



**XACBANK**

**ANNUAL  
REPORT**  
2021

**It's Just  
The Beginning**

# ANNUAL REPORT 2021

## 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.

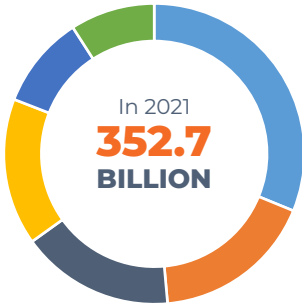
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# 2021 HIGHLIGHTS

## At glance

In 2021, XacBank has created over MNT 333.2 BILLION in value to the Mongolian economy.



Interest paid for public deposits  
**100.4**

Contribution to shareholders  
**75.3**

Taxes, social & health insurance paid  
**54.4**

Interest paid to lenders  
**61.0**

Purchases from suppliers  
**29.9**

Salary  
**31.7**

Net profit (MNT)  
**75.3 billion**  
▲123.4%

Total assets (MNT)  
**3.5 trillion**  
▲3.9%

Loans (MNT)  
**1.85 trillion**  
▲26.2%

Deposits (MNT)  
**2.23 trillion**  
▲11.1%

Return on equity  
**24%**  
▲12%

Foreign debt (MNT)  
**638 billion**  
▼26.4%



### Sustainable

XacBank, founded with an ambition to reach people with limited access to financial services, has celebrated its 20<sup>th</sup> anniversary. Our 20-year history is a prime case of how a bank can develop sustainably.



### Considerate bank

We will continue to restructure loan terms for our customers, whose household incomes and business ventures have been negatively affected by the pandemic. In parallel, the Bank will continue to support its clients by accepting online requests for withdrawal from time deposits and one-time government aid.



### Digital

In 2021, XacBank has fully renewed its internet banking and digital applications to offer previously unavailable products and services. Currently, 95% of all transactions are processed digitally, without the need of visiting the bank to obtain a loan, open an account or order a card.



### Accessible bank

In addition to government programs such as 3% interest rate loans and repo financing, the Bank has launched “business support months” to help our clients revive their businesses and capacities after a series of quarantines.



### Open banking

We openly support and collaborate with technology-based financial service (fintech) businesses. During this time, we have jointly introduced services such as Candy / Monpay payment card, Redpoint, NEG app, 360 finance, Social POS, Qpay, and Most Money which made financial services more accessible and convenient for our customers.



### Environmentally friendly

XacBank established its first eco-banking division in 2009 and launched its Green House Gas (GHG) reduction programs in 2013. As a result, a total of 2.1 million tons of GHG emissions were reduced, which is equivalent to planting 152 million trees and growing them for 10 years. If 300 trees were planted per hectare, 152 million trees would cover 1.1 times the area of Ulaanbaatar.



### Qualified

XacBank has always been prepared for public listing through IPO. While the Bank has submitted its IPO plan to the Bank of Mongolia and the Financial Regulatory Commission in 2021, in connection with the amendment to the Banking Law, XacBank is ready as we have been molding our shareholding structure and corporate governance principles to the standards of listed companies for over 10 years.



### Reliable

XacBank is the only systemic bank that currently meets the legal requirements of a single shareholder ownership limit of 20% of total shares. This prevents an individual or an organization from making a dominant decision and ensures corporate governance is proper, transparent, and simple to practice.



## Message from Chairman



2021 was another very challenging year as the Covid-19 pandemic impacted the lives and livelihoods of almost everyone in the world for the second year in a row. Mongolia was very successful in avoiding Covid-19 for the most of 2020 but, 2021 was very hard on all of us.

Although Mongolia was very successful in rolling out the vaccines, we still had to deal with very significant outbreaks and restrictions of various types at different times during the year. This has taken a toll on our customers, our people, and the entire community. My colleagues once again demonstrated their resilience, their professionalism, and their commitment to the health of our customers and that of their businesses.

As our customers faced economic difficulties associated with the Covid-19 pandemic, we restructured consumer loans, MSME loans, and mortgages for about 8,000 customers.

I am very pleased to report that the strategy we put into motion in the early part of 2019 and an unrelenting and disciplined execution of the strategy, despite extremely difficult circumstances, has helped the Bank achieve very strong results in 2021. With very tight control on operating and liability expenses combined with an unwavering focus on improving the credit quality over the last three years, our net profit for 2021 was MNT 75.3 Bn. with an ROE of 24%. Our NPL ratio is 4.5% and we have increased our regulatory reserves against NPLs to an unprecedented 118.6%.

We have also reduced our OREOs and at the same time increased regulatory provisions against them. After many years, we also distributed a significant dividend to our shareholders from the profits of 2020 during the year.

As of Dec 31, 2021, our Tier 1 Capital ratio is 17.4%, one of the best in the industry and 8.4% above the Bank of Mongolia minimum requirement of 9%.

Besides the exceptional financial results, two other big milestones in 2021 in the execution of our long-term strategic plan were the successful merger of XacBank with Xacleasing as well as the increase in our Paid-up Share Capital to MNT 100 Bn.

Last year we had launched a new mobile banking application to allow our customers to get a majority of the banking services using mobile phones more safely and efficiently. More than 20% of our customers are using this app and 5 million transactions have been made. We are continuing to make further investments in technology to enhance the customer experience.

We are looking forward to our initial public offering (IPO) which will allow Mongolian citizens to directly purchase shares of our Bank openly and transparently and be part of the impressive growth story of XacBank. We will make further announcements about the IPO in compliance with the regulations and consultation with the Bank of Mongolia, the Financial Regulatory Commission, other relevant authorities, and our Shareholders.

Our employees have made me very proud and I would like to thank them once again. 2022 is shaping to be another tough year and there is no room for complacency. Finally, our Shareholders and the Directors have always been a source of strength for us. I thank them for their steadfast support and guidance.

Sanjay Gupta  
Chairman

# Statement by CEO



To our Shareholders, Customers, and Employees,

Just like last year, I would like to start this letter with a sense of gratitude for the dedicated support given by Board Chairman Sanjay Gupta, the Board Directors, and Shareholders during one of the most challenging times we have faced in the last couple of decades. We thought 2020 was a tough year, 2021 proved to be even more challenging.

