



Annual Report 2020





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## Message from Chairman

On behalf of the Board of Directors, I am pleased to present the 2020 Annual report of XacBank.



Covid 19 pandemic has impacted the lives and livelihoods of almost everyone in the world throughout 2020, and unfortunately, it continues to ravage our planet. All of us have been affected by this pandemic in so many different ways. Despite this unprecedented crisis and associated challenges, the Bank achieved strong results in 2020.

Our employees' and our customers' health is of paramount importance. We must continue to take all the precautions recommended by the medical community and the authorities to prevent the spread of Covid 19. As our customers faced economic difficulties associated with Covid 19 pandemic, we restructured consumer loans, MSME loans, and mortgages for about 20,000 customers in 2020. We have digitized the process for requesting restructuring to make it easier and safer for our customers.

We have also recently launched the new mobile banking application to allow our customers to get a majority of the banking services using mobile phones more safely and efficiently. We have made and are continuing to make further investments in technology to enhance the customer experience.

Last year we had welcomed the new Prudential Capital Guidelines of MongolBank, the Central Bank of Mongolia, designed to make the banking system more robust. I am delighted to inform you that as of Dec 31, 2020, we have improved the Tier 1 Capital ratio of the Bank to 16.9%, one of the best in the industry and significantly above the MongolBank guidelines. We have also enhanced our liquidity position in a very significant way. We strongly believe that strong capital and liquidity are essential to serving all our stakeholders better over a long period and in a sustainable manner.

We welcome the change to the Banking Regulations requiring a public listing of the banks on the Mongolian Stock Exchange. IPO will allow Mongolian citizens to directly purchase shares of our Bank in an open and transparent manner and be part of the impressive growth story of XacBank. We will make further announcements about the initial public offering in compliance with the regulations and in consultation with the Bank of Mongolia, the Financial Regulatory Commission, and other relevant authorities.

2020 was an extremely challenging year for our employees, and their professionalism, dedication, and hard work were exemplary. They have made me very proud, and I would like to take this opportunity to thank them once again. In particular, I would like to thank our customer-facing colleagues. They have served our customers with a lot of care, in a safe and efficient manner, under very complicated circumstances.

Finally, the Shareholders and the Directors of XacBank have always been a source of strength for our institution. On behalf of the entire Bank, I thank them for their steadfast support and guidance.

**Sanjay Gupta**  
Chairman



# Statement by CEO

## To our Shareholders, Customers, and Employees,

I would like to start this letter with a sense of gratitude for the dedicated support received from the Board Chairman Sanjay Gupta, the Board Directors, and Shareholders during one of the most challenging times we have faced. Also, I would like to extend special appreciation to the Management Team and all of our 1,550 XacBank and TFG employees. They dedicated all their efforts to serve our customers under extremely adverse circumstances.

In this letter, I will cover unprecedented challenges we faced during the COVID-19 pandemic, a review of priorities and performance, actions we have taken to support our customers and protect our employees. Also, I will cover the outlook for 2021 and what to expect from the new Banking reforms.



**Tsevegjav (TJ) Gumenjav**  
Chief Executive Officer



## ➤ Managing through uncertainty: COVID Crisis, Protecting our Customers and Employees

After strong progress we made in 2019, we felt the momentum from strategic shifts we have made thus far. To start 2020, we felt comfortable and confident in reaching our set objectives for 2020.

Unfortunately, a sudden unexpected global pandemic that we have not seen since the early 1900s began, COVID-19 spread took over the world by storm. The global pandemic started as a health crisis, but quickly became an economic crisis. Soon after, it became a social crisis, digital transformation acceleration trigger, and finally, it is becoming the new norm of living.

As a precautionary measure, the Mongolian government took swift actions by implementing strict lockdowns by closing down the borders, schools, public events, and businesses in the first quarter of 2020. Throughout most of the year, Mongolia was lucky enough to contain the pandemic without local outbreak through various lockdown measures. However, in November 2020, with the reported domestic outbreak, the government took more aggressive lockdown measures.

Many businesses struggled due to various lockdowns, their revenues declined, and in certain instances, they had no income. Companies were barely able to pay their operational and financial obligations. People lost their jobs, and some worked under reduced hours, which resulted in a significant drop in their monthly income. They were falling behind on the mortgage and personal loan payments.

At XacBank, we faced our own challenges. First, we had to ensure our employees' and customers' health and safety as banks were required to be open during lockdowns. Early on, we put strict safety protocols at our branches and headquarters, such as social distancing measures, frequent facility sanitizations, mandatory mask-covering, temperature checks, hand sanitizers, and paid sick days for employees. Also, we rotated work from home shifts for the headquarter employees. I'm proud of my team on how we have quickly mobilized and implemented business continuity measures to ensure smooth operations.

Second, the focus was on timely restructuring loans for the customers affected by the pandemic under the Bank of Mongolia COVID-19 restructuring guidelines. Our team has built quick online tools to receive customers' loan restructuring requests digitally. Our branches, call centers, and employees in the headquarters worked extra-hours and weekends on restructuring efforts. I would like to thank all of our employees for their dedication and commitment to serve our customers in times of need.

Third, we had to navigate through the uncertainty, volatility, and complexity of unfavorable economic conditions coupled with changes in the banking sector reforms. The new capital regulations regarding stricter Tier-1 capital requirements and the changes in risk-weighted assets methodology required us to remain flexible and make tough decisions.

Finally, in anticipation of the new banking law surrounding shareholdings structure and IPO of commercial banks, we aimed to reposition XacBank with a strong capital position, healthy margins, sufficient provisioning, and digital technologies investment.



# Statement by CEO

## ➤ Executing on Strategy: Delivering Performance

Our strategic priorities were to build upon 2019 momentum to further strengthen the bank's capital position, reduce expenses and cost of liabilities to improve profitability, simplify our business processes, and excel in digital transformation. Our strategic shift in 2019 put heavy emphasis on efficient use of capital and maintaining a solid capital position to withstand unexpected surprises such as this pandemic and support future growth. As a result of the measures we took, our Tier 1 capital ratio reached 16.9 percent at the end of the year. Now, our strong Tier 1 capital would put us in a good position for a successful IPO.

This year, our financial results demonstrate the underlying strengths of our business, as 2020 was a strong year for XacBank. We earned MNT 29.8 billion in net income, which resulted in an ROE of 12.3 percent, reflecting strong underlying performance across our business. We reached this profitability level without increasing loan interest rates, fees, or penalties, but we focused on a healthy net interest margin by continuous optimization of asset-liability management. The focus remained on efficient operations as we maintained our financial discipline. As a result, the cost to income ratio reached a record low of 51.6 percent.

Furthermore, we did not take excessive risks with loan disbursement during these uncertain times but focused on helping our existing customers. Lastly, we build sufficient loan reserves totaling MNT 21 billion from our operating income to provide for riskier exposures and COVID impacted loans.

While we had not envisioned a pandemic's effects like this one, but the preparation of flexible strategy since 2019 has paid off to deliver strong financial results in 2020. When I reflect back, successful execution results from great teamwork, working smarter, making tough decisions, and focusing on critical high-impact initiatives.

## ➤ Digital Transformation

COVID-19 pandemic accelerated Digital transformation not only for banks but also across all industries. Mobile-first preference of customers puts pressure on companies to offer fast and user-friendly services. Over the past year, we have increased our active digital banking users by 58.2 percent during the pandemic. The number of digital banking and card transactions increased 143 percent and 120 percent year-over-year, respectively.

After launch delays mainly related to COVID, our long-awaited Digital banking platform is ready for customer launch. Now, retail customers can get most financial services using our digital banking platform without visiting our branches. As we roll out our new digital banking platform, we expect active digital banking users and the number of digital transactions to further increase in the coming years.

We made a strategic decision to migrate our core banking system (CBS) as part of digital transformation. The new CBS will provide us a stable and flexible back-end system that is adaptable to fast technological changes. Our CBS project team has worked diligently to gather detailed business requirements, and it is currently ready for the implementation phase.

Furthermore, we have rolled-out the BPM system (business process management) that automated the loan origination, credit underwriting, collateral valuation, credit scoring, and monitoring processes for consumer lending.

We are fully aware that digital transformation is an ongoing initiative in a fast-changing technology world. The bank remains committed to making XacBank more digital in the years to come.

## ➤ XacLeasing (XL)

A unique strategy that we executed in 2013 continues to deliver strong financial and operational results. XacLeasing closed the year yet on another record year earning MNT 6.8 billion in net profit. The ROE of 24.6 percent is the 6th consecutive year the company has delivered a return above 20 percent. Credit Quality remains strong as NPL's closed at 1.1%, with a risk coverage ratio of 157.1 percent. Tight expense management remains, which resulted in a cost to income ratio of 17.8 percent. The company is expected to deliver strong financial results under the leadership of XL CEO Mr. Daurenbek.

## ➤ Tenger Insurance (TI)

At the beginning of 2020, we have appointed a new CEO, Mr. Munkhsaikhan. The company also hired three new executives to assist with the turn-around. The new executive team had a difficult task ahead of them to re-direct the company back on track. The main priority was to improve profitability, lead digital transformation, and reduce the company's overall risk profile.

As a result, the company ended the year earning MNT 1.6 billion of net income, delivering ROE of 15.7% percent. The expense and loss ratio was 59.7 percent and 50.4 percent, respectively, resulting in a combined ratio of 110.1 percent.

## ➤ TianRong

I am delighted to report that the TianRong sale has been successfully closed and that we have received the sale proceeds in the TFG account in Mongolia. We first decided to exit the TianRong investment in 2014, and after many failed attempts since then, it was considered a dead investment by most, if not all. In April 2019, we changed the strategy on "how and who to sell to" and decided to put all our energy into this sale.

It was quite a tortuous journey - there was no shortage of surprises and shocks. I would also like to acknowledge the valuable contribution of Tengis, our CEO of Tianrong, Chairman Sanjay, and the Board of Directors to make this complex deal a success.

## ➤ Outlook

As we look ahead in 2021, we expect the outlook to be challenging based on the current operating environment. While the duration and the full impact of the COVID-19 crisis are unclear, we are committed to supporting our customers to recover from financial hardship. We will continue to work with industry peers, the government, and regulators to support initiatives that stimulate economic activity and jobs.

In 2020 economy shrank by 5.3 percent, much better than initially expected, as the coal, copper, and gold exports recovered in the second half of 2020. Household consumption was kept relatively strong with government stimulus despite the lockdowns. Service, trade sectors, and investment activities that are being hit most by the lockdowns are expected to recover alongside the easing of restrictions and government stimulus programs. We expect a GDP growth of over 5 percent in 2021 due to strong commodity prices.

The new banking law passed in January 2021; all systemic banks must be publicly listed (IPO) by June 2022. As part of the reforms, we will present a concrete IPO plan proposal to our shareholders within the first half of 2021. We believe that IPO will allow Mongolian citizens to be part of the growth story of XacBank.

In closing, I would like to express my deep gratitude and appreciation for the employees of XacBank and TFG. Also, we recognize that this year's success would be impossible without an excellent Executive Management team, exceptional guidance from the Board Directors, and supportive Shareholders.

In December 2021 will mark the 20th anniversary of XacBank since obtaining a banking license. We will not lose sight of achieving sustainable long-term growth in a risk-controlled manner that adds value to our customers, employees, and shareholders.



## Mission

Being a lifelong partner for our customers in providing value-added financial solutions embracing the highest standards of the Triple Bottom Line mission: People, Planet, and Prosperity.



## Vision

Bringing world class financial services to Mongolia.

## XacBank at a glance: FY 2020

*Our commitment to People, Planet and Prosperity remains stronger than ever*

### ➤ We are XacBank.

Delivering customer-centric relationship-based products and services  
With digital edge and through teamwork at all our nationwide branches  
Responsibly, professionally and creatively  
Caring for customers and communities  
Being ethical, compassionate and humane  
Growing, developing and leading

### ➤ XacBank - 20

2001



17 staff

**USD 1 million** assets

Niche microfinance bank

Since its founding in 2001, XacBank has created sustainable growth in the banking and financial sector of Mongolia, continuously expanding operations, and becoming one of the largest systemic banks.

2020



1,300 staff

**USD 1.5 billion** assets

Universal commercial systemic bank

### FY 2020:

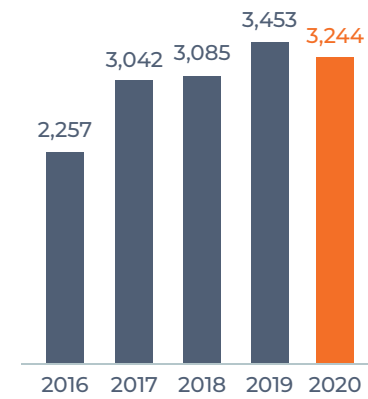
*Timely Covid-19 crisis management response and recovery  
Addressing safety and needs of customers and employees  
Strengthening financial position and asset quality  
Enhancing trust with the community  
Maintaining long-term strategic focus*

# Financial Snapshot

## Total assets

-6.1% YoY

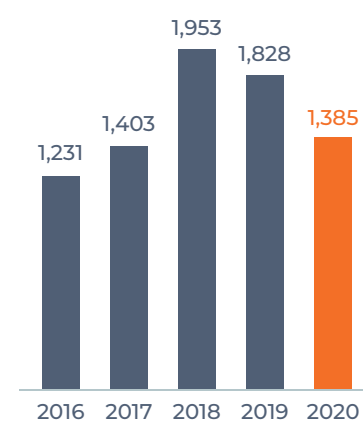
MNT billion



## Loan portfolio

-24.2% YoY

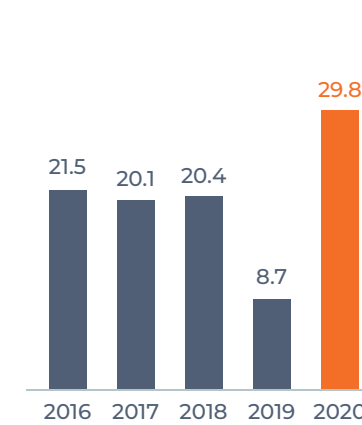
MNT billion



## Net profit

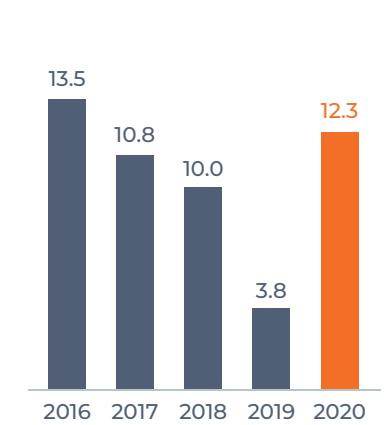
+244.4% YoY

MNT billion



## Return on equity (%)

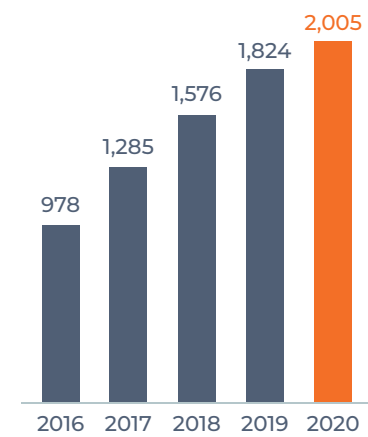
+8.5 ppts YoY



## Public deposits

+9.9% YoY

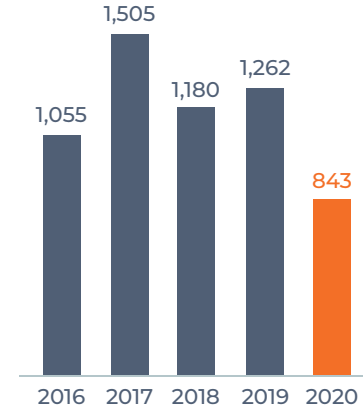
MNT billion



## Borrowed funds

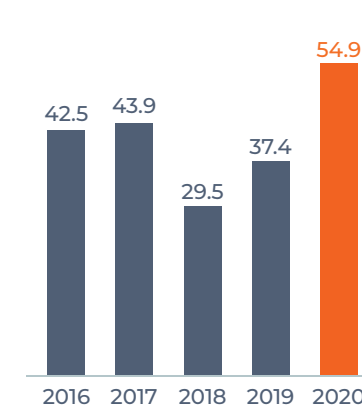
-33.2% YoY

MNT billion



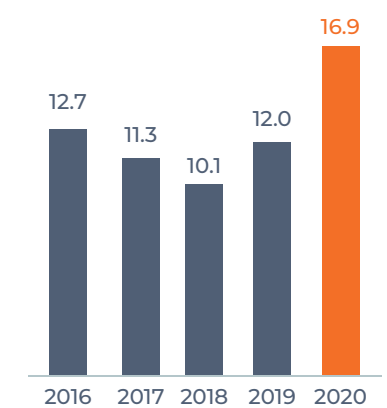
## Liquidity (%)

+17.5 ppts YoY



## Core capital adequacy (%)

+4.9 ppts YoY



## Ratings

In 2020, the Bank's rating agencies, Moody's Investors Service and Fitch Ratings, undertook their regular review and affirmed the external ratings of XacBank as a result of their reviews. The Bank maintained its active engagement and constructive dialogue with its rating agencies throughout the year which was characterized by the global COVID-19 pandemic and the Amendment of the Banking Law of Mongolia that is widely expected to bring substantial reforms in the banking and financial system of Mongolia.

