

# INDEPENDENT DIRECTOR REPORT OF XACBANK

By: Niraj Vedwa  
Quarter 1, 2023



## STATEMENT

I, Niraj Vedwa, 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 I 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

*Schedule1*

Meetings	Attendance	Date
Board meeting	As an independent director	09 Jan 2023 11 Jan 2023 16 Feb 2023 23 Feb 2023 03 March 2023 14, 15 March 2023
Board Audit Committee meeting	As a member	23 Feb 2023 14 March 2023
Board Risk Management Committee meeting	As a member	14 March 2023
Board Governance, Nomination, Compensation Committee meeting	As an observer	23 Feb 2023 14 March 2023
Shareholders' meeting	As an independent director/Observer	02 Feb 2023 27 March 2023

### Board meeting[s]

- The **board regular meeting** was held on [23 Feb 2023] and the agenda items were:

#### 1. Reports of the Board Committees:

##### (1.1) Governance, Nomination and Compensation (GNC) Committee:

- Performance based bonus pool for 2022 performance;
- CEO 2022 evaluation and bonus;
- Chairman 2022 evaluation and bonus;
- PSP for 2022 performance.

- (1.2) Bank Audit Committee (BAC):
- (a) XB 2022 Year-end Audited financial statements.
2. Amy Choi's nomination (received approval from BoM)
  3. 2022 Annual Financial and Operating Results
  4. Decision on Dividend for 2022
  5. Five-year projections for IPO valuation
  6. Announcement of 2022 EGM on 05 April 2023 (IPO related items) and
  7. Announcement of 2022 AGM on 27 April 2023 (Annual standard items)

The productive discussions centred around Performance Bonus and PSP, Year end Audited Financial statements, Dividend, 5 Year projections for IPO Valuation and the need to complete the IPO before the deadline of 30<sup>th</sup> June 2023. As INED, I raised point of successful completion of IPO within Deadlines. Also communicated this during the Independent Directors meeting with BOM

- The **board regular meeting** was held on [14, 15 March 2023] and the agenda items were:
  1. Reports of the Board Committee;
- (1.1) Risk Management Committee:
  - (a) Recovery plan (2023) per Bank of Mongolia amended regulation;
  - (b) Ratification of related party/conflict of interest transactions;
- 2. Outside legal opinion with Summary re: IPO
- 3. XacBank Dividend Policy;
- 4. Underwriters independent review letter;
- 5. IPO Pricing (valuation) & BDO Report;
- 6. IPO Allocation (Strategic vs Retail);
- 7. IPO Prospectus; and
- 8. Application Forms (attachments to IPO Prospectus.

Productive discussions were held to discuss and agree on XB Dividend Policy, XB Recovery Plan, IPO pricing keeping in mind BDO Report, IPO allocation between Strategic and Retail Investors, IPO prospectus. I had no disagreement on any topic.

- On the **board extraordinary meeting** held on [09 Jan 2023], the following agenda items were discussed:
  1. The reorganizing the company form from LLC to JSC by offering shares to the public before merging with the holding company;
  2. The issue of public offering of shares; and
  3. Announcement of the EGM (Extraordinary General Meeting).
- On the **board extraordinary meeting** held on [11 Jan 2023], the following agenda items were discussed:
  1. The reorganizing the company form from LLC to JSC by offering shares to the public before merging with the holding company;
  2. The issue of public offering of shares; and
  3. Announcement of the EGM (Extraordinary General Meeting).

Productive discussions were held to discuss and agree on the Company Reorganization and the public offering. I had no disagreement.

- On the **board extraordinary meeting** held on [03 March 2023], the following agenda items were discussed:

- Announcement of EGM on [27 March 2023] as per the Shareholder request.

We agreed unanimously to call for an EGM on 27<sup>th</sup> March.

Furthermore, I have attended the following online voting meetings as shown in Schedule 2.

#### Online Voting meetings in the Applicable Period

*Schedule2*

Meetings	Voting item	Date
Board online voting meeting	The issue of making a decision on the distribution of the dividend from the 2022 profit of the Bank.	16 Feb 2023
Board Audit Committee online voting meeting	none	
Board Risk Management Committee online voting meeting	none	

## 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, there have been 1 conflict of interest transactions approved by the Board and I casted my votes on all of these transactions. On 15 March 2023, the Board of Directors made a decision on the approval of the related party and conflict of interest transactions.

After carefully reviewing the Conflict of Interest Transactions, I approved and casted my vote.

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 that Xacbank has one of the strongest Governance in place with well documented policies and review mechanism.

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>	<p>During the period, there was no Non-Compliance reported. Exceptions were highlighted in Audit findings and corrective action and measures have been taken to mitigate in future.</p> <p>Xacbank is fully compliant with the laws of Mongolia especially BOM regulations.</p>
<b>Company Law Clause 79.3.2</b>  <b>(BANK'S TRANSPARENCY)</b>	<p>Xacbank is compliant to Company Law Clause 79.3.2. I have not noticed any Non-Compliance</p>
<b>Company Law Clause 79.3.3</b>  <b>(PROVISION OF INFORMATION TO THE SHAREHOLDERS)</b>	<p>I have attended the Shareholders' meeting held on <b>[02 Feb 2023]</b> and made myself available to any questions from the shareholders at the meeting. There was no disagreement in Board Meetings and hence there was no observation reported to the shareholders</p> <p>I have attended the Shareholders' meeting held on <b>[27 March 2023]</b> and made myself available to any questions from the shareholders at the meeting. There was no disagreement in Board Meetings and hence there was no observation reported to the shareholders</p>
<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>	<p>I confirm that Xacbank follows highest standards of Governance and Compliance to Laws of Mongolia. All Decisions made by the Board and Management are in the interest of the bank.</p>
<b>Good Governance Review Clause 3.5.2</b>	<p>I confirm that Xacbank follows highest standards of Governance and there is no negative observation noticed by me.</p>

(THE BOARD AND THE MANAGEMENT COMPLIANCE WITH LAWS)	
Good Governance Review Clause 3.5.3  (PROTECTION OF CUSTOMERS AND DEPOSITORS)	I confirm that Xacbank follows highest standards of Governance and there is no negative observation noticed by me regarding Protection of Customers & Depositors
Good Governance Review Clause 3.5.6  (REPORTING OF VIOLATIONS TO BOM)	I confirm that Xacbank follows highest standards of Governance and there is no negative observation noticed by me. I did highlight the delay in shareholders agreeing on there-Structuring and the IPO delay during the INED meeting with BOM representatives. As off today, all these are agreed and Xacbank is on way to achieve the IPO deadline of 30 <sup>th</sup> June 2023

## 4. OTHER

During the quarter, I met BOM representatives along with other Independent Director and we had a very professional exchange of our roles as INED.

This was a very crucial quarter for Xacbank, given the IPO deadlines. I am happy that the shareholders agreed on the Re-Structuring and the IPO. Xacbank reported the best Annual Performance this financial year. With a very Professional Board, Capable CEO, Management Team and staff, Strong Governance, Digital Adoption and Clearly Defined 5 Year Road Map, Bank is well positioned to remain a Leader and provide Digital Banking to people of Mongolia.

Date:12<sup>th</sup> April 2023

Signature: 