Also, I would like to extend very special appreciation to the Management Team and each one of our 1,500 XacBank and TFG employees. They dedicate all their efforts to serving our customers under extremely adverse circumstances. I'm proud of the fact that our XacBank employees continued serving our customers during zero-stop and many partial COVID-19 lockdowns during 2021.

In this letter, I will cover the unprecedented challenges we needed to overcome during the COVID-19 pandemic and the challenges in regards to preparing the Bank for the upcoming public listing as required by the amendment to the Banking Law. I share my thoughts on priorities and performance on key strategic initiatives and actions we have taken to support our customers and protect our employees. Also, I will cover the outlook for 2022 as we prepare for our next journey of being a publically listed company.

## ➤ 20<sup>th</sup> Anniversary of XacBank: Humble and Proud Beginning

More than 20 years ago, Xac started as a USD 1.0m UNDP project. Fast forward to the end of 2021, Xac grew into a systemic bank with MNT 3.5 trillion in assets, generating MNT 75.3 billion in net income with an ROE of over 20%. Our business outreach is serving over 1 million customers, through a network of over 70 branches with a presence in every single province and digital channels accessible to everyone with a mobile device.

In December 2021, we proudly celebrated our 20<sup>th</sup> anniversary by recognizing the employees who have greatly contributed to the success of XacBank over the years. Also, we were fortunate enough to host a customer appreciation event at the end of December 2021.

I want to take this opportunity to thank our previous Chairman Mr. Ganbold, and previous CEOs Mr. Ganhuyag, Mr. Bold, and Mr. Bat-Ochir for their strong leadership and their great contribution to the overall success of XacBank over the last 20 years.

## ➤ Uncertainty Continued: COVID Crisis, Protecting our Customers and Employees

reflection, the strategic direction we took in early 2019 was the right one. After the strong progress we made in 2019, we felt the momentum to continue in 2020. The results from the strategic shift were even more evident in 2021 as we reached impressive financial results that we haven't seen before.

The global pandemic started as a health crisis but quickly became an economic crisis. Soon after, it became a social crisis, a digital transformation acceleration trigger, and finally, it is becoming the new norm of living with the introduction of COVID vaccination.

The Mongolian Government continued to take swift precautionary measures by implementing strict lockdowns by closing down borders, schools, public events, and businesses during parts of 2021 due to the local COVID-19 outbreak.

Many businesses continue struggling due to various lockdowns and border closures, 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 their mortgage and personal loan payments. We took swift actions to support our clients during difficult times. Also, we have actively participated in the Government Sponsored Programs to stimulate the economy and support protecting the jobs of Mongolian businesses.

At XacBank, we faced our own set of 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 implemented work-from-home arrangements for most employees a tour HQ, and some branch employees. I'm proud of my team for how quickly we have mobilized and implemented business continuity measures to ensure smooth operations.

Second, we continued our focus on the timely restructuring of 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 serving our customers in times of need.

Third, in anticipation of the new banking law surrounding the shareholding structure and IPO of commercial banks, we aimed to reposition XacBank with a strong capital position, healthy margins, sufficient provisioning, investments in digital technologies, providing strong shareholder return, and declaring dividends to our shareholders.

Fourth, important milestones must be noted. We have successfully merged XacLeasing with XacBank as part of a corporate restructuring strategy. This merger helps to improve synergy, reduces the funding cost of leasing operations, and offers an opportunity to grow without the limitation of capital. Despite the merger, the leasing business line will continue its independent operations under the brand name XacLeasing.

Finally, the Management and the Board spend time on submitting the IPO Plan to the Bank of Mongolia and Financial Regulatory Commission within the regulatory deadline of 01 July 2021. As part of this plan, the management implemented several corporate restructuring phases successfully within 2021 and officially started the IPO process in preparation to comply with the IPO legal requirement deadline of 30 June 2022.

# Statement by CEO

## ➤ Strategy Recap 2019-2021: Delivering Performance

When we planned our Strategy in 2019, we focused on the following 6 pillars:

1. Sticking to the Banking Basics. In 2019, our strategic focus was on re-enforcing the foundation of XacBank and positioning ourselves for future growth. Our growth objectives were to grow in a profitable and risk-controlled manner with strict financial discipline.
2. Generating Tier 1 Capital organically through retained earnings to meet the new capital adequacy guidelines. Complying with the new minimum Tier 1 capital requirement without raising additional capital from our Shareholders.
3. Focusing on credit quality and providing sufficient reserves. To accomplish this objective, we had to improve operating profit very significantly. Due to the global COVID pandemic, we faced significant complexity to the existing issues we had on hand and we needed to provide provisions for the COVID impacted loans.
4. Improving shareholders' value and delivering ROE of above 20%. To deliver at least 20% ROE, we had to execute a strategy to (1) restore NIM by focusing on liability management as it was too low at 2.7% and (2) strict financial discipline to improve the operating efficiency of the Bank to a low 50's as cost-to-income ratio was at 83.9%.
5. Expediting the Digital Transformation and fixing IT issues. We had a tall task of fixing IT issues that had dragged on for years: IT costs were rising, and retail was becoming uncompetitive. IT is the backbone for retail, fixing and expediting digital transformation was critical not just for the short term but also for the long term future of the Bank. To meet this objective, we focused on digitalization and automation initiatives. The key digital transformation projects we have started included migration of the core banking system, a new mobile banking platform, loan origination, building various scoring tools, and automation of critical processes.
6. As a Green Climate Fund (GCF) accredited bank, continue our commitment to supporting climate change adaptation and mitigation initiatives through our lending programs for individuals and businesses.

**Delivering Performance.** As a result of the implementation of the strategy, I'm pleased to report that we delivered strong financial and operating results in 2021.

XacBank generated a net income of MNT 75.3 billion, and an ROE of 23 percent which was driven by sustainable growth in targeted segments, prudent risk management, improvement in cost structure, and efficient use of capital.

Our Tier 1 capital ratio reached 17.4 percent which is 490bps above the regulatory capital requirement and positions us strong for future growth. Due to devoting a significant amount of resources to improving risk management discipline, credit-underwriting policy, and procedures, and actively managing NPLs and OREOs, we were able to manage NPLs at 4.4 percent. In addition, our provisioning level for both NPL and OREO combined is 107 percent.

The team continued the improvement in our asset-liability management practices by optimizing our liability structure through by repayment of expensive USD foreign funds and reducing overall unhedged FX exposures. As a result, we have improved our NIM to 5.3 percent.