### LATEST UPDATES ISSUED:

- **May 2020:** Moody's affirmed the Bank's B3 local-currency and foreign currency long-term issuer ratings, and changed the outlook to negative from stable following the same change for the sovereign. The rating action followed the affirmation of the Government of Mongolia's B3 issuer rating and the change in its outlook to negative from stable in May 2020.
- **March 2021:** Moody's changed the Bank's outlook to stable from negative reflecting improved macroeconomic outlook and the Bank's high risk coverage.
- **August 2020:** Fitch Ratings affirmed the previous rating of B and stable outlook of the Bank in its annual review.



Moody's Investors Service ([www.moody.com](http://www.moody.com)) is a global credit rating agency, which performs international financial research and risk analysis on commercial and government entities.

MAR 2021	
Counterparty Risk Rating – foreign currency	B3/NP
Counterparty Risk Rating – domestic currency	B2/NP
Bank Deposits	B3/NP
Baseline Credit Assessment	B3
Issuer Rating	B3
Outlook	Stable



Fitch Ratings ([www.fitchratings.com](http://www.fitchratings.com)) is a global credit rating agency, which performs international financial research and risk analysis on commercial and government entities.

AUG 2020	
Long term foreign currency Issuer Default Rating	B/Stable
Short term foreign currency Issuer Default Rating	B
Long term local currency Issuer Default Rating	B/Stable

## Funders and Partners



IFC, a member of the World Bank Group, is the largest global development institution focused on the private sector in emerging markets. IFC's aim is to create opportunities for people to achieve better living standards by mobilizing financial resources for private enterprise, supporting businesses which create jobs to those who are poverty stricken. XacBank counts IFC as its equity holder.



Netherlands Development Finance Company ("FMO") is a triple-A rated, entrepreneurial development bank that is majority owned by the Dutch government. FMO regards entrepreneurship as key to create sustainable economic growth thus improving people's life for the better. FMO's mandate is to provide long term capital for projects where their risk capital investments are focused in the sectors with long lasting contribution including financial institutions.



Asian Development Bank ("ADB") a regional development bank, founded in 1966 with 68 members including Mongolia since 1991. ADB origin was in public sector lending in education, environment, infrastructure, regional cooperation and financial sector, however its private sector lending has grown substantially in the last decade and now account for around 20% of its ordinary capital resources.



Founded in 1962 DEG is a wholly-owned subsidiary of KfW group since 2001, providing long term capital in the form of loan or equity on developing markets. DEG finances and promotes entrepreneurial initiative in developing and transition countries. DEG emphasis on development impact of its investments and has been a main driver of its long standing relationship with XacBank's growth in its delivery of financing for SME segment in Mongolian economy.



The International Bank for Economic Co-operation ("IBEC") is a multilateral development finance institution established in 1963. IBEC's focus is on facilitating the economic development of and foreign economic relations between business entities of its eight member states, one of which is Mongolia. IBEC funded XacBank for financing its export/import focused customers, as part of an USD 100 million syndicated debt facility.



The European Bank for Reconstruction and Development ("EBRD") is a financial institution that is a multilateral developmental investment bank, established in 1991. EBRD is the first multilateral bank with a specific environmental mandate in its mandate and having already reached the goal to dedicate its 40% of financing in green investment in 2017. XacBank's long standing relationship includes equity, debt investments and trade financing from EBRD.



The Green Climate Fund ("GCF") is a fund established in 2010 within the framework of the United Nations Framework Convention on Climate Change. GCF promotes climate-resilient development pathways to the future, supporting countries to limit their greenhouse gas emissions and to adapt to the impacts of climate change. Funding is provided through accredited entities and XacBank is the only commercial bank with accreditation.



The OPEC Fund for International Development ("OFID") is a multilateral development finance institution established in 1976. OFID provide public, private, and trade sector financing in order to support sustainable social and economic advancement worldwide. As part of an USD 100 million syndicated debt facility, OFID has reached an agreement with XacBank to extended trade financing to our customers.



The U.S. International Development Finance Corporation ("DFC" formerly OPIC) is the American development bank traces its roots back to 1971. DFC partners with the private sector with the aim of financing solutions to the most critical challenges facing the developing world including financing for small businesses and women entrepreneurs in order to create jobs in emerging markets. XacBank has DFC funding sourced in 2017 for supporting its women business owner customers.



Proparco is a majority owned subsidiary of Agence Française de Développement ("AFD") focused on private sector development that targets promotion of sustainable economic, social and environmental development. PROPARGO operates in 80 countries with over 500 clients includign SMEs to regional banking groups, including microfinance institutions and is one of the investors in the syndicated senior debt the Bank has raised in 2019.



The Swiss investment fund for emerging markets ("SIFEM") is development finance institution of the Swiss government established in 2005. SIFEM promotes long-term, sustainable and inclusive economic growth in developing countries by providing financial support to businesses creating better jobs thus reducing poverty. The fund is managed by Obviam, a specialized investment advisor, with whom XacBank has fostered successful working relationship since 2016.



Finnish fund for industrial cooperation ("FinnFund") is a development finance company funded by Finnish state and private capital markets. Finnfund provides risk capital, long term loans adn mezzaine financing for projects in developing countries and recycle all the profit made into new projects to drive sustainable development. Finnfund's commitment to XacBank relationship has been strengthened with their participation in the syndicated senior debt the Bank has raised in 2019.



Incofin Investment Management (Incofin IM) advises funds that invest in microfinance institutions (MFIs) in developing countries. MFIs provide financial services, such as credits, savings and insurances, to people who cannot have recourse to regular banks. As a specialist in rural microfinancing, Incofin IM's main goal is to reach out to people who live in more secluded rural areas and/or who are active in the agricultural sector. Incofin IM finances and supports more than 320 investees in over 66 countries.



Developing World Market ("DWM") is U.S based investment manager dedicated to promoting sustainable economic development and exclusively invests in emerging markets. Established in 1994 and privately owned by its partners, DWM partners and manages wide range of funds from Netherlands, Germany to Japan with investment origination of more than USD 2.0 billion to date.













Symbiotics is a leading investment company dedicated to financing micro, small and medium enterprises (MSME) and middle to lower income households in emerging markets. The company is a leading platform for impact investing, offering tailored private debt portfolio management and advisory services. Currently it serves more than 25 funds for a range of clients.



# Shareholding structure

XacBank is a wholly-owned subsidiary of TenGer Financial Group, one of the leading Mongolian financial services groups, providing a range of banking and financial services. TenGer Financial Group is owned by a broad base of recognized institutional investors.

Shareholders of TenGer Financial Group are located across the globe, including the largest international financial institutions, local and foreign reputable companies and investment funds. It is our competitive advantage and driving force in growing our banking business leveraging on knowledge, capital and network of our shareholders.

20.00%	“MONGOLYN ALT” (MAK) LLC	
17.171 %	INTERNATIONAL FINANCE CORPORATION	
16.812 %	ORIX CORPORATION	
12.905 %	EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)	
10.516 %	NATIONAL BANK OF CANADA	
10.150 %	RONOC	
6.625 %	MONGOLIA OPPORTUNITIES PARTNERS	
3.730 %	TRIODOS FAIR SHARE FUND	
1.593 %	OPEN SOCIETY FORUM	
0.301 %	UB ROTARY CLUB	
0.102 %	BOLD MAGVAN	
0.093 %	GANBOLD CHULUUN	

# Board of Directors

(as of 31 December 2020)

## CHAIRMAN

Sanjay Gupta

Chairman and Non-Executive Director

## DIRECTORS

Mr. Tsevegjav Gumenjav

Executive Director

Mr. Albertus Bruggink\*

Non-Executive Director

Mr. Andrzej Witak

Non-Executive Director

Ms. Melissa Moy Tian

Non-Executive Director

Mr. Michael Madden

Non-Executive Director

Ms. Tselmuun Nyamtaishir

Non-Executive Director

Mr. Yves Jacquot

Non-Executive Director

Mr. Maurice Lam

Independent Non-Executive Director

Mr. Niraj Vedwa

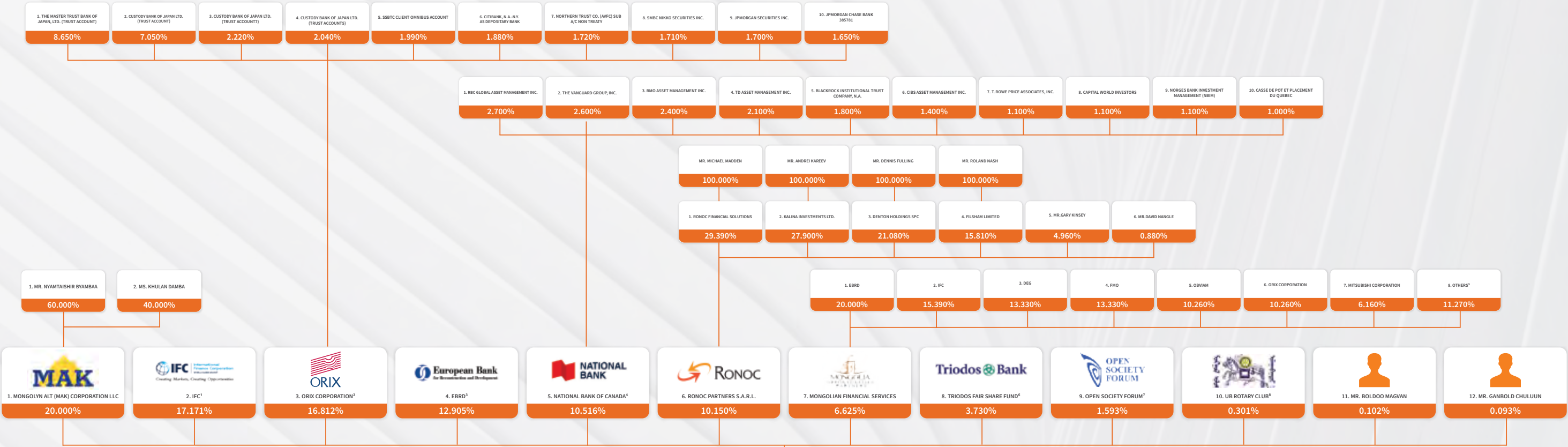
Independent Non-Executive Director

Mr. Ulambayar Bayansan

Independent Non-Executive Director

\*Interim appointment subject to approval and election at the AGM.

# Shareholding structure



## SHAREHOLDING STRUCTURE (as of 2 February 2021)

Footnotes:

1. IFC is an international financial institution with member countries.  
2. Orix is listed in New York and Tokyo. Public information as of 30 September 2020.  
3. EBRD is an international financial institution with member countries.  
4. NBC is listed in Toronto. Public information as of 31 December 2020.  
5. Including about 20 investors whose commitments are no more than 3% each.  
6. Triodos Fair Share Fund is partially listed on Euronext, Amsterdam and is a mutual fund.  
7. Open Society Forum is a Mongolian non-governmental organization.  
8. UB Rotary Club is a Mongolian non-governmental organization.





## Senior management team

(as of 31 December 2020)



**Mr. Tsevegjav Gumenjav**

Chief Executive Officer  
Appointed 8 May 2019



**Mr. Erdenebayar Ganzorig**

Chief Financial Officer  
Appointed 7 January 2013



**Ms. Ulambayar Enebish**

Chief Retail Banking Officer  
Appointed 31 January 2020



**Ms. Zul Ganzorig**

Chief Operations Officer  
Appointed 31 January 2020



**Mr. Unurbat Khurelbaatar**

Interim CIO  
Appointed 18 January 2021



**Mr. Erkin Bavaan**

Chief Corporate Banking Officer  
Appointed 31 January 2020



**Mr. Iliya Avramov**

Chief Risk Officer  
Appointed 30 October 2019



**Ms. Undarmaa Enkhbayar**

Chief Auditor  
Appointed 5 May 2016



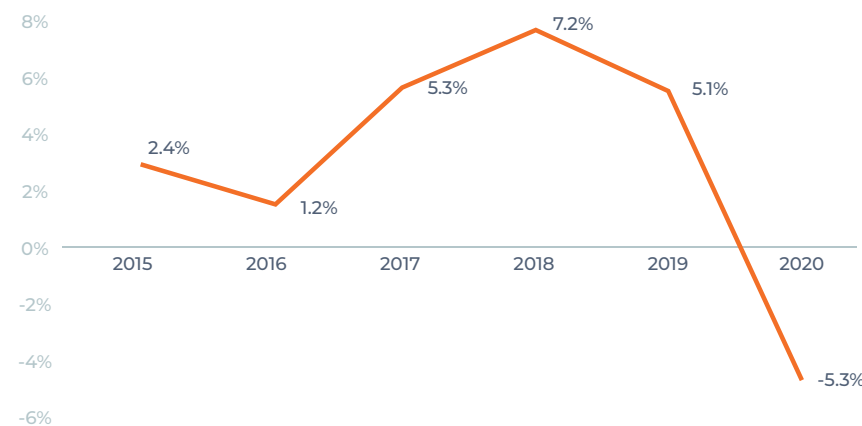
**Ms. Ashidmaa Dashnyam**

Chief Governance Officer and  
Corporate Secretary  
Appointed 1 August 2014

## Macroeconomic Environment

According to the preliminary estimates of National Statistical Office of Mongolia, the economy of Mongolia has contracted by 5.3% in 2020, as opposed to the average of 5.9% yearly growth between 2017 and 2019, due to sharp declines in the mining and service sector activities owing to the COVID-19 pandemic lockdowns. From expenditure perspective, private investments have been hit hard given the uncertain environment. Although there would be restrictions and uncertainties, hindering economic activities, until the current pandemic is sufficiently under the control through higher vaccinations, the economic growth is still expected to accelerate back to about 5% in 2021-22 buoyed by the ongoing investments and expected higher production in the mining sector.

