Election of the Committee Chair 2. EY half-year review 3. Audit reports <ol style="list-style-type: none"> 3.1 Rural branch

	3.2 IT asset management 3.3 Continuous audit 3.4 AML/CTF report 3.5 Special assets 4. Related parties' quarterly reporting (BoM Guidelines)
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06 July, 2023

- As the chairperson of the committee, I chaired the BAC meetings.
 - I held separate meeting with the chief auditor before the board meeting, to discuss and clarify contents for the BAC meeting.
- On item no.4, as the information is incomplete or uncertain regarding the related parties of certain board directors, it is discussed and decided that the board secretary would contact those board directors to complete this task.
- Item no.3 is approved unanimously by the committee members to be recommended to the board for final approval.
 - I supported this decision and didn't have disagreement with the majority.

28 September, 2023

- On item no.1, election of the committee chair, a director proposed me for a candidate, and I was elected as a chairperson of the committee by the vote.
- As the chairperson of the committee, I chaired the BAC meetings.
- Item no.2 is approved unanimously by the committee members to be recommended to the board for final approval.
 - I supported this decision and didn't have disagreement with the majority.

1.3 BOARD RISK MANAGEMENT COMMITTEE MEETINGS ("BRMC")

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

BRMC meetings in the applicable period
Schedule 4

Date	Agenda
06 July, 2023	1. Risk Report as of May 2023 2. Request to Board to Increase XacBank management Credit Approval Authority 3. AML Procedures (new) 4. KYC Procedures (new) 5. Compliance Update as of May 2023 6. Ratification of any related party/conflict of interest transactions during Q2'2023
28 September, 2023	1. Election of the Committee Chair 2. Risk Report as of August 2023 3. Update Anti-bribery and anti-corruption policy 4. Compliance Update as of August 2023 5. Ratification of any related party / conflict of interest transactions during Q3'2023

06 July, 2023

- On item no.1, I asked for clarification regarding the NPLs which were impacted by Russia-Ukraine conflict – sectors and type of business for those borrowers.

- On item no.2, regarding the credit requests with larger amounts to be approved by the Credit Committee of the Bank, I raised question for those requests - what is the likelihood that the borrower would be the new customer of the Bank, and about potential additional risks in that case.
- Item no.2, 3, 4, 6 were approved unanimously by all committee members.
 - I supported these decisions and didn't have disagreement with the majority.

28 September, 2023

- Item no.3, 5 were approved unanimously by the committee members, to be recommended to the board for final approval.
 - I supported these decisions and didn't have disagreement with the majority.

1.4 BOARD GOVERNANCE, NOMINATION AND COMPENSATION COMMITTEE MEETINGS ("GNCC")

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

GNCC meetings in the applicable period
Schedule5

Date	Agenda
06 July, 2023	1. Follow-up from the previous GNCC meeting, From the directors evaluation feedback: 3 follow-up questions (verbal update) 2. Update on selection process for one vacant positions for Independent Directors of XacBank (verbal update) 3. Nomination of Directors to the Board of XacBank JSC 4. Board Committee composition to comply with Company Law and Banking Law 5. Approval of Board comp and travel policy (amendment) 6. Staff Loan policy (amendment) 7. Annual review of the employee loans terms and conditions 8. Corporate Governance Code (amendment) 9. Governance Roadmap 2023-2025 per FRC Codex 10. Board Internal Rules of Procedure (amendment) 11. Amendment and Restatement of the GNCC Charter 12. Amendment and Restatement of the Board Director Selection and Nomination Policy 13. XacBank Shareholder Meeting Organisation Policy (new) 14. Directors' Agreement template 15. 16. Long term incentive plan (LTIP)
02 August, 2023 (extraordinary)	1. Update on selection process for one vacant positions for Independent Directors of XacBank
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	1. Election of the Committee Chair 2. BoM Corporate Governance Assessment Annual Report 3. Update on selection process for one vacant positions for Independent Directors of XacBank

	4. Working Group update on total comp analysis including PSP and LTIP 5. BRMC membership
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06 July, 2023