Over the last few years, we looked closely into our operating cost base, took several cost-saving initiatives, and repositioned our cost structure from fixed to variable which resulted in a much-improved cost to income ratio of 42 percent compared to 49.9 percent last year.

Our management team believes that our balance sheet structure and financial and operating model will continue to be the backbone for future growth.

## ➤ Lessons Learned

**Be Prepared.** The biggest takeaway from the experience in the last few years is "Be Prepared for Big Surprises, They Will Keep Coming". Through the execution of the Strategy (2019-2021), we learned that the Strategy is more about what we prioritize and execute rather than what we intend or plan to do.

Also, we had to re-strategize in the middle of execution on numerous occasions as a result of new developments such as banking reforms, capital guidelines, and COVID, just to name a few. The strategy evolved as we faced new developments and surprises, but we as XacBank did not forget the purpose of XacBank and the long-term objectives we are trying to accomplish. I strongly believe this is the secret recipe for success.

**Alignment of the Strategy and The Urgency.** The reason for our success in the last 3 years was the alignment of the vision and strategy between the Shareholders, Board, and Management. It is of the utmost importance to ensure that the alignment continues for our new Strategy as we soon enter a new business cycle as a publically traded company.

One could argue that the business is modern-day warfare. The management had to bring out hidden strengths and potentials to achieve our objectives as we collectively set those objectives as "winning the war". When we approached our strategy development and execution, we viewed it as matter of life and death. Looking into our path into the future, we shall keep the intensity and the urgency.

**Timely Decisions.** Our debates about the future are not so much about trends in the industry. We believe that almost everyone is clear about the trends in customer behavior and the latest trends in the financial services industry. In our view, the debate should be about the timing of strategy and making timely decisions. We need to execute the strategy with good timing, which will be absolutely critical for the overall success of XacBank.

## ➤ Digital Transformation

COVID-19 pandemic accelerated Digital transformation not only for banks but also for companies across all industries. Mobile-first preference of customers puts pressure on companies to offer fast and user-friendly services. After implementation delays mainly caused by Covid-19, our long-awaited Digital banking platform went live for our retail customers. Now, retail customers can get most financial services using our digital banking platform without visiting our branches. More than 95% of the payments are transacted using digital channels.

Over the past year, we have increased our active digital banking users by 50 percent. The number of digital banking and card transactions increased 96 percent and 65 percent year-on-year, respectively. As new features continue to roll out into the 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. This new CBS will provide us with a stable and flexible back-end system that is adaptable to fast technological changes. Our CBS project team has worked diligently to implement the system and we are planning to go live in 2H2022.

Focus remains on the continuous building of partnerships with various platforms and we will continue connecting our systems to third-party providers via APIs. We will continuously improve our mobile banking app and significantly redesign our loan origination processes with credit scoring, document management, and analytics platforms to support end-to-end processing. In the age of digitalization, ongoing investments in data and cyber security are required to ensure the trust and confidence of our customers.

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

## ➤ Outlook

We have a strong reputation in the market for being the bank that looks into banking as a sustainable venture with a long-term perspective. Our reputable shareholders not only bring capital but also invests in intellectual property to XacBank via bringing "know-how", technical expertise, and international best practices.

A new journey is ahead of us as we are preparing for IPO in June 2022 to comply with the new Banking Law. As a public company, we will be "living" in a Parallel Universe: managing the growth of the bank and managing the stock market and investors' expectations. Mission-critical for XacBank to have a successful IPO.

We have learned as an organization how to generate growth in a profitable manner and we put in place a business model that generates Tier 1 capital organically. Also, we as a team learned to persevere against adversity and be prepared for unexpected surprises like new regulations and global pandemics like COVID. As a public company, we will put all of our efforts into delivering value to our customers and partners, taking care of our employees, and maximizing shareholders' value through strong stock performance and sustainable stock dividends.