### Mongolian economic growth 2015-20 *Source: Bank of Mongolia*

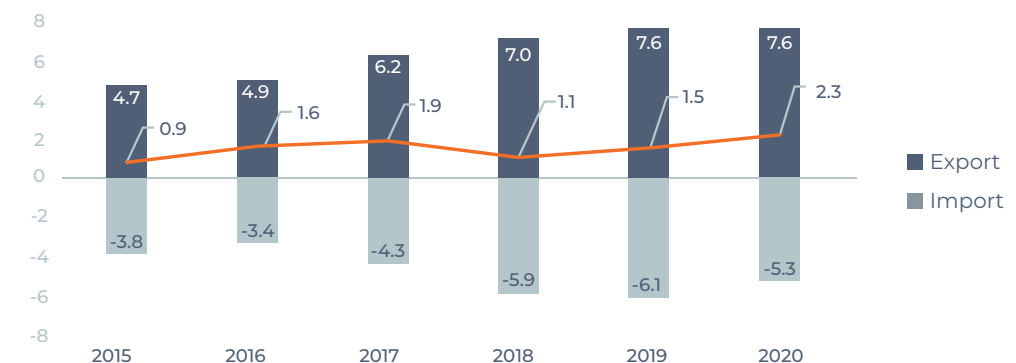


Authorities in Mongolia have taken decisive actions in terms of fiscal and monetary policies to shield the economy against the backdrop of the COVID-19 restrictions and vulnerable demand. The budget deficit for 2020 widened from the initial approved plan of 5.1% of GDP to 12.5% of GDP, an indication of a notable boost for demand. The Government reduced tax burdens on the economy by temporarily cutting the income taxes and social security contributions and increasing transfers to the households, mostly through Child Money allowances. These measures helped keep the household consumption relatively robust during the pandemic. Furthermore, the Government of Mongolia has announced a three year Economic Recovery Program of 10 trillion MNT (27% of GDP) in February 2021 to lift the economy through various supports such as preferential and cheap lending to key sectors such as SME and non-mining exports, construction, agriculture and strategic projects.

The economy of China, the largest trade partner of Mongolia, receiving the 84.7% of the total exports of Mongolia between 2018-20, grew by 2.3% in 2020, the lowest in the last four decades in spite of the fact that it fared relatively well compared to the other major economies. However, the impact of the China's slowing has been relatively mild for Mongolia due to the favorable terms of trade and robust demand from China's side. The global economy is expected to recover from 2021 with the estimates of China's growth being 7-9%, a positive sign for the Mongolian economy.

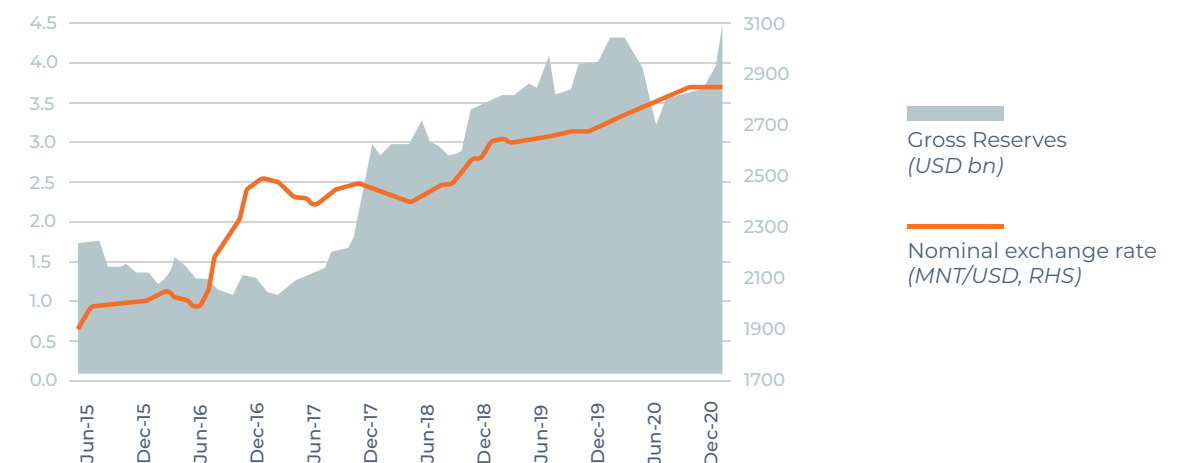
Foreign trade balance showed a surplus of USD 2.3 bn in 2020 (17% of GDP) with a significant contraction in imports (of USD 0.9 bn) and almost unchanged exports compared to the preceding year. Despite starting with a sharp decline in the first half of 2020, the exports have recovered swiftly in the second half due to recoveries in coal and copper shipments as well as strong boost in gold exports. Imports declined reflecting lower oil prices and weak demand. Going forward, while the exports are expected to show stable growth with the positive OT production outlook, the imports are likely to increase alongside the economic recovery that could translate into relative weakening of the surplus trade balance.

### Trade balance (bn USD) *Source: Bank of Mongolia*



Balance of Payments (change of international reserves) had surplus of USD 0.8 bn in 2020, thanks to the strong trade balance and the COVID-19 related donor support. Accordingly, Bank of Mongolia (BoM)'s international reserves reached historical high of USD 4.5 bn by end-2020. With no large external repayments expected in 2021, the FX reserve of about 10 months of imports is relatively abundant.

### International reserves and FX rate *Source: Bank of Mongolia*



Inflation stood at 2.3% by December 2020 due to low oil prices and meagre domestic demand. However, food price inflation has remained elevated at 8.5% at end-2020 partly due to panic buying and the lockdowns. Inflation is expected increase alongside the recovery in the economy and the translation of the normalization of oil price into domestic prices. It should be noted that the inflation target of Bank of Mongolia has changed to "6% (+/- 2%)" from the previous "below 8%" starting from 2021. We expect that the new target band with the center of 6% that is lower than the previously implied 8% target will result in lower inflation and lower nominal interest rates in the medium term.

Tugrik exchange rate against the U.S. dollar has been broadly stable since July 2020 after depreciating by about 4% from January 2020 level reflecting the recovered exports in the second half-year. Tugrik has depreciated by 10% against the Chinese renminbi in 2020.

In the environment of low inflation and stable exchange rate, the Bank of Mongolia has taken significant part in the policies of safeguarding the economy against the impact of the COVID-19 pandemic. It has cut the policy rate from 11% in March to the historical low of 6% by November 2020. At the same time, it has softened its prudential measures on the banking sector by lowering required reserves and other prudential measures in order to relieve the banks and its customers temporarily of the difficulties arising from the lockdowns and uncertainties. Furthermore, it has started mortgage and repo financing. Going forward, the Bank of Mongolia will be partly responsible for financing the Economic Recovery Program of 10 trillion MNT.

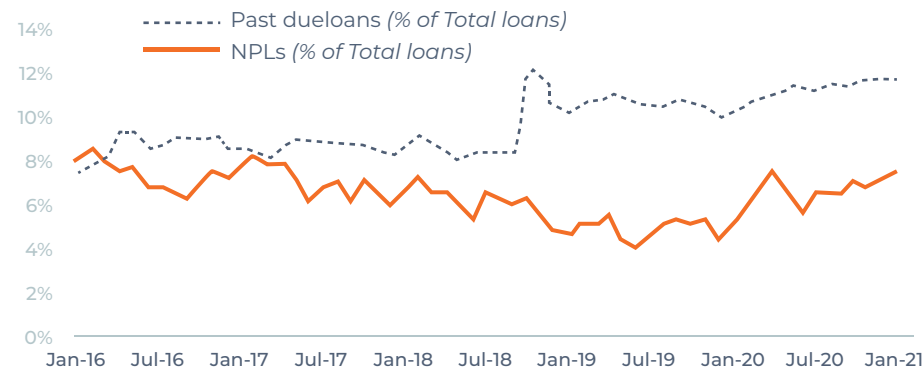


# Banking Sector

The total amount of loans outstanding in the banking sector has declined by 4.9% in 2020 to 17.2 trillion MNT reflecting the uncertainties in the economy due to the COVID pandemic. Out of the total outstanding loans, MNT 8.7 trillion (50.1%) were loans to individuals, MNT 7.9 trillion (46.1%) were corporate loans and the MNT 0.6 trillion (3.8%) were other sectors. Corporate loans declined by 6.6% and the loans to individuals declined by 7.7% in 2020.

The NPL ratio in the banking system has increased to 11.7% by end-2020 from 10.1% a year earlier and the share of the past-due (PD) loans has increased from 4.6% of total loans to 7.4% by December 2020. The portfolio at risk (NPL+PD) stays elevated due to the weak business activities during the COVID-19 pandemic.

## ➤ Non-performing and past-due loans (%) in the banking sector

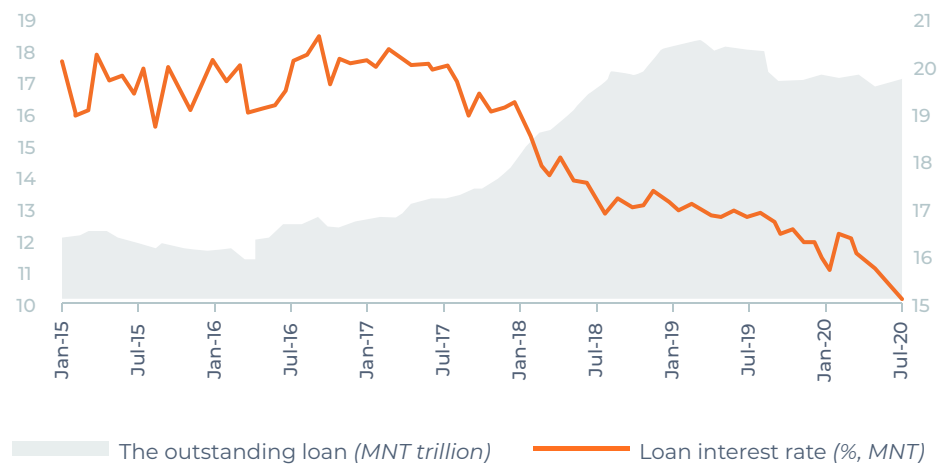


Source: Bank of Mongolia

According to Bank of Mongolia, the system-wide capital adequacy ratio is currently above the minimum threshold of 12 percent. Bank reserves (at Bank of Mongolia) stood at about 19 percent of total deposits in December 2020, much above the 6 percent MNT (15 percent for FX) reserve requirement ratio. Meanwhile, the ratio of liquid assets—including bank reserves, central bank bills, and government bonds—to total bank liabilities was 36 percent in December 2020, above the minimum threshold of 20 percent imposed by the central bank.

As of December 2020, the weighted average rate of the loan in domestic currency (new loans) was 14.75%, down by 2.1 pp compared to a year earlier, and the weighted average rate of loans in foreign currency (new loans) was 9.8%, an increase by 1.1 pp from a year earlier. Domestic currency deposit rates were 8.36% (new deposits), a decline of 2.2 pp, by December 2020. The decline in tugrik interest rates largely result from the low Bank of Mongolia policy rate and the temporary removal of interest on current accounts and demand deposits.

## ➤ The outstanding loan and the interest rate



Source: National Statistical Office

# Retail Banking

## Galt suman mundur LLC

Our customer Galt suman mundur LLC specializes in beverage manufacturing, supplying the market with well-known brands such as Orgil, Janchivlan natural spring water, Pure Fruit plum & raisin drinks. They are the official distributor of Kuka Korortnaya and Alostara Russian beverage brands in Mongolia. Galt suman mundur, a company of 20 people, is one of the many successful SMEs that our bank works with.

We have been partnering on business loans since 2011. Through the pandemic challenges of 2020, the company has successfully managed its business without any downsizing.

## Supporting customers affected by the COVID-19 pandemic

Our utmost priority during Covid 19 pandemic was providing efficient, continuous, and risk free banking services to our customers.

With this priority in mind, we have focused on delivering products and services through digital channels such as the registering of customers to digital products who were without access to the digital products. Also, frequent routine disinfectant and sanitation were performed at the bank branches and the Head Office.

During the lockdown, the contact center capacity was increased to assist and resolve customers' requests. Also, we have efficiently utilized bank's website, email and mobile channels to deliver necessary timely information to our customers.

Customers loan restructuring and MIK mortgage loan payment deferral requests were received online through the bank's website and digital banking applications, which made convenience for our customers. In 2020, the repayments MIK mortgage loans amounting of MNT 269 billion were postponed for 5.9 thousand customers and MNT 313 billion of 16 thousand customers' loans were restructured.

## Retail deposits

The Retail Banking deposit portfolio has increased by 13 percent compared to previous year and reached a total of MNT1 trillion 874 billion. Our total depositors have reached 857 thousands and from which 208 thousands of customers are children. In reflection of the economic outlook banking deposit rates are gradually decreased. The funding costs decreased by 200 bps, which was one of the key indicators of improved performance.

## Retail lending

XacBank has maintained its loan portfolio at a stable level and reached loan portfolio of MNT 1 trillion and 48 billion, despite a difficult year in which the spread of the COVID-19 pandemic and businesses are affected by the lockdowns. In addition, by adhering to the principles of customer protection in lending activities and providing the necessary financing to bank customers instead of burdening them with excessive debt. Thus, we were able to keep the level of non-performing loans at 5.9 percent, which is amongst top of the banking sector.

Retail business loan interest rate has been decreased by 200 bps while consumer loan interest rate decrease was 400 bps.

In order to provide prompt delivery of our loan products and service, the bank has adopted advanced technology and able to decrease loan processing time by 2 times. Furthermore, in 2020, total of 62 percent of total loans were delivered by digital channels.

## Branch management

We have made significant efforts and invested resources to enhance the customers experience at the branches to ensure comfort, safe space for our customers and employees during this pandemic. Also, in order to assist our customers, we have employed and trained our employees for the purpose of providing financial advices to our customers.

There were no changes to the bank branches locations and numbers.



### Ulaanbaatar city

Hub branches	10
Branches	24
Extensions	1



### Rural area

Branches	23
Sub-branches	17
Extensions	2

**Total 77**



## Retail Banking

### ➤ New challenge. New opportunity.

2020 marked a year with great challenges as COVID-19 affected our business operations, and despite the challenges, we are proud of what we achieved. As XacBank continues to embark on its digital transformation journey, past 3 years' hard work and digital preparedness have paid-off greatly during the COVID-19 crisis and our staff were able to switch to remote work mode and serve our customers without a hiccup in business continuity. During these tough times, ensuring that our customers have access to full banking services while protecting the health and well-being of our staff were crucial. The pandemic has brought new opportunities to explore, expediting the overall digitization process of our society and helping our customers to be digitally friendly. As customers become more accustomed to digital services and products, it helps raise the bar for banks and tech companies to challenge the status quo, reengineer its current processes and further push the boundaries.

### ➤ Retail banking. Technology driven.

XacBank has been actively investing in its digital channels since 2017. As a result, our merchant network has more than doubled during the period. On the merchant side, it means simpler payments, easier accounting and access to instant loans. On the retail customer side, it means they can now enjoy a wider range of benefits including more merchant locations with cashback. During the same time our ATM network grew 2.5 times, enabling our customers to access ATM & Express Banking services throughout the country. Our story is simple. We grow together with our customers. Since 2017, XacBank cardholders and internet bank users grew by 181% & 170% respectively – saving a total of 1.9 billion tugriks in fees to our customers through fee free ATM and internet bank services. Last year, we further invested in our IT infrastructure to become even friendlier to new partnerships on the system integration level. We continue to innovate both within our business and with our partners.