- I participated in the GNCC meetings as an observer.
- On item no.4, regarding the board committee composition, I suggested it could be appropriate to have 5~6 Independent Directors in the future instead of the current 3~4, considering the regulation which requires 2/3 of committee members to be INED.
- On item no.10, Board Internal Rules of Procedures (amendment), I contributed my suggestions on discussion about cases – when a board director would have an appointment on board of other institutions.
- On item no.10, regarding the clause of having not less than 5 members in each committee, I suggested an idea of changing or decreasing that number, considering the regulation which requires 2/3 of committee members to be INED.
- On item no.11, Amendment and Restatement of the GNCC Charter, I contributed my suggestions on discussion about cases – when a board director would have an appointment on board of other institutions.
- On item no.13, XacBank Shareholder Meeting Organisation Policy (new), I raised question and initiated discussion about the language of Shareholder meetings – whether it should be English or Mongolian or Dual, and whether this policy should specify it.
- On item no.14, Directors' Agreement template, I expressed my recommendation about the appropriate length of "Restricted period" that limits certain activity/appointment at other institutions after the termination of the agreement.

02, 18 August and 04 September, 2023

- I provided my assessment and suggestion on each shortlisted candidate for a vacant INED position.

28 September, 2023

- I participated as a member of the committee.

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 as follows:

Actions taken under the Company Law Clause 79.3 and Good Governance Review Clause 3.5	
Company Law Clause 79.3.1 and Good Governance Review Clause 3.5.5 (BANK'S COMPLIANCE WITH LAWS AND REGULATIONS)	<p>Regarding these clauses, I have attended the meetings and casted my votes, while carefully observing and trying to identify non-compliance if any. During the period of this report, I didn't observe and notice any issues in decision and actions by the board and the management not to comply with these clauses.</p> <p>I have also commented relevant notes in the report of each previous meeting regarding this.</p>
Company Law Clause 79.3.2 (BANK'S TRANSPARENCY)	<p>Regarding this clause, the management carried out its duties with transparency, in satisfactory manner. I didn't observe any situation to cause particular action on this.</p>
Company Law Clause 79.3.3 (PROVISION OF INFORMATION TO THE SHAREHOLDERS)	<p>I have attended the Shareholders' meeting held on 15 September, 2023 (EGM) and made myself available to any questions from the shareholders at the meeting. There was no particular issue of disagreement regarding the meeting items for me.</p>
Good Governance Review Clause 3.5.1 (ENSURING THE DECISIONS MADE BY THE BOARD AND THE MANAGEMENT IS IN THE BEST INTEREST OF THE BANK)	<p>I note the bank governance in good, satisfactory position.</p> <p>I didn't notice any action or decision by the board and the management to negatively impact the interest of the Bank.</p>
Good Governance Review Clause 3.5.2 (THE BOARD AND THE MANAGEMENT COMPLIANCE WITH LAWS)	<p>Regarding the communication among the shareholders, board and the management, and its transparency and decision-making process, I note that it is in compliance with the Company law, Banking law and other relevant Mongol bank regulations.</p>
Good Governance Review Clause 3.5.3	<p>I didn't notice any action or decision by the board and the management to negatively impact the interest of the customers and depositors of the Bank.</p>

(PROTECTION OF CUSTOMERS AND DEPOSITORS)	
Good Governance Review Clause 3.5.6	I didn't notice particular issue to report.
(REPORTING OF VIOLATIONS TO BOM)	

4. OTHER

- July – For Audit committee, I voted online to approve of service contract with the external auditor.
- As a GNCC member, I participated in informal interviews with candidates for INED position: On 09 August with Candidate A, on 10 August with Candidate B, and 11 August with Candidate C.
- 5 September – I participated in the online meeting with [REDACTED]
- 15 September - before the Shareholder Meeting, we as a INEDs had a meeting to discuss recent issues at the board as well as for the AGM.
- 27 September – I participated in the Bank's strategy session for the board and the management, organized off-site.

Date: 2023/10/10

Signature: 