Tsevegjav (TJ) Gumenjav

Chief Executive Officer

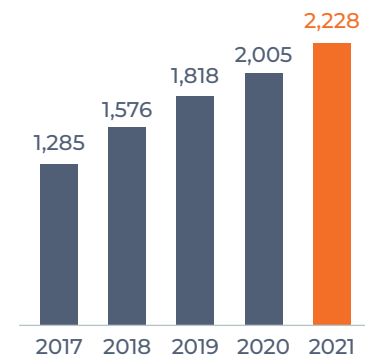




# Financial Snapshot

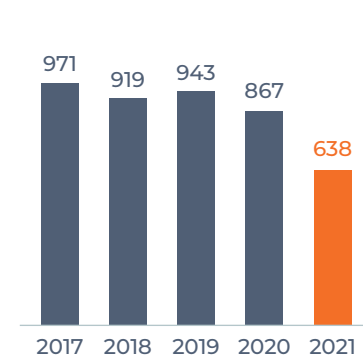
## Deposits

+11.1% YoY



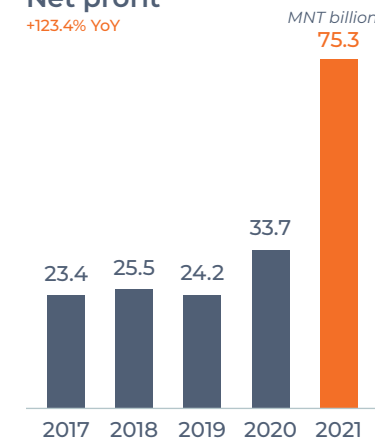
## Foreign debt

-26.4% YoY



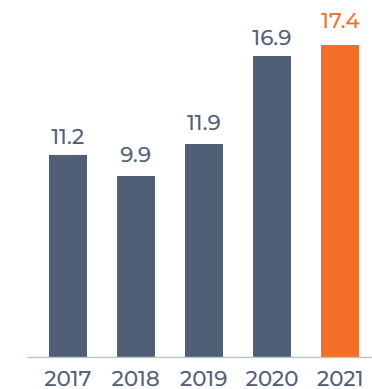
## Net profit

+123.4% YoY



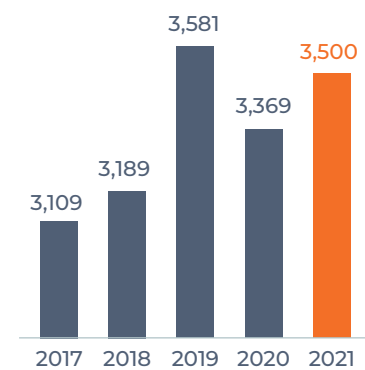
## Core capital adequacy ratio

In percent



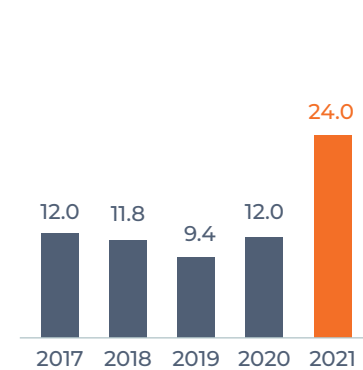
## Total assets

+3.9% YoY



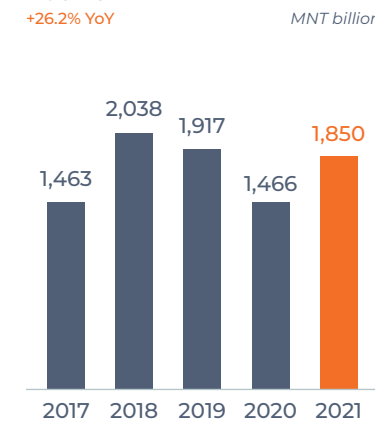
## Return on equity

In percent



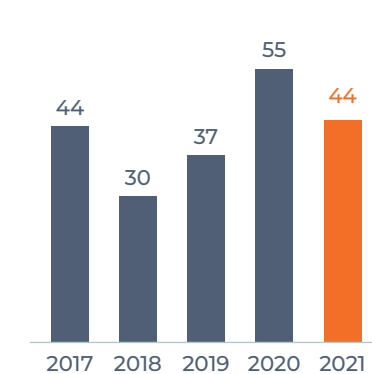
## Loans

+26.2% YoY



## Liquidity ratio

In percent



## 20<sup>th</sup>-anniversary highlights

**2001**

On December 27, 2001, XacBank received its commercial banking license from the Bank of Mongolia.

**2002**

Introduced "Future Millionaire" savings product for children first of its kind in Mongolia.

**2003**

Introduced a stock ownership program and a pension account plan for its +400 employees.

**2004**

Successfully founded and sponsored the "Xac Broncos" basketball team. The team won the league for the seventh time in 2021.

**2006**

Mongolia's first fully interactive call center "1888" was established.

Initiated and organized the "Duulian 2020" indoor football tournament.

**2014**

Successfully raised \$30 million from ADB and \$20 million in funding from OPEC's International Development Fund.

Successfully upgraded the core banking system to the Flexcube system.

**2013**

Launched a greenhouse gas reduction business loan program. Since then, 2.1 million tons of greenhouse gas emissions were reduced.

Introduced the international information security standard ISO 27001 for the first time in the banking sector.

**2012**

Became the fourth largest systemic bank by growing from \$1 million in assets to \$1 billion in assets.

**2011**

Became the first Mongolian bank to receive CO<sub>2</sub> reduction carbon credit from Micro Energy Credit.

**2010**

Eco-loans have been introduced to supply energy-efficient products and reduce air pollution.

**2009**

Launched Aflaton and Temuulel programs to provide financial literacy to children have now entered the school curriculum.

Introduced AMAR mobile banking to the market, enabling access to banking services on your mobile phone.

**2015**

Rebranding was done to provide customer-centric services and set a goal to be a lifelong bank to our customers.

Fully renewed the payment card system and established a Card Processing Center.

Recognized and certified as the first bank in Mongolia to meet customer protection principles.

**2016**

Established a data center that meets the requirements of tier 2 international standards.

Became a National Implementing Agency accredited by the United Nations Climate Green Fund.

Attracted \$108.5 million in funding from eight organizations, including IFC and FMO, the largest syndicated financing for a single commercial bank at the time.

**2017**

Full compliance with PCI DSS standards for payment card information security.



All ATM services and internet banking transactions between XacBank accounts are made to be free of charge or fee.

Funded \$20 million from Green Climate Fund to finance renewable energy projects.

**2018**

XacBank successfully passed the Asset Quality Review conducted as part of the IMF program.

Funded \$40 million from EBRD and \$17.6 million from GCF.

Supported and cooperated openly with technology-based financial service businesses.

**2019**

A 10-megawatt solar power plant funded by XacBank and GCF was commissioned in Govisumber province.



Funded \$65 million from IFC and \$30 million from ADB.

**2020**

Restructured the terms of loan agreements for customers who have struggled to meet the repayment schedule due to COVID-19.

Received \$100 million in co-financing from the FMO.















# 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 the knowledge, capital, and network of our shareholders.

20.00%	MONGOLYN ALT (MAK) CORPORATION LLC	
17.171 %	INTERNATIONAL FINANCE CORPORATION (IFC)	
16.812 %	ORIX CORPORATION	
12.905 %	EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)	
10.516 %	NATIONAL BANK OF CANADA (NBC)	
10.150 %	RONOC PARTNERS KFT.	
6.625 %	MONGOLIA FINANCIAL SERVICES	
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<sup>1</sup>

(as of 31 December 2021)