### ➤ Digital transformation. The journey continues.

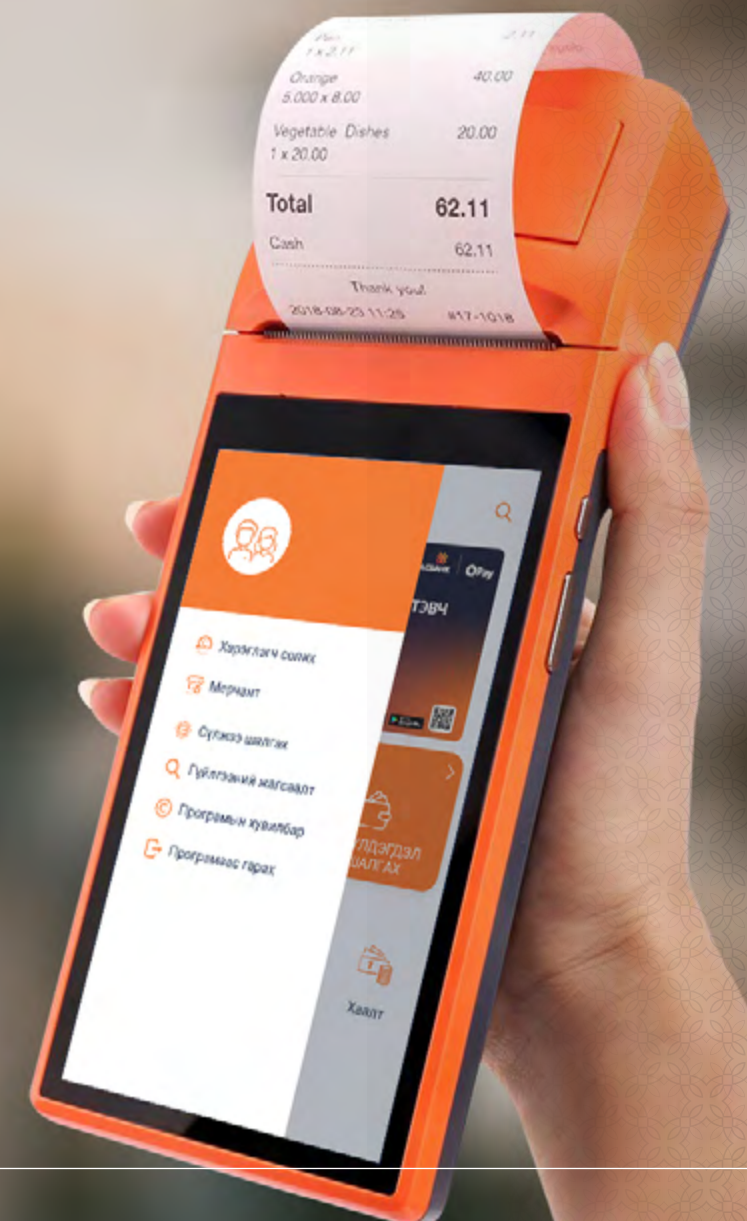
The core of our digital transformation journey is improving efficiency and ease of running business. For instance, with the introduction of innovative tools such as BPMS (business process management system) we can proudly say that our branch operations are faster and more customer friendly. When banking operations are faster, the ultimate winner is the customers. This also extends to our digital channels. In this ever-changing tech horizon, we recognize that there are still a lot of work to be done, but we are getting closer to our goal with each step as our digital strategy is clear and aligned. XacBank's digital strategy is to become a simpler bank by focusing on our core business, and simplifying how we do our business translates to building a long-term win-win partnership with those who can offer the most innovative solutions for our customers.

### ➤ Becoming digital. A new level.

The pandemic made it hard for our customers to make everyday payments, especially for those who are used to cash – and our customers totally rocked it. In 2020, our customers embraced digital banking & card payments on a completely new level. Digital banking and card transactions increased 143% & 120% year-over-year. Today 1-in-3 customers use digital channels for their everyday banking needs. Over 90% of all transactions went through digital channels in 2020. Due to yearlong restrictions and lockdowns latter in the year, some of our customers were not able to get banking services in person, and we made sure that families with little children (government sponsored child support program recipients) and the elderly had access to banking services no matter what. We contacted our customers-in-need and offered debit cards at no additional cost. We will continue to grow together with our customers in 2021 and beyond.

### ➤ Striving for the best. Within and outside.

XacBank understands that together we need to nurture a unified and open payment eco-system, and we are proud to launch the next generation digital wallet in partnership with one of the hottest fintech services in town – QPay 2.0. This greatly helps merchants and buyers through the COVID-19 pandemic by offering fully contactless payment options. In late 2020, XacBank became the first bank in Mongolia to rollout Android POS devices to our merchants. These devices come with a payments platform that will allow a new level of integration possibilities with the merchant's system. We are ambitious enough to say that our goal is to provide our customers with the best in class digital bank. It is not easy, but that is what we strive for. As a bank, we continuously invest in customer-facing and back-end technology to deliver easy-to-use and secure digital banking services. Moreover, we are happy to announce that we will be launching our next generation digital banking platform in 2021.





# Business Banking

## Uguuj guril LLC

Uguuj guril LLC is one of the leading companies producing variety of high quality flour in local market. Since our successful cooperation began in 2006, Xacbank has provided full range of banking services including investment and working capital loans, trade finance, and retail bank services to meet the customer's needs.

In 2018, the company replaced its old flour milling technology by fully integrated and automated flour milling machinery. The new technology was imported from Turkey through trade financing facility of Xacbank. As result, the customer was able to double its milling capacity and reached annual capacity of milling 40,000 tons and increased the profitability of the company by 2.3 times. Uguuj guril LLC is well known by its high quality products including premium-grade, all purpose flour, whole wheat, infant rice, and animal feed.

Business banking team had another successful yet challenging year. During the uncertainty of COVID-19 global pandemic, our dedicated corporate bankers thrived to provide flexible and tailor-made financial services to our clients to ease their financial burdens. We believed that being responsive to our clients' needs on timely manner to navigate through uncertain circumstances would assist our customers significantly.

### ➤ Our key focus areas of 2020 were:

- Providing high quality customer centric financial services has been always main objective of Business banking. Financial well-being of our existing clients was the priority of our focus than onboarding new clients and expanding market share in 2020. We supported our clients businesses' through restructuring loan repayments and lending additional working capital to reduce the economic impacts of Covid-19. Although we forecasted to restructure over half of our loan portfolio at the beginning of the year, we ended up restructuring less than 25% of the loan book by the year-end.
- Since 2019, business banking team has started taking proactive risk measures to prevent our corporate clients from undesirable economic downturn as part of our portfolio optimization strategy, in which we have focused on having more number of medium sized loans rather than few high-ticket loans. As result, the concentration of Top 40 exposures in Tier 1 equity has reduced from 220% down to 153% by the year end. The pre-emptive steps that we have taken helped us to prepare healthy ground to manage the corporate portfolio more efficiently during the uncertain environment.
- Despite the financial difficulties in the economy, the current account balance of Business banking has increased by 25% YOY as result of close cooperation with our corporate clients. Using account management tools such as cash pooling and eGateway services, XacBank corporate accounts became more accessible and efficient to use on daily basis.
- As part of its commercial banking activities, XacBank issues documentary credit and guarantees on behalf of its clients to enhance their credit standing. Our unique shareholding structure and transparency allow us to secure significant trade finance lines from various international financial institutions that reaffirm XacBank's position as a key player in the domestic trade finance scene. Despite the damaging consequences of the ongoing pandemic on the economy, XacBank experienced growth in the fee income generated from its trade finance business, reaching MNT 3.4 billion in FY2020 compared to MNT 3.2 billion of the previous year. The total volume our trade finance team processed in FY2020 amounted to 5,705 documentary credits and guarantees worth approximately MNT 92.5 billion.
- Receivables Discounting: XacBank also offers receivables financing services to suppliers of Oyu Tolgoi LLC. By offering up their receivables from Oyu Tolgoi as collateral, clients can receive quick funding at low rates with minimum paperwork. XacBank disbursed over MNT 30 billion in receivables financing to approximately 20 clients in FY2020. This number is set to increase once OT's underground Phase 2 project picks up steam.
- Portfolio Optimization: XacBank, in conjunction with international development institutions, offers syndicate loans to clients at fairly low rates for capital expenditure purposes. These loans achieve the capex financing needs of local companies while also offering regulatory capital relief for XacBank. Our risk sharing arrangements worth over USD 25 million have assisted in the expansion of our clients' operations.



# Environmental Responsibility

## Driving a sustainable transition

We take measurable steps to reduce carbon emissions through our lending programs and project implementation activities. Our efforts are in line with many of the United Nations Sustainable Development Goals (SDGs) – the globally-agreed pathway for resolving global challenges and securing a more sustainable future.

SDG	XacBank Action	SDG	XacBank Action
<div>1</div> <div>NO POVERTY</div> <div></div>	<b>No Poverty:</b> Concessional eco loans and subsidized energy efficiency products under XacBank's projects and programs increase affordability and access for end users.	<div>6</div> <div>INDUSTRY, INNOVATION, INFRASTRUCTURE</div> <div></div>	<b>Industry, Innovation, Infrastructure:</b> XacBank became the first Mongolian commercial bank to finance completion of a commercial scale solar photovoltaic power plant in Mongolia.
<div>2</div> <div>GOOD HEALTH AND WELL-BEING</div> <div></div>	<b>Good Health and Well-Being:</b> Under the Energy Efficient (EE) Product Distribution Program 8 173,852 EE products were distributed to 150,489 households, with tangible reductions to CO2 and pollution.	<div>7</div> <div>REDUCED INEQUALITY</div> <div></div>	<b>Reduced Inequality:</b> The Green Pasture Pilot in partnership with Mercy Corps aims to reduce climate change vulnerability for herders in Mongolia's degraded rangelands.
<div>3</div> <div>GENDER EQUALITY</div> <div></div>	<b>Gender Equality:</b> At least 50% of GCF-financed Business Loans for GHG Emission Reduction must go to women-led businesses. In 2018, that proportion was 77.9%.	<div>8</div> <div>SUSTAINABLE CITIES AND COMMUNITIES</div> <div></div>	<b>Sustainable Cities and Communities:</b> XacBank's eco car loan program has financed the purchase of 1,067 low emission vehicles in Mongolia, while business loans reduce air pollution.
<div>4</div> <div>CLEAN WATER AND SANITATION</div> <div></div>	<b>Clean Water and Sanitation:</b> A reduction of approximately 4.3 billion liters of water usage is expected over the 25-year lifetime of the 10 MW utility-scale solar power plant co-financed by XacBank.	<div>9</div> <div>RESPONSIBLE CONSUMPTION AND PRODUCTION</div> <div></div>	<b>Responsible Consumption and Production:</b> GCF-financed lending programs enable businesses and households to lower environmental impacts via energy efficient purchases.
<div>5</div> <div>AFFORDABLE AND CLEAN ENERGY</div> <div></div>	<b>Affordable and Clean Energy:</b> The 10 MW utility-scale solar power plant co-financed by XacBank will contribute 15,395 MWh low-carbon electricity generation per year into Mongolia's electricity grid.	<div>10</div> <div>CLIMATE ACTION</div> <div></div>	<b>Climate Action:</b> CO2 emission reduction in line with Mongolia's Nationally Determined Contributions and Green Development Policy.

## Paving the way for partners and our community to improve environmental sustainability

Our social and environmental policy is guided by the principles of Corporate Social Responsibility as a means of managing our business responsibly and sustainably for long-term success.

The Bank is strongly committed to the principles of sustainable development as exemplified by the implementation of its ISO 14001-complaint Social and Environmental Management System (SEMS) to address environmental issues, both social and ecological, arising from the Bank's operations since 2002. The SEMS was renewed in 2008, 2011, 2014 and 2018. All employees involved in the loan process and other processes such as procurement receive regular trainings and workshops in applying E&S principles and procedures. The SEMS Policy guidelines are made program-specific and are incorporated in our project-related activities.

We systematically gather data on social and environmental impacts from our operations across the country, and provide our strategic shareholders and investors with environmental and social reports on a regular basis. We initiate in-house environmental protection measures aimed at efficient use of energy, fuel, water, reducing paper consumption and waste.

XacBank's climate finance projects are tackling salient climate change issues through successful partnerships with the Green Climate Fund and international stakeholders

# Eco Banking

## Our eco client

MyMonSource LLC  
LEED certified Green building

XacBank issued a loan to MyMonSource LLC for the construction of office building through its Business Loan Program for Emission Reduction. MyMonSource LLC is aiming to construct its office building in accordance with the international green building LEED certificate and attain Mongolia's first LEED qualified office building. LEED (Leadership in Energy and Environmental Design) is the most widely used green building rating system in the world. This certificate is a globally recognized symbol of sustainable development.

MyMonSource Office Building Project is a 4,800 square meter mixed-use office, warehouse, and repair center with 200kW roof solar panel installation which has 720,000 kWh/year energy savings and 403,200 tons of carbon emission reduction. Furthermore, installation of rainwater collection system will save 400 tons of water per year.



# Eco Banking

➤ Eco Banking Initiatives

➤ Implementing Projects and Programs

XacBank's Eco Banking Department is the only banking unit in the entire banking system of Mongolia that specializes in providing sustainable financial solutions, identifying emissions baselines, and measuring energy efficiency for different business cases. Established in 2009, the Eco Banking Department operates on three main business lines: implementing projects and programs, carbon finance, and sustainable energy finance.

XacBank's project implementation activities are centered on capacity building and awareness raising to extend the impact of its green lending programs, as well as monitoring prior programs. 2020 marked the fourth year of XacBank's Business Loan Program for GHG Emission Reduction, our first partnership with the Green Climate Fund. Program activities include awareness raising and facilitation of financial and energy efficiency capacity building trainings for XacBank's MSME clients, trainings for credit officers on eco loan identification and best practices, developing approved technology lists to facilitate loan identification, and Green Financing Forums for MSMEs. Nevertheless, disaster prevention and risk reduction program systematically adopted by the Government against COVID-19 pandemic, cancelled scheduled activities encompassing the public, such as the Green Financing Forum and training of clients.

The Energy Efficient Consumption Loan Program (EECLP), in partnership with the Green Climate Fund successfully concluded its first year of implementation. Within the scope of the project, XacBank successfully concluded joint agreement with the Ministry of Environment and Tourism to support consumption loans to buy clean heating appliances and insulation with interest rate subsidy. Furthermore, collection and dismantling of old stoves of participating households; awareness raising and knowledge-sharing conference for over 630 sub-district section officers; and trainings for credit officers on energy efficient consumption loan disbursement progress and the benefits of energy efficiency at the household level was organized.

Moreover, XacBank in collaboration with the Mongolian Sustainable Finance Association piloted the first reduced-rate energy-efficient housing loan program from which clients can benefit from financial relief in the form of a principal reduction of up to 30% of the total loan amount. Our major project and program implementation milestones include:

- 2010-2015: Implementation of the Energy Efficient Product Distribution Program, allowing nearly 80% of ger-area households to purchase one or more subsidized energy efficient products through XacBank product centers.
  - 2017-2020: Continued implementation of awareness raising and capacity building activities under the Business Loan Program for GHG Emission Reduction. Trainings in 2020 reached 222 branch staffs.
  - 2018: Facilitation of 18 trainings and workshops to a total of 782 stakeholders under XacBank's delivery of the NDA Readiness program, culminating with stakeholder acceptance of Mongolia's GCF Country Program.
- 2019: 10MW Solar PV facility in Sumber soum finished construction and began supplying power to the grid in March 2019.
  - 2019: Successfully launched the Energy Efficient Consumption Loan Program and began awareness raising and capacity building activities as part of this loan program. Organized our third annual Green Financing Forum, sponsored the 10th Annual National Renewable Energy Forum, and continued with capacity building trainings for XacBank Staff.
  - 2019: The Project Preparation Facility for the Support for the Establishment of the Mongolian Green Finance Corporation (MGFC) was successfully approved and completed in the same year.

XacBank's climate finance projects are tackling salient climate change issues through successful partnerships with the Green Climate Fund and international stakeholders

- During this project, the MGFC Establishment Team was created and a Memorandum of Understanding was drafted between the Mongolian Government and leading Mongolian banks.

  - 2019-2020: Mini-grid/Off-grid Solution for Ger Area programme was approved and started its implementation in 2019 for Green Climate Fund Project Preparation Facility funds to develop an off-grid
- solution for ger area household with an affordable business model which is novel for Mongolia. The global outbreak of the COVID-19 pandemic in 2020, delayed implementation of the programme.

  - 2020: Created favorable credit conditions for customers by concluding joint agreement with the Ministry of Environment and Tourism through the Energy Efficient Consumption Loan Program.
- 2020: Successfully organized Consumption loan knowledge-sharing conference for over 630 sub-district section officers in collaboration with the UB city Municipality.
  - 2020: Successfully launched energy efficient housing loan program in collaboration with the Mongolian Sustainable Finance Association.

➤ Carbon Finance

2020 marks the closure of the monitoring of the usage of energy efficiency products distributed in the Energy Efficient Product Distribution Program by the successful completion of the final audit. The monitoring which started in 2016 allowed XacBank and its partner MicroEnergy Credits to issue carbon credits in both voluntary carbon credit market and in the United Nations Clean Development Mechanism (CDM) certified carbon credit market.

