

# INDEPENDENT DIRECTOR REPORT OF XACBANK

Amy Choi

Quarter I, 2024



## STATEMENT

I, Amy Choi, the Independent Non-Executive 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 I 2024 (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 meetings	As an independent director	<ul style="list-style-type: none"> <li>02-05 February, 2024</li> <li>19 February, 2024</li> <li>06-07 March, 2024</li> <li>12-15 March, 2024</li> </ul>
Board Audit Committee meeting (" <b>BAC</b> ")	As a member	<ul style="list-style-type: none"> <li>06 March, 2024</li> </ul>
Board Risk Management Committee meeting (" <b>BRMC</b> ")	As a member	<ul style="list-style-type: none"> <li>06 March, 2024</li> </ul>
Board Governance, Nomination and Compensation Committee (" <b>GNCC</b> ")	As a member	<ul style="list-style-type: none"> <li>06 March, 2024</li> </ul>

### 1.1 BOARD MEETING[S]

1.1.1 The **BOARD REGULAR MEETING** was held on **06-07 March, 2024** and the agenda items were as follows:

- Update on previous board decisions and recommendations;
- Reports of the Board Committees /Board approval items only/:
  - Governance, Nomination and Compensation Committee ("**GNCC**")
  - Audit Committee ("**BAC**")
  - Risk Committee ("**BRMC**")
- 2023 Annual Financial and Operating Results;
- Inclusion of certain items per request of TFG in the agenda of the XacBank AGM;
- TFG merger with XacBank, merger agreement and related approvals;
- Announce XacBank AGM for 29 April 2024;
- Strategy document;
- Management update: Jan 2024
  - Economic and Banking update
  - Business-line performance
  - Financial Results

9. Amendment to insider trading policy;
10. FRC Policy Change: Recommendation to amend the XacBank Charter;
11. FRC Policy Change: Recommendation to amend the XacBank Dividend Policy; and
12. Other

For Item#2.1 GNCC Long Term Incentive Plan (LTIP), I commented the program should be designed with a [REDACTED]

For Item#7 Strategy Document, I commented it is good to have the Strategy Paper with 2024-2027 Projection but the management team should expand more on pillars to make it happen. For example, [REDACTED]

For the approved Item#2 to #7, #9 to #11, I didn't have disagreement with the decisions.

### 1.1.2 BOARD EXTRAORDINARY MEETING[S]

- At the **Board extraordinary meeting** held on **19 Februray 2024**, the following agenda items were discussed:
  1. Recommendation of Dividend Distribution; and
  2. XacBank 2024 interim dividend (in case if we announce interim dividend, BoM requires a decision withiin 50 days after year-end close)

I approved both Item#1 & #2 as we have to honor our statement (as listed in the IPO Prospectus) of allocating 30% of profits as dividend. However, I asked how much the other listed banks were distributing and we should consider other instruments in using profits besides dividend distribution for example investment for future growth etc. Chairman & CEO replied & it was a good information sharing among Board members.

There was no disagreement with the decisions for Item #1 & #2.

- I have attended the following Board online voting meetings as shown in Schedule 2.

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

*Schedule2*

Meetings	Voting item	Date
Board online voting meeting	1. Acceptance of the results of the EGM organized via Ballot voting.	02-05 Februaray, 2024
Board online voting meeting	1. Announcement of the 2024 Annual General Meeting ("AGM") of Shareholders of the Bank.	12-15 March, 2024

I acknowledged the results of the EGM and approved the related board resolution There was no disagreement with the decision.

I approved the announcement of the 2024 AGM of Shareholders of the Bank to be held on April 29. There was no disagreement with the decision.

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

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

### BAC meeting in the applicable period

*Schedule3*

Date	Agenda
06 March, 2024	<ol style="list-style-type: none"> <li>1. XacBank 2023 year-end audited financial statements;</li> <li>2. Approval of Related Party and Conflict of Interest Transactions (removed from the agenda);</li> <li>3. Audit reports: <ol style="list-style-type: none"> <li>3.1. Monitoring rules for treasury operation</li> <li>3.2. 2024 audit sprints - cycle 1</li> </ol> </li> <li>4. Related parties' quarterly reporting (BoM Guidelines).</li> </ol>

For Item #3.2 2024 audit sprints – cycle 1, I asked [REDACTED]

[REDACTED] CAO replied the number of sprints could be increased based on risk assessment & stakeholder feedback & audit staff resource is not an issue.

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

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

### BRMC meeting in the applicable period

*Schedule4*

Date	Agenda
06 March, 2024	<ol style="list-style-type: none"> <li>1. XacBank Risk Report as of January 2024;</li> <li>2. Compliance Update as of January 2024;</li> <li>3. Liquidity Stress Test and Scenario Analysis;</li> <li>4. Employee Loan;</li> <li>5. Credit control and loans monitoring; and</li> <li>6. Paris Agreement Implamentation Roadmap.</li> </ol>

For Item #6 Paris Agreement Implementation Roadmap I asked who is the first line of defence of this business. CEO replied there is a Green Loan Department (under Corporate Banking) responsible for this.

Item #4 & #6 were approved unanimously by all members. I didn't have disagreement with the decisions.

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

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

### GNCC meeting in the applicable period

*Schedule5*

Date	Agenda
06 March, 2024	<ol style="list-style-type: none"> <li>1. Performance based bonus pool for 2023 performance;</li> <li>2. CEO 2023 evaluation and bonus;</li> <li>3. Chairman 2023 evaluation and bonus;</li> <li>4. Long term incentive plan Policy (LTIP);</li> <li>5. LTIP award for 2023 performance;</li> </ol>

	6. Update on the BoM approval on Board Directors/INEDs; 7. Board Budget 2024; 8. Other.
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I approved Item #1 to #5, & Item #7 in view of the consecutive 4 years of record profits for the Bank under the great leadership of Board Chairman, CEO & his management team together with a very highly motivated staff force. We need a balanced mix of fixed, short & long term incentive compensation package to retain happy & productive staff to sustain the growth momentum of the Bank.

I didn't have disagreement with the decisions.

## 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.

During the applicable period, **there were no** conflict of interest transactions that required approval by the Board.

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;

Actions taken under the Company Law Clause 79.3 and Good Governance Review Clause 3.5	
<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 the pro-longed post IPO follow-up issue ie TFG merger with Xacbank.
<b>Company Law Clause 79.3.2</b>  <b>(BANK'S TRANSPARENCY)</b>	I observed that the Board & the management team carried out its duties with transparency in satisfactory manner. I didn't notice any issues worth attention.



<b>Company Law Clause 79.3.2</b>  <b>(BANK'S TRANSPARENCY)</b>	I observed that the Board & the management team carried out its duties with transparency in satisfactory manner. I didn't notice any issues worth attention.
<b>Company Law Clause 79.3.3</b>  <b>(PROVISION OF INFORMATION TO THE SHAREHOLDERS)</b>	<ul style="list-style-type: none"> <li>EGM (The ballot voting of Shareholders held between 20 December 2023 and 02 February 2024).</li> </ul>
<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 team 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 team have at all times endeavored to act in compliance with applicable laws & regulations
<b>Good Governance Review Clause 3.5.3</b>  <b>(PROTECTION OF CUSTOMERS AND DEPOSITORS)</b>	I didn't notice any action or decision made by the Board & the management team to negatively impact the interest of customers & depositors of the Bank.
<b>Good Governance Review Clause 3.5.6</b>  <b>(REPORTING OF VIOLATIONS TO BOM)</b>	I didn't notice any issue to report.

#### 4. OTHER

N/A

Date: April 8, 2024\_\_\_\_\_

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