## CHAIRMAN

Mr. 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

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

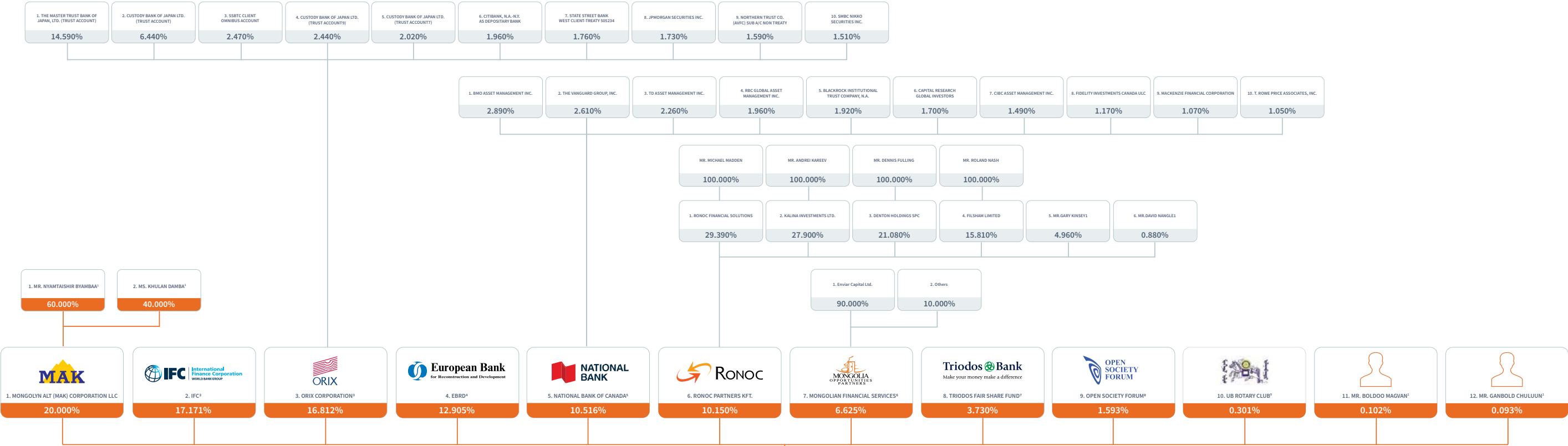
Independent Non-Executive Director

Mr. Ulambayar Bayansan

Independent Non-Executive Director

<sup>1</sup>Please refer to the section “Corporate Governance” on Page 62

# Shareholding structure (UBO)



## SHAREHOLDING STRUCTURE

Footnotes:

1. Natural persons
2. IFC is an international financial institution with member countries.
3. ORIX is listed in New York and Tokyo. Public information as of 30 September 2021.
4. EBRD is an international financial institution with member countries.
5. NBC is listed in Toronto. Public information as of 31 October 2021.
6. Envior Capital Ltd. bought out stakes of IFC, EBRD, ORIX, Obviam, FMO, DEG and Mitsubishi in MFS, effective 12 November 2021.
7. Triodos Fair Share Fund is partially listed on Euronext, Amsterdam and is a mutual fund. Name of Triodos custody B.V., legal owner of Triodos Fair Share Fund, has been changed to Legal Owner Triodos Funds B.V.
8. Open Society Forum is a Mongolian non-governmental organization. The Chairman of the Board is registered with LERO (Legal Entities Registration Office) of Mongolia as UBO.
9. UB Rotary Club is a Mongolian non-governmental organization. 5 founders were registered as UBOs with LERO.



100%



# Senior management team

MESSAGE FROM  
CHAIRMAN

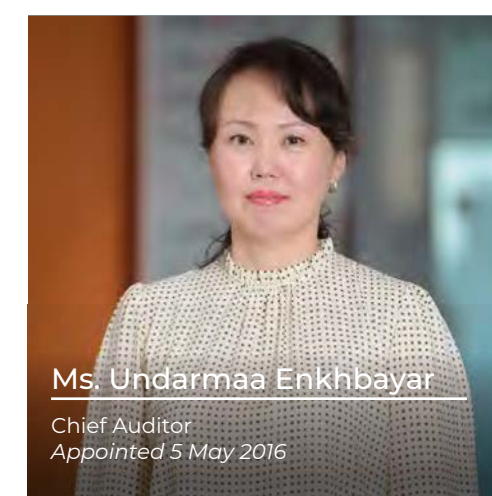
STATEMENT  
BY CEO

20 YEARS OF  
GROWTH

AND IT'S JUST  
THE BEGINNING

FINANCIAL &  
OPERATING RESULTS

AUDITED FINANCIAL  
STATEMENTS





# Ratings

In 2021, 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.

## UPDATES ISSUED in 2021:

- **September 2021:** Moody's affirmed the Bank's B3 local currency and foreign currency long-term counterparty ratings, reflecting Moody's expectation of an improvement in Mongolia's operating environment, which will help the bank maintain its credit profile.
- **August 2021:** Fitch Ratings affirmed the previous rating of B and the stable outlook of the Bank in its annual review.

MOODY'S

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.

	SEP 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

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 2021
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



MOODY'S  
Long term Issuer Rating – Foreign currency B3/Stable

FITCH RATINGS  
Long-Term Foreign-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 mission is to create opportunities for people to achieve better living standards by mobilizing financial resources for private enterprise and supporting businesses that create jobs for 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 creating sustainable economic growth thus improving people's lives for the better. FMO's mandate is to provide long-term capital for projects where their risk capital investments are focused on the sectors with long-lasting contributions including financial institutions.



Asian Development Bank ("ADB") is a regional development bank, founded in 1966 with 68 members including Mongolia since 1991. ADB's 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 accounts for around 20% of its ordinary capital resources.



Founded in 1962 DEG is a wholly-owned subsidiary of the KfW group since 2001, providing long-term capital in the form of loans or equity in developing markets. DEG finances and promotes entrepreneurial initiatives in developing and transition countries. DEG's emphasis on the development impact of its investments has been the main driver of its long-standing relationship with XacBank's growth in its delivery of financing for the SME segment in the 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 to finance 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 has already reached the goal to dedicate its 40% of financing to 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 apt 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. OFI provides public, private, and trade sector financing to support sustainable social and economic advancement worldwide. As part of a USD 100 million syndicated debt facility, OFID has reached an agreement with XacBank to extend trade financing to our customers.



International Investment Bank is a multilateral development institution that aims to facilitate connectivity and integration between the economies of the Bank's member states to attain inclusive growth and the competitiveness of national economies, backed by the existing historical ties.



Proparco is a majority-owned subsidiary of Agence Française de Développement ("AFD") focused on private sector development that targets the promotion of sustainable economic, social and environmental development. PROPARGO operates in 80 countries with over 500 clients including 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 a 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, and thus reducing poverty. The fund is managed by Obviam, a specialized investment advisor, with whom XacBank has fostered a successful working relationship since 2016.

finnfund

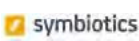
Finnish fund for industrial cooperation ("FinnFund") is a development finance company funded by Finnish state and private capital markets. Finnfund provides long-term and mezzanine financing for projects in developing countries and recycles all the profit made into new projects to drive sustainable development. Finnfund's commitment to the XacBank relationship has been strengthened with its 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 insurance, 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 a wide range of funds from the Netherlands, and 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.