Each carbon credit represents the reduction of one tonne of carbon dioxide emissions. The credits can be sold to organizations for corporate social responsibility purposes or to countries seeking to meet carbon emissions reduction targets. Major carbon credit purchasers under XacBank's programs include the Government of Sweden and Microsoft Corporation.

➤ Our major carbon finance milestones include:

- 2009: Establishing a partnership with MicroEnergy Credits to facilitate carbon credit sales
  - 2011: Facilitating issuance of our first Voluntary Emission Reduction (VER) credits
  - 2013: Registering with the Clean Development Mechanism to enable the sale of Certified Emission Reduction (CER) credits
- 2015: Negotiating a purchase agreement for the eventual sale of CER credits to the Government of Sweden.
  - 2016-2019: Facilitating issuance of our first CERs in the Clean Development Mechanism in 2016; over 350,000 CERs have been issued in total through 2019
  - 2020: Successful completion of final audit.

➤ Sustainable Finance

XacBank has provided sustainable finance loans since the establishment of the Eco Banking Team in 2009. Over the years, the Eco Banking Team's sustainable finance facilities have grown through collaboration with international partners, enabling XacBank to offer concessional financing for energy efficient and renewable energy technology in Mongolian businesses and households.

Sustainable finance activities in 2020 focused on continuing disbursements under the Business Loan Program for GHG Emission Reduction, along with the launch of the Energy Efficient Consumption Loan Program (EECLP).

The Energy Efficient Consumption Loan Program is aimed at increasing consumer adoption of energy efficient products, such as electrical heating appliances and energy efficient housing products. This loan program has great potential to significantly increase Mongolian uptake of green technology at the household level. Since launching, we have successfully executed a number of activities related to capacity building and awareness raising.



# Eco Banking

## Our major sustainable finance program milestones include:

- 2009: MNT 6.5 billion of syndicated loans financed by the Netherlands Development Finance Company (FMO), enabling 1,788 consumption loans for energy efficient products
- 2013-2020: Eco business loans are introduced, allowing producers, traders, installation service providers, and end users of energy efficient and renewable energy products to receive concessional financing.
  - In 2012, XacBank receives an initial USD \$20 million sustainable financing facility from the Global Climate Partnership Fund (GCPF)
  - This is followed up by the European Bank for Reconstruction and Development's USD \$10 million facility through the Mongolian Sustainable Energy Finance Facility (MonSEFF) in 2013
  - In 2017, the Green Climate Fund provides USD \$19.5 million in loan financing and USD \$500 thousand in grant funding to scale up XacBank's program, now formally called the Business Loan Program for GHG Emission Reduction.
  - Since beginning to provide eco business loans in 2013, XacBank has disbursed over MNT 120.3 billion for energy efficient and renewable energy projects and products, offsetting an estimated 1,460,479.25 tons equivalent of CO2 emissions compared to business-as-usual activities.
- 2014-2018: Collaboration with responsAbility begins and the Eco Car Loan Program is launched, allowing customers to gain access to better-than-market loan rates to purchase hybrid cars with reduced emissions and fuel usage. Through the end of 2018, the program has reached 1,067 customers and disbursed more than USD \$5.2 million.
- 2018: XacBank's Green Pasture Pilot launches in partnership with Mercy Corps, aiming to reverse land degradation and improve animal health through concessional loans and capacity building to herders who agree to reduce herd sizes, as well as working with a similar project in Khovd in partnership with the Swiss Development Corporation.
- 2019-2020: The successful launch of Energy Efficient Consumption Loan Program, which was approved with a USD \$9 million loan and USD \$1 million grant by the Green Climate Fund. The newly launched program has already achieved 3,870.24 tonnes of carbon emission reduction and has potential to reduce up to 469,574 tonnes of carbon dioxide throughout the program lifetime.

## Green Climate Fund

XacBank is the first commercial bank in Mongolia to be accredited by the Green Climate Fund (GCF), which was established under the United Nations Framework Convention on Climate Change as a mechanism to transfer climate change adaptation and mitigation funds from developed to developing nations.

The Green Climate Fund is XacBank's largest sustainable finance partner. In 2019, XacBank launched the Energy Efficiency Consumption Loan Program, which was the first private sector Funding Proposal to be approved through the Simplified Approval Process (SAP). In addition, XacBank's GCF-co-financed Sumer Solar Power Plant began supplying energy to Mongolia's central grid in March 2019, marking the first completed project financed by the GCF.

2020 highlights the approval of the fourth Funding Proposal FP153 "Mongolia Green Finance Corporation" (MGFC) by the GCF Board. MGFC is Mongolia's first green financial institution which acts as the key driver to promote climate finance, established within the framework of Mongolian development policy Vision 2050 "Establish and develop a joint public-private national green financial system to finance environmentally friendly green projects and activities". The project will be implemented by co-financing of the Government of Mongolia and local commercial banks. This tripartite cooperation between international organization, the government and the private sector will play an important role in supporting Mongolia's green finance development, capacity building and legal environment.

XacBank's climate finance projects are tackling salient climate change issues through successful partnerships with the Green Climate Fund and international stakeholders

Major milestones in XacBank's relationship with the GCF include:

- 2016: XacBank becomes the first private sector entity in the developing world to become an Accredited Entity of the GCF.
- 2016: XacBank's first Funding Proposal, FP 028: Business Loan Program for GHG Emission Reduction, is approved with USD \$19.5 million in loan financing and USD \$500,000 in grant funding from the GCF.
- 2017: Funds are disbursed to XacBank to begin lending under the FP 028: Business Loan Program for GHG Emission Reduction, in the GCF's first-ever full disbursement for a Funding Proposal.
- 2017: XacBank's second Funding Proposal, FP 046: Renewable Energy Program #1, is approved with USD \$8.65 million from the GCF. XacBank becomes the first local commercial bank in Mongolia to finance a commercial-scale renewable energy facility.
- 2018: XacBank's third Funding Proposal, SAP004: Energy Efficient Consumption Loan Program was approved with USD \$9 million in loans and USD \$1 million in grant funds from the GCF. XacBank becomes the first private sector Accredited Entity to have a Funding Proposal approved through the Simplified Approval Process.
- 2018: The Readiness and Preparatory Support Programme – Establishing and Strengthening National Designated Authority (NDA) and National Focal Point (NFP), and Strategic Frameworks for Engagement with the Fund, including the Preparation of Country Programs – was approved by the GCF with XacBank as the delivery partner.
- 2019: XacBank's first GCF project completion: the Sumer Solar Power Plant finished construction and was connected to Mongolia's central grid in March 2019. Since the start of operation, the power plant has supplied 13,714 MWh of electricity to the grid, reducing carbon emission by 11,945 tons CO2. This solar plant provides enough renewable energy production for 20,000 households and saves 171 million liters of water annually, over a project lifetime of 25 years.
- 2019: The Project Preparation Facility for the Support for the Establishment of the Mongolian Green Finance Corporation (MGFC) was successfully approved and completed in 4 months.
- 2019: Mini-grid/Off-grid Solution for Ger Area programme was approved for Green Climate Fund Project Preparation Facility funds.
- 2020: The Readiness and Preparatory Support Programme – Mongolia: Strengthening in-country coordination and engagement with the Fund and aligning the development of Nationally Determined Contribution and revision of the Country Program with the country's Sustainable Development Vision 2030 – was approved by the GCF with XacBank as the delivery partner.
- 2020: The Readiness and Preparatory Support Programme – Energy Savings Insurance Model Development – was approved by the GCF with XacBank as the delivery partner.
- 2020: XacBank's fourth Funding Proposal, FP 153: Mongolia Green Finance Corporation, is approved with USD \$5 million in equity financing, \$20 million in loan financing and USD \$2 million in grant funding from the GCF.

## Eco Banking Strategic Priorities

We define our eco banking strategic priorities in the forthcoming years as follows:

- Flagship: Become the flagship of XacBank's direct implementation of its "Planet" portion of our triple bottom line mission "People, Planet, Prosperity"
- Leader: Strategically position XacBank as the leader of green finance in Mongolia through a first-of-its-kind partnership with United Nations' Green Climate Fund (GCF). XacBank became Mongolia's first accredited, direct access National Implementing Entity (NIE).
- Integration: Develop structure on top of XacBank's existing product lines to implement green financing
- Expansion: Access long-term green funding in larger amounts, so as to attract new customers in the field of large infrastructure projects, such as solar power plants and water preservation.
- Co-operation: Launch Mongolia Green Finance Corporation, uniting the Mongolian Bankers' Association in socially and environmentally responsible investment opportunities. Continue to lead the MBA in activities aligned with ToC initiatives.

# Digitalization

## Information Technology

### Cyber Security

- Due to Covid-19 situations, the latest technology solutions were quickly implemented and all employees were able to work remotely, moreover events such as scheduled board and unscheduled meetings and annual staff reporting meetings were successfully organized online.
- In accordance with the Covid-19 regulation decisions from regulator organizations, we have implemented solutions to receive customer's loan change requests online and automate other necessary services.
- Developed and introduced a new solution that allows customers to withdraw cash and make transactions from XacBank's ATMs without using a card.
- Introduced Android POS devices and connected to internal card systems. Therefore, cardholders were able to work with the bank on a wider scale, such as print online receipts more easily, running incentive programs tailored to their business, and integrating with other systems of their organization.
- Launched Qpay wallet application in cooperation with KKTT. As a result, customers can connect their XacBank UPI card to Qpay wallet and easily make all kinds of international and domestic transactions through online.
- Introduced Chatbot with Cloud solution in order to provide banking products and services electronically to increase customer service and accessibility, and started using it in our social media platforms for customer service.
- Collaborated with about 10 Fintech companies on system-wide integration and development through the bank's open API service.
- Introduced solution to allow to make the large interbank transactions of more than 3 million in Thunes international money transfer service.
- In cooperation with electricity distribution companies, customers can pay their electricity bills online using XacBank's electronic channel.
- In cooperation with Human Resources, introduced Talent LMS cloud system for online training of employees.
- Annual evaluation was conducted and submitted to SWIFT in accordance with the Customer Security Program to ensure the security of the international SWIFT system for international payments.
- Completed the Self-Assessment Questionnaire in accordance with the requirements of the international standard for payment card security PCI DSS v3.2.1.
- Increased coverage of security systems and increased information flow through security systems.
- Virus protection solutions have been successfully updated to improve quality and reduce costs.
- Completely renovated e-mail security solutions and successfully introduced internationally recognized and leading solutions that took e-mail security to another level.
- Also, XacBank initiated the project to replace the core banking system to enhance the current functionality and banking services for our customers and support digital transformation.



## Social Responsibility

### Made donation to charities

as a new year gift to following  
projects

## 100 million ₮

- Heart Never Forgets
- Renovation of National Center for Maternal and Child Health for improving working environment for future doctors



### Xac Khuleguud basketball team

Sponsored Xac Khuleguud  
for consecutive

## 14 years

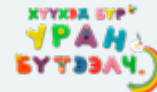
Xac Khuleguud won 2nd place  
in National Basketball League.



### Every child is an artist

Organized annual  
“Every child is an artist”  
contest for the

## 5th year



### Together against Covid-19

Donated

## 60 million ₮

National Emergency  
Commission, to support  
healthcare workers with  
necessary protection clothing,  
equipment against Covid-19.



### Peter Morrow Scholarship

Announced Peter Morrow  
Scholarship for the

## 5th year

and offered to best students.



### ATM and Internet Banking services

Saved

## 1.9 billion ₮

for our customers  
through zero-fee ATM  
and Internet Banking  
services.



### Well being

## E-sport

Organized annual XacCup  
among XacBank employees,  
with an addition of E-sport  
tournament.



### Human Resource

Preserved all jobs across the  
bank, whilst providing 100%  
salary to all

## 1200

employees.



### Human Resource

Offered paid pregnancy  
leave and opportunity  
to work from home for  
employees, who have  
children aged between

## 0-12



# Operational and financial report

## ➤ Operating environment:

The undercurrent of the year 2020 was Covid19 pandemic which had begun in late 2019 and already becoming global issue with economic consequences by March with Mongolia's main trading partners severely impacted. Due to rapid escalation of the pandemic, governments and Central Banks across the globe begun to adopt increasingly protective measures, restricting free flow of trade and insulating economies as such creating unprecedented challenges in financial sectors.

Mongolia was no exception to this exceptional circumstances thus started implementing numerous economic stimulus measures such as repeated policy rate cuts to eventual all-time low of 6%, various tax breaks for both personal and business entities as well as concessions for borrowers on loan repayments. However due to continued border closures, social restrictions and lockdowns the economic recovery is slow and sure to be gradual.

As the core makeup of Mongolia's financial sector, commercial banks are facing systemic asset quality, liquidity concerns and the difficult challenge to balance the act of being the main cog in economic recovery hence sharing financial burden of regulatory measures whilst carrying out its duty of care to protect customers, employees and shareholders.

For XacBank our prudent and proactive risk management enabled us with required flexibility to the rapidly changing environment throughout the year both operationally and financially. As one of the systematically important Bank, we've been one of the forefront conduit to implement government's economic measures and improvements in our fundamental financial metrics demonstrate that the Bank is well able to manage this balancing act.

## ➤ Efficient performance:

The Bank reported MNT 29.8 billion in net profit with return on equity of 12.3% for the fiscal year which are more than 3 times improvement compared to FY2019 at MNT 8.7 billion and 3.8%, respectively. Profit before tax and credit loss charge improved by MNT 15.5 billion to MNT 59.8 billion as a result of efficiencies gained in operating expenditure as well as net interest earnings.

Net interest income rose by 15.6% to MNT 99.6 billion primarily from improved interest earnings from investment portfolio making up for the loss of earnings in lending due to portfolio attrition as a result of depreciation in the economy.

Non-interest income includes other earnings from fees and commissions, trading and ancillary services and combined net total of MNT 24.6 billion is par level with 2019 largely due to revenue stream based on economy shock resistant, highly digitalized business process.

Overall credit loss and provisioning expenses amounted to MNT 21.1 billion including MNT 1.4 billion in write-off and is a reduction of 30% from 2019. As a result our risk coverage of non-performing loans relative to the provisions set aside for them, improved from 89% to 104%, the highest ever.

The Bank continue to drive its efforts to gain efficiencies in operating expenditure across all cost centers hence achieved 3.6% overall expenses reduction year on year without sacrificing employee salaries despite limited business operations for most of the year. This cost discipline together with increase in operating revenue have further enhanced the operating self-sufficiency ratio of the Bank from 59.9% to 51.6%.

+244.4% YoY  
**29.8** MNT billion

Net profit  
*As of 31 December 2020*

## ➤ Lean balance sheet:

-6.1% YoY  
**3,244** MNT billion

Total assets  
*As of 31 December 2020*

The Bank is one of the systematically important bank and the fifth largest in size with Total asset of MNT 3,244 billion which is an attrition of 6.1% or 2.5% in terms of assets under administration (AUA) during the year where the domestic economy has contracted by 5.3% and the commercial banks total portfolio attrition of 4.9%.

In line with economic downturn, the Gross loan portfolio (GLP) declined by 24% down to MNT 1,385 billion while average cash and cash equivalents held declined by MNT 156 billion as a consequence the Bank grew its investment portfolio by MNT 747 billion in order to arrest the drop in income yielding asset base therefore protect its interest margin.

Thanks to our de-risking strategy initiated in 2019, the Bank achieved 6.5% non-performing to total loan ratio which although deteriorated by 1.9% compared to 2019, it is the best amongst top 5 banks and well below the 11.7% in the banking sector, as well as attaining its desired optimal proportion of 75:25 in retail to corporate business line segmentation.

Public deposits increased by 10.3% to MNT 2,005 billion. Majority of the growth was on term deposits despite reductions in interest rates offered, into one of the lowest in the market in line with repeated policy rate cuts therefore underlying strong depositor confidence on XacBank.

As a result of government measures and reduced interbank activities in the sector, locally sourced funding reduced by MNT 51 billion due to decrease in state programs and interbank accounts.