Frontera Capital is a boutique investment firm that focuses exclusively on deploying capital in frontier markets. Frontera has been set up by a core team of highly experienced financial professionals. Frontera is set up to screen and assess risk-adjusted return sovereign, FX, term, and corporate risk investment prospects in 125 frontiers fixed income markets globally.



BIO is a development finance institution supporting a strong private sector in developing and/or emerging countries, to enable them to gain access to growth and sustainable development to achieve the Sustainable Development Goals. BIO's strategy focuses on the financial sector, enterprises, and infrastructure projects, with three key objectives: optimizing the development impact, and supporting sustainable projects, additionally.



# Retail Banking

## ➤ Retail lending

Upon grouping our clients into different segments based on their shared traits, demands, and income types, we offer tailored banking products and services to our customers belonging to each segment of clients with business income, we provide business loans well suited for their direction and scope including, but not limited to, micro business, small business loans and so forth. Additionally, we collaborate and assist our business clients by providing various trade finance instruments such as Bank Guarantees and Letters of credit. Other credit products such as Salary loans, Consumption loans, and Credit cards are made available for clients with salary income.

Throughout 2021, a growth of 25% has been observed in our Retail Loan Portfolio compared to 2020, resulting in an outstanding loan balance of MNT 1.3 trillion. Among these, the year-on-year growth of business loan and consumer loan portfolios amounted to 27.1% and 25.9%, respectively. The Non-Performing Loan portfolio, after a reduction of 1.4% in 2021, accounted for merely 4.5% of the total Retail Lending Portfolio, cementing our position as the industry leader.

To address the Covid-19 pandemic's effects on the nation's economy, the "MNT 10 Trillion Comprehensive Plan to Protect Health and Revitalize Economy" was enacted by the Government of Mongolia. In relation to this plan, the "3% Employment Support Loan" as well as the "REPO financing loan" (carried out by the Bank of Mongolia) concessional business loans were made available to provide relief for businesses and individuals. As part of relief efforts, we mobilized and deployed MNT 209 billion in loans to 3,127 businesses and individuals, which contributed to the preservation of 17,000 jobs across the country.

The Government Mortgage Loan Program (MIK) has continued throughout 2021, whereby we received MNT 50.2 billion in financing from the Bank of Mongolia. We have provided dedicated support to more than 1,100 individuals and families in their purchase of a home by originating MNT 77.8 billion in loans. Furthermore, in line with the Bank of Mongolia's decision to comply with the newly enacted Pandemic Law, restructure requests corresponding to over 5,900 mortgage borrowers' MNT 281.2 billion worth of loans were received and processed online. By doing this we provided tangible support for our clients alleviating some of their debt burdens.

Due to the several Covid-19 related lockdown measures in the course of 2021, numerous businesses and individuals have faced overwhelming financial challenges, this was especially true for the case of SMEs and the self-employed.

Despite the lifting of the lockdown, and thus the return to normal business activities in the second half of the year, a multitude of businesses and individuals were still in dire need of financial support. Accordingly, in an effort to provide tangible financial aid to clients in revitalizing their businesses, XacBank launched a nationwide campaign "Restore your business with XacBank", through which MNT 30 billion in short-term working capital loans were granted to over 1,600 individual clients, at a concessional rate of 10.8% per annum.

In 2021, we were reminded of how critical it is that we take care of our clients. In line with our customer protection and social responsibility principles, over 2,100 business loan restructure requests from Covid-19 affected clients were received and processed remotely to ensure clients' business operations are not disrupted during the pandemic-driven economic crisis.

Retail loan portfolio  
**1.3 trillion**

▲ 25%

Non-Performing loan  
**4.5%**

Over 5,900  
mortgage borrowers'  
**281.2 billion**

Loan restructure requests  
were received and  
processed online.



# Retail Banking



Retail Deposit Portfolio  
**2.23 trillion**  
▲11.2%

Depositors  
**894,000**  
204,000 were  
children's savings

Checking &  
savings accounts  
**7,000**  
were opened via Digital bank

## ➤ Retail Deposit

Over the course of 2021, The retail Deposit Portfolio grew 11.2%, or by MNT 225 billion, resulting in an outstanding Retail Deposit balance of MNT 2.2 trillion, where the total number of depositors reached 894 thousand, of which, 204 thousand were children.

In 2021, the current account and savings account portfolio exhibited year-over-year growths of 16% and 13%, respectively. This was partially related to various government concessional loans and projects, as well as the provision of MNT 300,000 Covid-19 relief funds per capita.

The launch of the new Digital Bank client interface allowed us to maintain a close relationship with clients, as they shift smoothly to digital payments, savings, and banking. During 2021, over 7,000 checking and savings accounts were opened electronically by our Digital Bank interface. Additionally, with the bank's IPO approaching in the near future, we launched the new "Common Stock Savings" deposit product for our prospective individual and business investors.

In an effort to create more favorable opportunity for Term Deposit holders, the maximum amount of online Term Deposit Backed Loans available through the new Digital Bank were increased to MNT 50 million.

Throughout 2021, we remained resolute in how we take care of our clients and how we help our communities move forward in meaningful ways. As a systemic bank, XacBank supported all measures, projects and programs by the Government of Mongolia in response to the Covid-19 pandemic.

This was reflected by the fact that the child welfare benefit registration was made available through the government-sponsored [www.ehalamj.mn](http://www.ehalamj.mn) system, as well as the Term Deposit online termination, was one of many services provided remotely during the strict lockdown.

## ➤ Branch network

We remain focused on supporting the everyday financial needs of millions of clients. With additional health and safety measures in place, our teams continued to provide banking products and services to individuals and businesses across our nationwide network of 78 branches – 36 in Ulaanbaatar and 42 in rural areas.

In spite of the pandemic, we dedicated ourselves to providing our customers with uninterrupted, timely, and reliable banking products and services while maintaining regular disinfection procedures of branches to prevent the spread of infection.

On the lending side, we had invested in step-by-step improvements in our BPMS interface (Business Process Management System), which allowed us to cultivate a faster and easier lending process internally. This allowed us to automate consumer, mortgage, and business loans up to MNT 200 million.

Amidst the strict lockdown in 2021, we have arranged Work-from-Home protocols for employees, and implemented measures to enhance reinforcements for the Customer Service Center. As a result, we were able to process our customers' transactions and feedbacks promptly. We have widened our partnership with provincial governments by leveraging our rural branches through collaborations on the following projects and programs:

- To provide affordable meat to locals through collaboration with the Governor's Office of Uvs Province, we issued MNT 635 million in working capital loans to locals who are engaged in the meat-processing business.
- In order to stimulate job creation, as well as the improvement of living standards through economic growth, we have directed a total of MNT 583 million in soft loans to SMEs in Dornod province at a discounted rate of 12% per annum. Our investments have contributed for the development of a sound financial environment through the establishment of funding mechanisms for provincial SMEs.



### Ulaanbaatar city

Hub branches	6
Branches	29
Extensions	2



### Rural area

Branches	39
Extensions	2

**Total 78**





# Business Banking

Although past two years have been challenging owing to the ongoing pandemic and subsequent supply chain disruptions, XacBank was still able to support its corporate clients approximately USD 20 million in total transactions. Total volume of import letters of credit increased by 15 percent from FY2020, although total volume of guarantees decreased by more than 20 percent. With a more positive global outlook on economic conditions for FY2022, Corporate Banking expects its fee income generated from trade finance to increase in the coming year.

Business bank also cooperates with Oyu Tolgoi – one of the largest known copper and gold deposits in the world – by offering their suppliers with quick funding at low rates. The suppliers merely offer up their receivables from Oyu Tolgoi as collateral and are able to obtain short-term loans with minimum paperwork. The Bank is optimistic our receivable discounting portfolio will experience growth once Oyu Tolgoi's underground mining phase begins.



*XacBank has been cooperating with Suu JSC since 2013 and has been providing a full range of tailored financial services to meet the needs of the customer.*

*During this time, XacBank with partnership of EBRD, has provided Risk-sharing financing of USD14.7 million in 2 tranches for investments in Suu JSC's infrastructure upgrades, line expansion, new production lines, and improvements to the liquid milk preparation system.*

*The first tranche of USD 9.9 million was disbursed in 2019, and the second tranche of USD 4.8 million for in 2021. The financing has positively impacted sales revenue and net profit of the company continue to grow steadily. In 2021, the net profit of "Suu" JSC reached 9.4 billion, an increase of 174% as compared 2018 and 133% compared to the previous year.*

*The investment will not only improve borrower's financial performances, it will company to become more environmental friendly by reducing electricity usage by 40-50% and water usage by 33% on annually.*

Corporate  
loan Portfolio  
**343 billion**  
▲15%

Non-Performing  
portfolio  
**5.5%**  
▼400bps

Business banking team continued to uphold its commitment to support the bank's corporate clients by financing their liquidity, working capital, and investments under challenging circumstances of Covid-19 global pandemic in 2021.

Throughout the year, we prioritized our customer' needs by transitioning into complete online banking to provide fully flexible, day-to-day banking services. We have shown our support and given financial relief to those who suffered from Covid-19 impacts by restructuring the terms of their loans and deferring the repayments. However, the corporate borrowers have shown great resilience to Covid-19 crisis and only 11 percent of the corporate portfolio was restructured at the end of 2021.

Although we worked with our clients from the distance through digital channels, challenges had brought us closer by strengthening our relationship and expanding the scope of our cooperation in larger scale. With such effort, we have achieved 15% increase in our corporate portfolio while decreasing our non-performing portfolio by 400bps and overdue portfolio by 500 bps since the beginning of 2020. It was our main focus throughout the year to reduce the impaired assets and improve quality of the portfolio. We have persistently taken pre-emptive actions to reduce FX exposures to protect against unexpected FX loss and successfully reduced the FX portfolio by 40% since YE2020 as part of customer protection policy.

Business bank offers a full range of domestic and international trade finance solutions to our clients through our extensive correspondent network. Our full trade finance product offering consists of all documentary collection services such as import and export Letters of Credit as well as all sorts of Letters of Guarantees from payment guarantees to bid securities. XacBank is proud to be a primary contributor to Mongolia's trade system as we have provided support in many different industries ranging from food to manufacturing. Many of our business clients have experienced enhanced credit ratings due to our trade finance solutions.



# Leasing

In 2021  
**168 billion**  
 worth of leasing provided,  
 accounting for  
**30.1%**  
 of the total leasing market

Leasing Portfolio  
**196 billion**  
 ▲60%

## ➤ Leasing Division (XacLeasing)

By the decision of shareholders and board of directors of TenGer Financial Group LLC, who is 100% owner of both XacBank and XacLeasing, XacLeasing was merged into XacBank and subsequently organized into Leasing Division of XacBank in November 2021. Relationship established over the years with key vendors, allows the Leasing Division to provide financial leasing services with unparalleled speed for equipment, vehicles, and special purpose vehicles, as well as mortgage loans for residential apartments with an area of over 80 m2.

In 2021, MNT 168 billion worth of leasing and loan services were provided to customers, accounting for 30.1% of the total leasing market in Mongolia. The leasing portfolio grew 60% on Year-on-year basis to MNT 196 billion, making up 11% percent of XacBank's loan portfolio.

Customer oriented approach by the Leasing Division, which includes online applications, in-person visits for document collection, quick and flexible decisions, are all key to establish strong relationship between customers and vendors.

## ➤ Covid impact on Manufacturers and Suppliers:

Due to the pandemic, the world's largest factories fell short of semiconductors, and suppliers were affected by disruptions to their supply chain, becoming unable to make shipments on time.

Mongolia closed its border for extended period and restricted imports, which affected the leasing industry and other sectors. Imports of new vehicles and equipment were hampered during the pandemic, therefore financial leasing for used vehicles with vendor guarantees was launched.

MESSAGE FROM  
CHAIRMAN

STATEMENT  
BY CEO

20 YEARS OF  
GROWTH

AND IT'S JUST  
THE BEGINNING

FINANCIAL &  
OPERATING RESULTS

AUDITED FINANCIAL  
STATEMENTS

## ➤ Covid impact on customers:

The government's actions on reducing the pandemic spread have had a wide range of effects on businesses. By taking the right risk management measures, we lowered the non-performing leasing in our portfolio to its historic low of 0.6%, concluding the year with satisfactory results. We have also restructured MNT 6 billion worth of financial leasing portfolio that was negatively affected by the pandemic.