Foreign funds account for 26% of total liabilities and include senior debt from internationally recognized reputable financial institutions and banks. Earlier in the year, the Bank has received USD 100 million in syndicated debt under cost efficient terms and made total repayment of USD 119.5 million including maturity of USD 20 million subordinated debt as such effectively refinanced its funding cost base.

## ➤ Enhanced capital and liquidity position:

During the year, the Bank has been fully compliant with prudential requirements without exception. The Tier I capital adequacy ratio improved substantially to 16.9% which is a year on year growth of 4.9% while Total capital ratio increased by 1.6% to 17.4% in spite of maturity of the Bank's subordinated debt. The capital improvements were achieved through organic accretion as a result of timely liability measures taken in tune with rapid market updates complimented by effective liquidity deployment.

The Bank continue to strive for low open foreign currency exposure against any potential market volatility whilst maintaining diverse funding base that includes USD 266 million in cost effective foreign debts that are fully currency hedged. The liquidity ratio grew throughout the year to close at 54.9% on year-end which is more than double the required prudential requirement of 20% threshold, lowered from 25% as part of the economic stimulus measures. The Bank's excess liquidity is wholly in local currency which is currently being deployed into short-term Central Bank securities and is readily available to spur lending growth expected from increased economic activities in 2021.

+17.5 ppts YoY

**54.9%**

Liquidity  
*As of 31 December 2020*



# Internal audit

*Internal audit's (IA) objectives, scope of authority and responsibilities are defined in the Audit Charter, which is approved by the Audit Committee. IA reports functionally to the Board of Director's Audit Committee and administratively to the CEO of XACBANK.*

Internal audit's responsibilities include:

- Evaluating the reliability, adequacy and effectiveness of the bank's system of internal controls, risk management, governance framework and processes;
- Reviewing whether bank complies with laws and regulations and adheres to established policies;
- Reviewing whether management is taking appropriate steps to address control deficiencies.

IA adopted the Code of Ethics and aligned its practices with the International Professional Practices Framework established by the Institute of Internal Auditors (IIA). In addition, it has embedded IIA's 10 Core Principles for the Professional Practice of Internal Auditing into its activities.

IA has operationalized its Future of Auditing roadmap with the use of digital tools, rule based and predictive analytics, coupled with the continuous monitoring approach to perform risk assessments and controls testing to provide better risk management insights. These tools allow for efficient management of audit resources, early detection of risk signals, and prompt correction of errors and omissions. Also, it has a vital role in increasing the frequency of risk assessment and it allows the IA plan to be more in line with Bank's business objectives.

In 2020, IA conducted a total of eight process assurance audits as part of our risk-based plan and for the first time, IA conducted a consulting audit upon the senior management team's request. Also, in the scope of the COBIT framework, IT auditors performed Asset management, IT Management, and Information security management audits.

Quality assurance and key developments In line with leading practices, IA has a quality assurance and improvement programme (QAIP) that covers all aspects of its audit activity and conforms to the International Standards for the Professional Practice of Internal Auditing. As part of the QAIP, internal quality assessment reviews (QAR) are conducted immediately after each audit's fieldwork completion and self-assessment is carried out once every years.



# Risk management

*The Bank's Risk Management Framework, which articulates the types of the risk and the risk amount through the Risk Appetite Statement, governs the risk activities of the Bank.*

*A clear and effectively embedded risk appetite supports a strong risk culture throughout the Bank, while obtaining an optimal balance between risk and return.*

## ➤ Risk Management Governance

The Bank has effective and well-established risk management governance, with an active engagement from the Board of Directors. The Bank's risk governance is executed through different governance committees. These include:

**Board Risk Management Committee**, which provides ultimate and independent oversight on risk matters on behalf of the Board of Directors;

**Risk Management Committee**, which is the management level oversight committee to review, challenge and oversee the risk function, the implementation of the Risk Management Framework and the adherence to the Bank's approved risk appetite;

**Operational Risk Committee**, which provides oversight over the Bank's revised control driven Operational Risk Framework and the Operational Risk acceptance; and

**Credit Management Committee**, which focuses on making decision of the loan proposals within delegated approval authority.

## ➤ Risk Management Approach

The Bank's Risk Management Framework is predicated on Three Lines of Defense approach to prescribe the roles and responsibilities as follows:

**The First Line of Defense** (typically comprised of the business units and supporting units) owns and manages risk. It has ownership of risk, responsibility and accountability for directly assessing, controlling and mitigating risk within its sight of control;

**The Second Line of Defense** (typically comprised of the risk management and control functions) oversees risk. It sets the risk management framework, policies and procedures, challenges risk limits and sets risk appetite, and monitors risk exposure. As such, the Second Line of Defense monitors the design and operation of the First Line of Defense's controls, as well as, provides guidance on an ongoing basis; and

**The Third Line of Defense** (Internal Audit) provides independent assurance. The internal audit function provides the Board with independent assurance of the risk-based approach, covering efficiency of the Bank, assesses and manages its risk profile, as well as, assessing the effectiveness of the first two lines of defense.

## ➤ Credit Risk Management

The year 2020 was a challenging as the Covid-19 has adversely affected to the economies, businesses and households around the world. Throughout the Covid-19 pandemic, the Bank has successfully implemented and followed the initiatives and programs by the Central Bank of Mongolia which were intended to keep the financial system resilient. At the same time, the Bank has defined its own policies and plans to overcome the challenges caused by the Covid-19 pandemic by actively restructuring the affected loans.

Furthermore, the Bank has successfully implemented its early warning system in order to detect and mitigate the credit risk at early stage.

## ➤ Operational Risk Management

The Bank is exposed to a broad range of operational risk through the day-to-day operations. The operational risk is regulated with the Bank's Operational Risk Management Policy, which was reviewed and revised in 2020 to make the policy more objective for process assessment.

The Bank has very low appetite for operational risk, which is monitored on a monthly basis to detect and resolve the incident root-causes. Operational risks are mitigated by designing robust processes which are continuously reviewed and improved by maintaining sound internal controls.

## ➤ Market and Liquidity Risk Management

The Bank's market and liquidity risk metrics stayed compliant with its Risk appetite in 2020.

The ample liquidity position adopted from the previous years was kept throughout 2020 despite declining deposit interest rates in the banking sector reflecting the strong deposit base of the Bank.

Tugrik has depreciated against the U.S. dollar by 4% in 2020, which happened predominantly in the first half of the year as Bank of Mongolia allowed the exchange rate to float during the uncertain time of significant export reductions. As the exports started recovering, the exchange rate has been mostly stable at around 2850 (MNT per USD) since July 2020. During the period, the Bank fully complied with the BoM requirements on the net FX position while maintaining Daily average loss (Value-at-Risk estimation) well within the Risk appetite.

## ➤ Compliance

The year of 2020 was challenging for Mongolia, as the country was Grey-listed by FATF. In connection with the Grey Listing, the Central Bank of Mongolia has strengthened its supervision of the commercial banks and increased the frequency of regulatory reporting.

Along with the Grey Listing, the European Commission announced a new delegated regulation on high-risk third countries including Mongolia.

In connection with potential "high risk 3rd country list" and Grey Listing, the Government of Mongolia has taken series of measurements in the financial sector. As a result, the cooperation and feedback between the government authorities and the banks has improved.

Furthermore, the Bank has actively participated in the Banking sector sub-group, which was created under the National risk-assessment working group.

The host of measures taken by the Government of Mongolia with regard to the counter terrorism and anti-money laundering activities have brought the country closer to the global standards.

Ultimately, the assessment team from FATF conducted a country on-site inspection in October 2020. Based on the result of the inspection, Mongolia is no longer in the list of countries under increased Monitoring. The European Commission has also removed Mongolia from its lists of non-cooperative jurisdictions recently, following the FATF acknowledgement on its remedial actions in October 2020.

The Bank's compliance function strengthens the Bank's other functions through training and awareness, and assists in the implementation of enhanced due diligence, suspicious transaction identification and Know Your Customer activities.

The Bank is developing a compliance function fit for the continuously evolving challenges the Bank and the Mongolian economy faces by building partnerships with regulatory and law enforcement authorities around the world to prevent and combat financial crimes.



# Human resources

## People management

Our human resources policy aims to provide our employees a diverse professional culture, safe and inclusive workplace, competitive remuneration and fair employment practice, and opportunities for training and development.

We are committed to improving our people's quality of life and work-life balance through various welfare programs.

As of the end of 2020, our team is made of 1135 (1195 in 2019, 1270 in 2018, and 1304 in 2017) full-time employees. The average age of staff is 33.9 years and the average length of service in the organization is 7.3 years.

As required by Mongolian labor law, 200 employees were retained on maternity leave throughout 2020, 83 returned to work.

• Total number of Contractors;	1335
• Number of FTE;	1135
• Number of long term maternity leave;	200
• Number of HQ employees;	366
• Number of UB branch employees;	412
• Number of Rural branch employees;	357
• Number of SMT and MMT;	9+117
• Number of male staff;	449
• Number of female staff;	686
• Number of disabilities;	16
• Number of new hires;	166
• Number of job applications;	1068
• Average age of staff;	33.9
• Average length of service;	7.3

## Compensation and benefits

In 2020, the bank has updated its job grading and its related pay scales and increased the minimum pay scale by 20 percent. The base salary was increased by 10 percent on average through the updated job grading.

Short-term incentive: Based on 2019 results the bank distributed annual bonuses to all staff corresponding to the staff performance results against their targets.

Long-term incentive: The bank has also continued Phantom Stock Plan cash payouts of the fully vested Phantom Stock units as a part of the long-term incentive policy.

## Highlights

Due to Coronavirus's global pandemic, 2020 was an extremely challenging year not for the bank but also the global situation. In 2020, the bank focused on ensuring the banking business continuity and creating a healthy and safe working environment for our employees in new work-life normal.

The bank started using Talentlms online training platform to extend and continue employees' training and development activities. As a part of the new core banking system implementation project, two-month-long online training was organized successfully in collaborating with Infosys, India. "Leadership during uncertain times" training was organized among the middle-level managers and branch managers to sharpen their leadership skills in uncertain situations.

The bank has introduced a Workplace platform to improve and activate its internal communications, as well as sharing internal information promptly, and promote internal open communications.

As a positive result of introducing the Workplace platform, all XacBank employees have access to the easy and simple use of communication technology from anywhere, anytime, and information sharing in all related parties in one platform. It has become a key tool for sharing real-time information and introducing all decisions related to Coronavirus situations promptly.

In addition, all employees have the opportunities to join common interest club activities except formal work relationships.

## Employee benefits and well-being

The bank has been implementing Retirement Savings Plan successfully since 2007 to provide supplemental retirement benefits and to provide financial guarantees to the employees. All employees are enrolled in the Retirement Savings Plan, structured as long-term savings plans with employer matching contributions under its revised policy.

The bank also provides additional health and accident insurances to support employees' social issues and health security.

From the beginning of 2020, all employees are entitled to one day of paid leave on their birthdays as well as two days of paid leave in the name of the CEO to promote their personal development and work-life balance.

In order to protect our employees' health and safety in Coronavirus-related harsh situations, the bank has provided employee bus services to the employees, and provided them with protective supplies, and conducted several Covid rapid and PCR testing in UB based employees.

The bank encouraged employees to work from home and provided remote working opportunities particularly in headquarter, and reduced up to three working hours in UB and rural branches during the high readiness period set by the National Emergency Management Agency. The bank has provided fully paid leave to female employees with children aged 0-12 (1958 man-day), pregnant employees (2816 man-day), and all idled employees during quarantines.

Eighty percent of headquarter employees worked from home, idled employees (1650 man-day), quarantined employees (250 man-day) were all 100% paid, employees who worked in workplaces due to inevitable needs (1114 man-day) were all 125% paid during lockdowns. The bank also provided up to three days of paid sick leave.

All these measurements have been life support to protect all employees' health and safety as well as financial protection and increased employees' satisfaction and engagement.

125%

Worked in workplace  
due to an inevitable need

100%

Worked from home,  
idled, quarantined

1 day  
Birthday paid leave

2 days  
Paid leave

3 days  
Up to 3 days  
paid sick leave

## Human resources

### ➤ Training and development

Organizational growth is linked to continuous employee training and development programs. In 2020, 86 percent of all training and development activities were conducted on a variety of online platforms.

The bank offered a variety of programs and initiatives in 2020 mainly focused on international standard training programs, international certification programs, as well as all layers of branch staff training. In 2020, 26.840 total person/hour of training was organized (26.840 person/hour in 2019, 47.324 person/hour in 2018, and 53.178 person/hour in 2017).

**1,077**

Number of trained  
employees

**27,336**

Total training  
person/hours

**91** MNT million

Investment in training

#### Talent review:

In order to identify high performing and high potential employees, to plan employee's career development planning, and to introduce appropriate training and development programs 312 UB-based branch employees were evaluated in branch employees' talent review processes. The 119 of them were evaluated as high performers.

#### Retail Banking Training:

- In order to increase the knowledge and professional skills of Business loan specialists, business loan advanced training was organized in the areas of loan research, lending, and post-loan monitoring.
- The bank has cooperated in a joint project between the Mongolian Banking Association and the Sparkasse Banking Foundation of Germany on the "Training of Banking Specialists" program.
- 674 branch employees in nine different positions enrolled in 40 training programs in TalentLMS online training platform.
- Newly hired 37 Customer Service Representatives have attended in New employee orientation training as well as Core banking system training.

#### Management and Leadership Training:

- Three middle-level managers have participated in Leadership and high performing training organized by the Luxembourg banking association;
- Twenty middle-level managers have participated in Communication Skill classroom training conducted by Dale Carnegie Mongolia. The training content included change management, effective communications, and how to build a strong team.
- Twenty-four middle-level managers have participated in How to Pitch online training conducted by Start Mongolia. The Discord platform was used for this training.

#### Compliance Training:

- The Sustainable Finance training was organized online to provide knowledge on sustainable development, green economy, and sustainable finance in Mongolia, 216 employees participated.
- The bank continued offering an online compliance course that was launched in 2016 with 91 employees completing it in 2020.

#### Information Technology Training:

The bank encourages and supports IT staff to participate in a variety of international training and certification programs.

#### Specific training:

- Some IT staff attended Data Science Course and the Complete Oracle SQL Certification Course;
- Certified engineering program;
- International PMI-PBA, CISM, CISA programs;

## Highlights 2020

### SUPPORT



Due to Covid-19 risk, XacBank initiated online Loan agreement changing project, aiming to help and support businesses under financial pressure.

### SME

Received

**\$100 million**

syndicated loan from FMO to support SMEs.

**FMO**

Entrepreneurial  
Development  
Bank

### STAY AT HOME



During national lockdown, XacBank organized a social media campaign, intended to remind, re-educate our customers on learning how to get banking services online, without visiting physical branches, whilst reducing workload and Covid-19 risks.

## Awards 2020

### National

**TOP 100**

TOP 100 Enterprises –  
Mongolian National Chamber of  
Commerce and Industry.



### International

Best Rapidly-growing Partner  
Bank - IFC

**Rapidly-growing**



### Eco

**Sustainable**

Best MFSA Bank –  
Mongolian Sustainable  
Finance Association





# Corporate Governance

## ➤ Good corporate governance proves its value

Good governance is integral part of XacBank's identity and fundamental culture ensuring that we grow as a successful and sustainable banking business, and XacBank's commitment to sound corporate governance practices has been more important than ever during these times of unprecedented disruption of the economy and society resulting from the global Covid-19 pandemic.

2020 turned out to be the year when good corporate governance proved its value. Never before have we been more in need of effective decision making, balancing the interests of all our stakeholders, ensuring operational and financial viability and resilience and enhancing trust with the community, that high standards of corporate governance, in line with both Mongolian legal and regulatory requirements and recommended international practices and standards, can provide.

Throughout the year, the priority focus of our Shareholders, Board and Management has been on supporting the Covid-19 crisis response and recovery actions without losing sight of the organization's long-term priorities and safeguarding longer-term shareholder and stakeholder interests.

### Shareholders

- Provided support throughout the year to the Board and Management decisions, aligning shareholder interests with a broader focus on stakeholder interests and building long-term value

### Board

- Combined guidance and support to the management team, operating in highly stressful conditions, with constructive challenge to ensure that effective and timely management decisions are made throughout the crisis
- Balanced oversight of the crisis response with strategic considerations beyond the immediate challenges

### Management

- Made rapid crisis response decisions to protect employees, address customers' needs, and communicate with stakeholders
- Strengthened the financial position and asset quality of the Bank to cope with the crisis and uncertainty
- Preserved focus on longer term objectives to maintain the Bank's competitive edge such as continued digital transformation and customer-experience improvements

Throughout 2020 and beyond, our continuous focus shall remain on maintaining and enhancing our sound corporate governance practices to ensure successful recovery and continued sustainable growth in new post-Covid realities that will be more complex and challenging.

XacBank is a commercial bank incorporated and registered in Mongolia. The corporate governance framework of XacBank is based on equitable treatment of all shareholders, including minority and foreign shareholders, accountability at all levels, disclosure and transparency, and responsibility before all stakeholders.

XacBank abides by the governing laws and regulations of Mongolia and, as a universal commercial bank, is subject to the governance rules and procedures issued from time to time by the Central Bank of Mongolia, the banking sector regulator. The Bank submits regular corporate governance reports to the Central Bank of Mongolia according to the "Procedures for implementing corporate governance principles in commercial banks".

Our goal has always been to achieve the next level of excellence in corporate governance where the roles of the shareholders, the board and executive management are internally regulated more comprehensively than is required by legislation.

This section of the Annual Report summarizes the Company's corporate governance work and compliance with applicable requirements and fulfils the reporting obligations under applicable law and other legal frameworks.



# Corporate Governance

## Corporate governance structure

XacBank is part of TenGer Financial Group, one of the largest financial services companies in Mongolia, which is owned by a broad base of recognized institutional investors. Shareholders of TenGer Financial Group include the largest international financial institutions, local and foreign reputable companies and investment funds. TenGer Financial Group is the sole shareholder and holding company of XacBank.

The highest governing body of the Bank is a shareholders' meeting. According to the internal governing documents of the Bank, the shareholders of TenGer Financial Group represent the shareholders ("Shareholders") of the Bank.

A board of directors (the "Board") elected by the Shareholders serves as the decision making body of the Bank in between the shareholders' meetings except for the matters specifically reserved for the shareholders' decisions. The Board provides strategic guidance and leadership of the Bank by setting its strategic aims and policies and ensuring that the necessary financial and human resources are in place to meet the objectives. The Board oversees whether the Bank's operations are conducted in conformity with the laws and regulations, internal governing documents, approved plans and budgets complying also with the standards of the triple bottom line mission and safeguarding the interests of all stakeholders.

The Board works to ensure that a framework of prudent and effective controls is in place, which enables risks to be assessed and managed. The Board has standing committees established to help the Board carry out its functions. The Board delegates certain responsibilities and decisions to these committees. Other ad hoc committees may be established by the Board in order to address specific or urgent issues from time to time. The day-to-day operations of the Bank are managed by a chief executive officer (the "CEO") appointed by the Board who represents the Bank and reports on a regular basis to the Board and the Shareholders.

## Shareholders' meetings

With physical distancing restrictions in place, the annual general meeting ("AGM") of the Shareholders in 2020 was held via a combination of a physical meeting and participation through electronic means of communication.

On 23 April 2020, the AGM discussed a comprehensive update provided on the impact of Covid-19 and response actions by the board and the management in addition to the consideration and approval of the main agenda items as the annual operational and financial

results and the audited financial statements for 2019. Broader focus was given to support strategies and decisions that strengthen the Bank's resilience and sustainability through the crisis, ensure responsible business and protect vulnerable stakeholders.

The Shareholders approved the decision on non-distribution of a dividend on the 2019 results in order to ensure compliance with the capital adequacy requirements and management of the Bank through Covid-19 crisis and beyond.

In connection with the 2-year terms of certain Board Directors, defined as fixed calendar years and expiring prior to the AGM, elections and re-elections of the board directors were conducted via online voting by the Shareholders at the end of March 2020 in line with the Company Law and internal governing documents.

Throughout the year, there was good and effective communication and exchange of ideas between the shareholders, the board and the management ensuring at the same time proper exercise of shareholder rights and effective and prompt shareholder decision making.

## Board leadership

Never before has the Board's astute guidance and highly active oversight role been more crucial. In 2020, the central focus of the Board has been on safeguarding the resilience and sustainability of XacBank and strengthening confidence of the stakeholders in the Bank by providing strategic guidance and support to the management in unprecedented circumstances.

## Board size and composition

The Board considers that its size and composition is of utmost importance for ensuring a diversity of experience and views, an executive representation, a strong independent element to exercise independent judgment, a balance between continuity and fresh perspectives onboard, effective decision making and substantive discussions by the whole Board in which each director can participate meaningfully. The Board recognizes the need for a good balance of industry knowledge, skills, experience, professional qualifications, gender and nationalities to have a proper understanding of, and competence to deal with, the current and emerging issues of the Bank and to effectively review and challenge the performance of the management. The size and composition of the Board is reviewed from time to time to identify any need for change considering the strategic direction of the Bank.

As of 31 December 2020, the Board had 11 directors, consisting of one executive director, 6 non-executive Shareholder-nominee directors and 3 independent non-executive directors. The Chairman of the Board is not a shareholder and is not associated with any shareholder. The board directors have a broad range of experience and industry expertise.

#	Name	Position	Nomination
1	Sanjay Gupta	Chairman and Non-Executive Director	Independent
2	Tsevegjav Gumenjav	Executive Director	_*
3	Albertus Bruggink**	Non-Executive Director	ORIX Corporation
4	Andrzej Witak	Non-Executive Director	EBRD
5	Melissa Moy Tian	Non-Executive Director	IFC
6	Michael Madden	Non-Executive Director	Ronoc Partners
7	Tselmuun Nyamtaishir	Non-Executive Director	MAK LLC
8	Yves Jacquot	Non-Executive Director	Natioanl Bank of Canada
9	Ulbayar Bayansan	Independent Non-Executive Director	Independent
10	Niraj Vedwa	Independent Non-Executive Director	Independent
11	Maurice Lam	Independent Non-Executive Director	Independent

*\*The CEO is a board member under the clauses of the Charter.  
\*Interim appointment by the Board decision subject to approval and election at the AGM in 2020.*



Corporate

Governance

Board of directors



Sanjay Gupta

Chairman

Mr. Sanjay Gupta was elected on 28 March 2019 as the Chairman of the Board of Directors of XacBank and its holding company TenGer Financial Group. Prior to his election as Chairman, Mr. Gupta had served on the Board as Non-Executive Director for 2 years since March 2017 based on the nomination by International Finance Corporation (IFC), working also as a member of the risk management and governance, nomination and compensation committees chairing the latter prior to his chairmanship. In March 2019, he was re-elected as Non-Executive Director for another 2-year term and will be standing for re-election at the Annual General Meeting in March 2021. Chairman Gupta continues to serve now as a member of the Board Governance, Nomination and Compensation Committee. After Mr. Gupta's election as Chairman, his mandate with IFC terminated and he has now an independent status not associated with any shareholder. Mr. Gupta is a seasoned banker with 34 years of banking experience in senior leadership roles in Asia Pacific, Europe, Middle East and Africa (EMEA), and India with Bank of America and Credit Agricole Group.



Tsevegjav Gumenjav

Executive Director

Mr. Tsevegjav Gumenjav was appointed as the Chief Executive Officer of XacBank in May 2019 and was elected at the AGM in April 2020 as Executive Director for the term of serving in the capacity of Chief Executive Director. Mr. Tsevegjav Gumenjav joined XacBank and TenGer Financial Group in 2011 and has held various management positions within the Group as Chief Financial Officer of TenGer Financial Group and later of XacBank from 2011 to 2013, Chief Retail Banking Officer and, subsequently, President, Retail Banking from 2015, Chairman of Board of Directors of Tenger Insurance LLC from 2014 to 2017 and CEO of XacLeasing since 2013 until his current appointment. Prior to joining the TFG Group, Tsevegjav lived and worked in the United States in 2004-2011 working as treasury manager and financial analyst for a number of large US companies.



Albertus Bruggink

Non-Executive Director

Mr. Albertus Bruggink was appointed ad interim by the Board in June 2020 as Non-Executive Director with membership on the Board's Risk Management Committee and Audit Committee subject to approval and election at the Annual General Meeting of Shareholders. Mr. Bruggink is a nominee director of ORIX Corporation. He is a seasoned banker with a career of 30 years at Rabobank, a Dutch multinational banking and financial services company. Throughout his professional career, Albertus has held also positions outside of Rabobank including as Board Advisor JP Morgan Ltd. in London, Member/Chairman of the Supervisory Board of Robeco Group, Member of the Supervisory Board of FMO (Dutch Development Bank) and Member of the Supervisory Board of Friesland Bank (a Dutch regional bank).



Andrzej Witak

Non-Executive Director

Mr. Andrzej Witak was nominated by European Bank for Reconstruction and Development (EBRD) and has served on the Board since February 2019, being appointed on the Board in the interim capacity and later, being elected in March 2019 as Non-Executive Director for a 2-year term. Mr. Witak will be standing for re-election at the Annual General Meeting in March 2021. Andrzej Witak is a member of the Board's Governance, Nomination and Compensation Committee and Audit Committee. Mr. Witak is a former EBRD Senior Banker who is now engaged with EBRD as a self-employed consultant focusing on distressed credit management. He was with EBRD from 1997 to 2007 and served as the Head of the EBRD Resident Office in Uzbekistan and Deputy Head of the Resident Office in Ukraine. He has held in the past various non-executive directorships in Poland, Russia and former Soviet republics, Mongolia and East European countries.



Melissa Moy Tian

Non-Executive Director

Ms. Melissa Moy Tian was nominated by International Finance Corporation (IFC) and has served on the Board since June 2019, being appointed on the Board in the interim capacity, and later, being elected in March 2020 as Non-Executive Director for a 2-year term. Ms. Tian is a member of the Board's Governance, Nomination and Compensation Committee and Board Audit Committee.

Ms. Tian has 25 years of banking experience, with 16 years in New York and 9 years in Hong Kong, with leadership roles at JP Morgan, HSBC and Citigroup.

Corporate Governance

Board of directors



Michael Madden

Non-Executive Director

Mr. Michael Madden has served as Non-Executive Director on the Board of Directors of XacBank since 2009. Mr. Madden was re-elected in 2011, 2013, 2015, 2017, 2019 and will be standing for re-election at the Annual General Meeting in March 2021. Mr. Madden is the chair of the Board Governance, Nomination and Compensation Committee. Mr. Madden is the Founder, Chairman and Managing Partner of several global advisory and investment businesses as Ronoc, an investment and advisory services business based in Dublin, founded in 2007, Teneo Capital, founded in 2011 and based in New York, providing strategic counseling to large and complex companies internationally and Ongo (Ronoc Asia PTE Limited), an app-based mobile money service, available to businesses and consumers in Myanmar, founded in 2015,



Tselmuun Nyamtaishir

Non-Executive Director

Ms. Tselmuun Nyamtaishir serves on the Board of Directors of XacBank since 2013. Ms. Tselmuun was re-elected in 2015, 2017, 2019 and will be standing for re-election at the Annual General Meeting in March 2021. Ms. Tselmuun is a member of the board risk management and governance, nomination and compensation committees. She is the President and Board Member of Mongolyn Alt (MAK) Corporation, one of the largest Mongolian multi-business companies.



Yves Jacquot

Non-Executive Director

Mr. Yves Jacquot was nominated by National Bank of Canada (NBC) and has served on the Board since February 2016, being appointed on the Board in the interim capacity and later, being elected in March 2016 as Non-Executive Director for a 2-year term. He was re-elected for 2-year terms in 2018 and 2020. Mr. Jacquot is a member of the Board Risk Management and Board Audit Committee. Mr. Jacquot is the First Vice President for International Development National Bank of Canada Group and Deputy Director General of NATCAN International. He is also a member of the boards of directors of ABA Bank in Cambodia, ATA in Thailand and Byblos Bank in Lebanon.



Niraj Vedwa

Independent Non-Executive Director

Mr. Niraj Vedwa serves on the Board since June 2018, being appointed on the Board in the interim capacity and later, being elected in March 2019 as Independent Non-Executive Director for a 2-year term. Mr. Vedwa will standing for re-election at the Annual General Meeting in March 2021. Mr. Vedwa is a member of the Board Audit Committee and Board Risk Management Committee. Mr. Niraj Vedwa is the Founder and CEO of Acceleric FZ LLE, UAE providing IT consulting services. Niraj a banking transformation and information technology professional with 30 years of global experience. Prior to launching his advisory business, he served as Global Head and Member of Leadership Council at Tech Mahindra, a leading publicly listed IT company of India. Mr. Vedwa had worked in the past with Temenos AG and Nucleus Software as well as with various other IT companies of India during his early career from 1987 to 1999.



Ulambayar Bayansan

Independent Non-Executive Director

Mr. Ulambayar Bayansan was elected in July 2015 as Independent Non-Executive Director. In the period from July 2017 to March 2018, he served in the interim capacity. Mr. Ulambayar was re-elected for 2-year terms in 2018 and 2020. Mr. Ulambayar is a member of the Board Audit Committee and Board Risk Management Committee. He serves currently as Advisor/Co-Founder of a financial consulting and investment firm Gobi Business Finance. Mr. Ulambayar is an investment professional with international work experience. He was an investment banker with Lehman Brothers and Nomura Securities in Tokyo, Japan from 2007 to 2009. After returning to Mongolia, he worked as Director and Advisor for a number of investment funds and advisory firms as Draper Capital, Composite Capital and Monet. He served also as the Managing Director of Altai Holding LLC, one of Mongolia's large conglomerates.



Maurice Lam

Independent Non-Executive Director

Mr. Maurice Lam serves on the Board since March 2019, being appointed on the Board in the interim capacity and later, being elected in March 2020 as Independent Non-Executive Director for a 2-year term. Mr. Lam is a banking and finance professional of over 40 years of global industry experience. He is currently the Managing Director and Founder of Stewardship Consulting, a boutique consultancy company in Singapore, which provides business strategy and governance consulting and advisory services to family-owned companies. Prior to starting his own consultancy business in 1999, Mr. Lam had worked in international banking in New York, Singapore, Tokyo and London.



# Corporate Governance

## Board roles

### Chairman and Chief Executive Officer

The roles of the Chairman and the Chief Executive Officer of the Bank are carried out by different individuals and have been clearly defined in the Charter of the Bank. There is a constructive working relationship, appropriate balance of power, accountability and independence in decision-making between the Chairman and the CEO.

Mr. Sanjay Gupta, serving as Chairman since March 2019, is responsible for ensuring the effective functioning of the Board, leading the Board in the process of periodic reviews of the performance of the Chief Executive Officer, setting agendas for board meetings, encouraging the appropriate level of deliberation of all issues and inputs from individual board members. The Chairman guides the Board through its decision-making process and also ensures that the Board operates effectively as a team. The Chairman also oversees, guides and advises the CEO and the senior management.

Mr. Tsevegjav Gumenjav, serving as Chief Executive Officer and Executive Board Director since March 2019, focuses on implementing strategies, objectives and policies, approved and delegated by the Board and is in charge of the Bank's day-to-day management and operations. The Chief Executive Officer is responsible for developing strategic and business plans, formulating the organizational structure, control systems, internal processes and procedures.

### Non-Executive Directors

The Non-Executive Directors provide a creative contribution to the board by providing oversight and constructive challenge to the executive management of the Bank. Without prejudice to their responsibilities to serve as elected representatives of the shareholders, Non-Executive Directors are required to act in the best interests of the Bank and its shareholders as a whole fulfilling their fiduciary duties of care and loyalty.

### Independent Non-Executive Directors

The Non-Executive Directors provide independent oversight to the executive management of the Bank and, by the laws and regulations, are required to attend in person the annual general meeting of the shareholders, answer the shareholders' questions or make clarifications and inform of the areas of disagreement with the decisions of the board of directors.

## Election and re-election of directors

The board directors are elected at the annual general meeting (AGM) of Shareholders for a term of 2 years with an option of re-election. Upon expiry of this term, the directors are subject to retirement or re-election by the Shareholders. In the case of a vacancy on the board and other circumstances set out in the Charter of the Bank, an interim director is appointed by the Board until election and approval at the annual general meeting. An interim director exercises all the powers and responsibilities of a board director.

The procedures and the process of nomination, appointment, election, re-election and removal of a director are set out in the Charter, Board Internal Rules of Procedure and Board Director Selection and Nomination Policy. In 2017, the Charter of XacBank was amended to include a separate clause on the appointment of independent directors to ensure strict compliance with the requirements set in the "Regulations for nomination, appointment and release from office of independent directors", issued by the Bank of Mongolia (Mongolbank), Ministry of Finance and Financial Regulatory Committee, and other applicable laws and regulations.

The Board's Governance, Nomination and Compensation (GNC) Committee is responsible for reviewing the board composition, developing and reviewing criteria and establishing procedures for selecting board directors.

*The Board Directors will be standing for election and re-election at the AGM in 2020 are:*

- Mr. Andrzej Witak – Re-election
- Mr. Michael Madden – Re-election
- Ms. Tselmuun Nyamtaishir – Re-election
- Mr. Sanjay Gupta – Re-election
- Mr. Niraj Vedwa – Re-election
- Mr. Albertus Bruggink – Election

The GNC Committee evaluates and makes recommendations to the Board regarding the qualifications of the candidates for election to the Board, including its independent directors.

In accordance with the regulatory requirement, the candidacies of those standing for board election are submitted to the banking sector regulator for review and consent prior to election at the AGM. The Chairman of the Board is elected by the Board from among the Board Directors.

## Board meetings

The Board conducts its business based on the Charter and the Internal Rules of Procedure of the Board. The main form of board functioning is a board meeting where the Board issues its decisions in the form of resolutions. In between regular board meetings, the Board transacts its business online or through discussions on conference calls and issues decisions acting by written consent resolutions.

In 2020, the Board took the lead in taking timely response actions in its organizational arrangements to ensure stability and continuity of board leadership and decision making and mitigate the effects that Covid-19 related travel restrictions and other safety measures may have on board functioning.

- Holding regular board meetings and other discussions using electronic means of communication providing all participating board members a possibility to communicate with each other in real time (eg. Skype or Webex, Zoom conference calls).
- Continued and enhanced use of online voting in between regular meetings.
- Adopting board resolutions by written consent throughout the year.
- Introducing monthly Board Update Calls in between regular board meetings.

In 2020, the Board held 4 regular quarterly meetings, 4 online voting meetings and 6 board update calls. All board meetings were held via electronic means of communication as Webex and Zoom. Attendance at the Board meetings was as follows:

#	Date	Type	Attendance
1	14 January 2020	Online voting	11/11
2	11 February 2020	Online voting	11/11
3	2 March 2020	Online voting	11/11
4	25 March 2020	Regular	11/11
5	24 June 2020	Regular	10/11
6	20 August 2020	Update call	9/11
7	16 September 2020	Regular	10/11
8	21 October 2020	Update call	9/11
9	27 October 2020	Online voting	11/11
10	9 December 2020	Regular	11/11

In 2020, the Board issued 25 resolutions, including 4 resolutions which were issued by way of written resolutions through online voting without holding a board meeting.

The members of the senior executive management team of the Bank attend, as necessary, all regular board meetings and other board and committee meetings to provide information and advice on business developments, financial and accounting matters, regulatory compliance, corporate governance and other major aspects of the Bank.

In addition to these formal communications, the board directors are in regular informal communication with senior executives and this fosters an open dialogue and exchange of knowledge and experience between the management and the board.

# Corporate Governance

## Board's year

Focus area	March 2020	May 2020	June 2020	August 2020	September 2020	October 2020	November 2020	December 2020
Business and operations	Management report to date and annual operational and financial results for 2019 were discussed. Update on the current situation was discussed.	In addition to the management report for April 2020, the impact of Covid-19 on portfolio was discussed.	Management report was discussed. Updates on the following specific topics were discussed, including: - Elections 2020 and banking reform - Projection for 2020	In addition to the management report for July 2020, a comprehensive update on the Government and business response to Covid-19 was provided, including the following key areas: - Economic update - Political update - Banking regulation reform	In addition to the management report for July and August 2020, updates were provided on: - Covid-19 response; - NBF and banking sector reform	In addition to the management report for September 2020, a comprehensive update on the Government and business response to Covid-19 was provided, including the following key areas: - Political update - Monetary policy for 2021 - State Budget for 2021 - Economic update for September 2020	A high-level strategy review was conducted, including an in-depth discussion of the following topics: - Operating environment - Strategic objective and key deliverables - Business planning - Funding and regulator capital requirements - Marketing and client feedback - HR and talent development	The discussion of the management report for October and November 2020, was supplemented by: - An update on Covid-19 - Economic and banking sector reform
Financial performance	Annual audited financial statements were considered and approved. Updates were provided on: - Capital - Swaps		Funding plan 2020 was discussed and approved.	A half-year review by Deloitte was provided and discussed.				
Governance	Decisions were made on key regular items as: - CEO evaluative and bonus - Chairman evaluative and bonus - Election and re-election of board directors - Extension of Chairman Emeritus consultancy agreement		Board self-evaluation and director evaluation for 2020 was discussed.	UBO registration requirements in accordance with the new regulation were discussed.		Proposal to revise the dates of the board meetings in September 2021 was discussed.		
Strategy	Dividend on 2019 results was considered and discussed.					Discussion points were considered for the high-level strategy review scheduled in November.		A detailed review of the proposed budget for 2021 was conducted and revisions were made. Budget 2021(with revision) was approved
IT	Update on IT projects was discussed.			IT update was discussed.			IT update was discussed.	
Risk management	Regular report of the Board Risk Management Committee was discussed.		Regular report of the Board Risk Management Committee was discussed.	Fitch rating was discussed.	Regular report of the Board Risk Management Committee was discussed.			Regular report of the Board Risk Management Committee was discussed.



# Corporate Governance

## Board Self-Evaluation

The Board of the Bank conducts its self-evaluation annually re-examine its collective performance, identify gaps, set specific targets for improvement and define actions to take. In addition, the Board Directors perform assessments of each other's performance.

The Board considers that, aside from regulatory compliance, a board self-evaluation and director evaluation is a good governance practice that identifies the perceptions and opinions among the board members on Board's strengths and weaknesses, maximizes the potential of the board, improves its performance and structure and demonstrates credibility to funders and other stakeholders

2020 board self-evaluation and director evaluation

### Process

At its regular meeting in June 2020, the Board's Governance, Nomination and Compensation Committee (the "GNCC") reviewed and the board self-evaluation and director evaluation forms which were revised and approved by the Board in March 2019 together with the Board and Board Director Evaluation Policy and made further revisions to clarify the questions related to conflict of interest and director competencies.

The board self-evaluation and director evaluation took place in the period from July to August 2020 using the revised forms.

- Overall Board Self-Evaluation Form
- Director Evaluation From

The Overall Board Self-Evaluation Form contained 35 questions in four categories:

- Strategy & Structure
- Directors / Staff
- Effectiveness & Results
- Board Resources

The Director Evaluation Form used 14 questions in three categories:

- Interactive Skills
- Knowledge
- Duties

The evaluation forms provided also a possibility to include additional feedback and comments.

The board self-evaluation and director evaluation covered the period from May 2019 to August 2020. The forms were circulated to the Board Directors and responses were received from the directors through the CEO and the Corporate Secretary. 9 out of 11 Directors responded.

The summary of findings was done by the Corporate Secretary on an anonymous basis. The findings of the board self-evaluation and director evaluation were reported to the Board and Shareholders.

### Findings

The most important findings of the evaluation were:

- There is an overall strong agreement among the board directors that the Board and its Committees remain effective on:
  - *Board strategy and structure;*
  - *Board directors/staff;*
  - *Board Resources.*
- Board Directors strongly agree that the Board has a leader with a clear vision of the future of the board and of the organization;

### Recommendations and actions

- Develop a comprehensive plan for board improvement
- Review the Board's calendar and rolling agenda to ensure that appropriate focus is given to critical matters and that timing is more closely aligned with regulatory timelines
- Ensure that more time is allocated to discuss strategic issues and succession planning for CEO and CEO's direct reports

# Corporate Governance

## ➤ Induction, training and continuing development

An induction and orientation program is provided to board directors to help new directors understand the Bank and the environment in which it operates and to introduce them to the culture of the organization and their role and responsibilities as a board member. The induction and orientation program involves:

- Providing new members with an orientation package, which contains the key documents, including strategy and business plans, internal governing documents, financial statements, operational and internal control policies, minutes and decisions of the recent board and committee meetings, applicable laws and regulations and other documents that are required by board members.
- On-site induction meetings to introduce new board members to the key management personnel, including the CEO and senior executives of each functional area of the Bank, to help them familiarize with Bank's financial position, operations and challenges.
- Meetings/visits with key stakeholders and customers where relevant.

New board members are expected to review and sign the Bank's Code of Conduct and Conflict-Of-Interest Policy, which sets out the ethical standards of business conduct and the responsibilities and duties of board directors.

In 2020, most of the induction and orientation program was provided online to Mr. Albertus Bruggink who joined the Board in June 2020. It is expected that on-site meetings and visits will be completed in the next year depending on post Covid business and travel normalization.

As part of the Bank's governance practice and to comply as well with the requirements of the Company Law of Mongolia, the directors of the Board of the Bank must enroll in corporate governance training and receive a training certificate.

In 2020, the newly appointed Albertus Bruggink enrolled in a training course on modern corporate governance principles and best practices, evidenced by a formal certification.

## ➤ Board remuneration

Board directors receive an annual director's fee for discharging duties as a board director, including attending regular board and board committee meetings. The amount of the fee for a board director is determined from time to time at the annual general meeting of shareholders of the Bank as part of the board budget.

In line with the corporate governance procedures of Mongolbank, the fee paid to the independent directors of the Bank is not less than the fee of shareholder-nominee non-executive directors.

A board director is entitled to be reimbursed for the expenses incurred in attending a board-related event. The reimbursement policy is outlined in the Board Internal Rules of Procedure.

A board director is not entitled to any extra remuneration such as finders' fees, consultancies and other fees.

## ➤ Board committees

The Board of Directors of XacBank has three standing committees and delegates to them certain powers and responsibilities to order to ensure operational efficiency and handle specific issues with relevant expertise.

The general provisions related to the functioning are regulated by the Board Internal Rules of Procedure and the committee-specific matters are regulated by the respective charters of the committees. The Board's standing committees are:

- Governance, Nomination and Compensation (GNC) Committee
- Risk Management Committee (BRMC)
- Audit Committee (BAC)

The board committees consist of five and more members who are board members. A board member can serve on more than one committee. According to the Banking Law of Mongolia, independent directors serve on both the risk management and audit committees.

In line with global good corporate governance practice and the regulations of the Central Bank, the Board Audit Committee is chaired by an independent director and the Executive Director is not a member of the Board's Audit, Risk Management and Governance, Nomination and Compensation Committees.

The main form of committee functioning is a committee meeting where the decisions are issued in the form of recommendations to the full board. The regular meetings of the committees are held on the day preceding the board meeting.

In 2020, all standing committees had 4 regular meetings via electronic means of communication as Webex and Zoom. In between regular meetings, the Board Committees issue recommendations acting by written consent without a meeting by way of written recommendations.



# Corporate Governance

## Governance, nomination and compensation committee

The Governance, Nomination and Compensation (“GNC”) Committee is responsible for overseeing matters of corporate governance, including formulating and recommending governance principles and policies, to ensure that a good corporate governance system with necessary structures and processes is in place for direction and control of a transparent and sustainable bank that aligns the interests of a wide range of different stakeholders.

As the name implies, the other primary responsibilities of this committee are to (i) select, evaluate and recommend to the Board qualified candidates for election to the Board or appointment as Chief Executive Officer and (ii) review performance and set compensation of Chief Executive Officer, oversee equity-based plans, review and make recommendations to the Board regarding board compensation.

The charter of the GNC Committee was amended and approved at the regular meeting of the Board on 10 December 2014.

**MEMBERS**

*Michael Madden, Chair*  
*Melissa Moy Tian*  
*Andrzej Witak*  
*Sanjay Gupta*  
*Tselmuun Nyamtaishir*

## Risk Management Committee

The Risk Management Committee is responsible for advising the Board on risk-related matters and risk governance and for establishing a sound system of risk oversight, management and internal control.

The Committee review and assesses the risk management policy, adequacy of the plans for mitigation of material risks in the business lines, effectiveness of risk management functions, risk exposure limits, quality of the loan portfolio, credit approval limits and loan write-offs authorities, transactions and proposals exceeding limits detailed in the policies, loans and transactions with connected and related parties. The charter of the Risk Management Committee was amended and approved at the regular meeting of the Board on 18 September 2019.

**MEMBERS**

*Yves Jacquot, Chair*  
*Tselmuun Nyamtaishir*  
*Albertus Bruggink*  
*Ulambayar Bayansan*  
*(Independent Director)*  
*Niraj Vedwa*  
*(Independent Director)*  
*Maurice Lam*  
*(Independent Director)*

## Audit Committee

The Audit Committee is responsible for reviewing the completeness, appropriateness and effectiveness of the internal control system. The Committee reviews and makes recommendations to the Board in relation to the appointment, re-appointment and removal of external auditors, performance of the internal audit function and management's compliance with regulatory financial reporting, reviews annual audited and unaudited financial statements and interim financial reports, significant accounting and reporting issues, including complex or unusual transactions, and recent professional and regulatory pronouncements and their impact on the financial statements.

The Committee appoints the Chief Auditor and reviews his/her performance. The charter of the Audit Committee was amended and approved at the regular meeting of the Board on 25 March 2015.

**MEMBERS**

*Maurice Lam*  
*(Independent Director), Chair*  
*Yves Jacquot*  
*Andrzej Witak*  
*Melissa Moy Tian*  
*Albertus Bruggink*  
*Niraj Vedwa*  
*(Independent Director)*  
*Ulambayar Bayansan*  
*(Independent Director)*

## Conflict Of Interest and Disclosure

The Code of Conduct and Conflict of Interest Policy defines a conflict of interest and sets out the procedures for disclosing and addressing the conflicts of interest. For instance:

- Directors and employees must disclose any personal, financial or other interest which might influence the conduct of his or her duties as a director and an employee;
- A director, who has a conflict of interest in a proposed transaction with the Bank, shall declare the nature of such conflict and his or her interests at the meeting of the board of directors at which the issue of entering into the proposed conflict of interest transaction is considered;
- A director shall abstain from voting and forming a quorum on any resolution of the Board approving a transaction or arrangement or any other proposal in which he or she has a direct or indirect interest.

In accordance with the disclosure procedures, all board directors and executive management members filed their Annual Disclosure Statements for 2020. To enhance further, disclosure and transparency, the Annual Disclosure Statements are shared within the Board through an online board portal.

Board Directors are required to declare interests in the matters discussed at the Board meetings at the onset of the meeting and throughout.

## Accountability and Audit

The board of directors is responsible for approving and ensuring that the financial statements of the Bank give a true and fair presentation of the state of affairs of the Bank and that relevant regulatory requirements and applicable accounting standards are complied with. The management provides explanation and information to the Board to enable the directors to make an informed assessment of the financial information and position of the Bank put to the Board for approval.

The Board is responsible also for the selection and appointment of an external auditor based on change and rotation at certain intervals. Deloitte, which replaced Ernst & Young Mongolia Audit in 2014, was re-appointed as the external auditor for 2020.





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