While it was a turbulent year for businesses with numerous lockdowns and subsequent negative impacts, Leasing Division was able to successfully conclude the year by launching new products and services that met client needs at the same time managing the risk exceptionally well.



B.Bat-Ochir  
 KHONGOR BAYAN TRANS LLC | CEO

*We began with a passenger van transportation business between Bayankhongor province and Ulaanbaatar city in 1997. We purchased our first dump truck for earth moving service in 2004, and has been active participant in mining industry ever since.*

*A single dump truck became two and three, however, we were in desperate need of an excavator to remain in this industry. Our history of cooperation with XacLeasing started with excavator financial leasing for excavator when we expanded our business with a Hyundai 500.*

*Banks did not have unsecured leasing for equipment back then. So we accumulated savings for a down payment with our trucks to lease a new excavator, which opened up the key development path for our business.*

*Our company received 14 equipment leases worth MNT 12 billion. We are now operating with over 80 employees and about 40 vehicles and equipment, including 4 Hitachi excavators, 18 dump trucks, and other auxiliary equipment, with a capacity of moving 18 million cubic meters of soil per year.*

*We are grateful for your equipment leasing services that helped us reach where we are today.*

## Other highlights:

### Introduction of 1DAY, mortgage loan service:

Simplifying the mortgage lending process using XacLeasing method allowed the Leasing Division to underwrite a mortgage loan within a day which meets the needs of our vendors and customers. The product was successfully launched and quickly grew into MNT 11 billion loan portfolio in 2021.

### Toyota-Q program:

In cooperation with Toyota Sales Mongolia, we have launched a financial leasing service for high-quality used cars with dealer certificate sold on Mongolian secondary market. The benefit from the product is two folds, where it helps the leasing division to establish new customer base and supports the sales of the vendor.

In the reporting period, the loan portfolio of Toyota-Q amounted to MNT 9 billion with an excellent asset quality.

### Leasing asset quality:

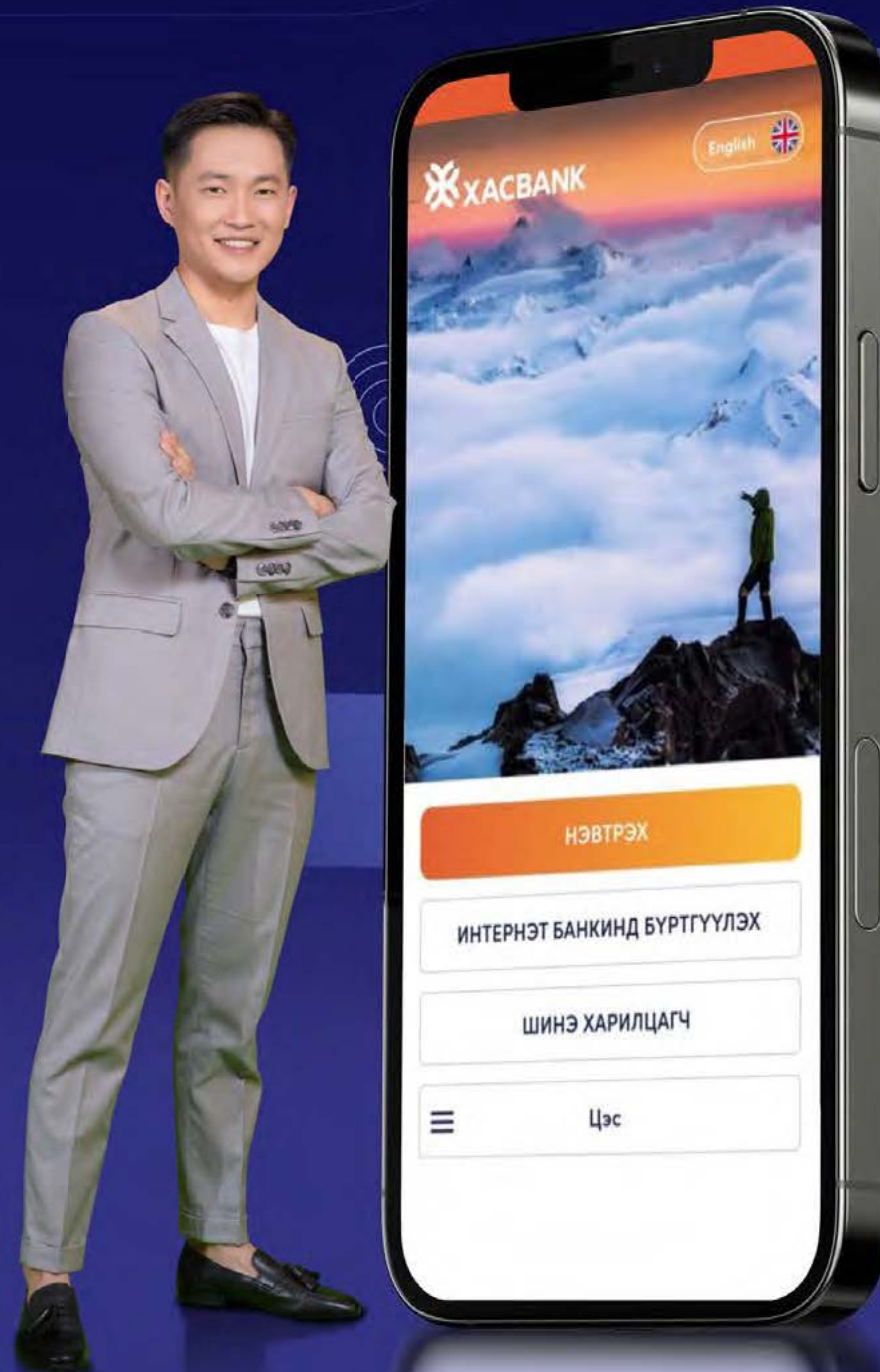
The key to successful portfolio quality management is the leasing of new assets from vendor which are high in demand, used in various sectors, and are highly liquid in the secondary market. By controlling the sector and asset type exposure carefully, the leasing division was able to reduce the Non-performing lease ratio to all time low of 0.6% in the year 2021.

### Installation of KIOSK machines at suppliers:

Arising from the need for remote connection where in-person meeting was limited, the Leasing Division has installed automated KIOSK machine at vendor companies through which clients are able to submit a request for financial services.



# Digitalization



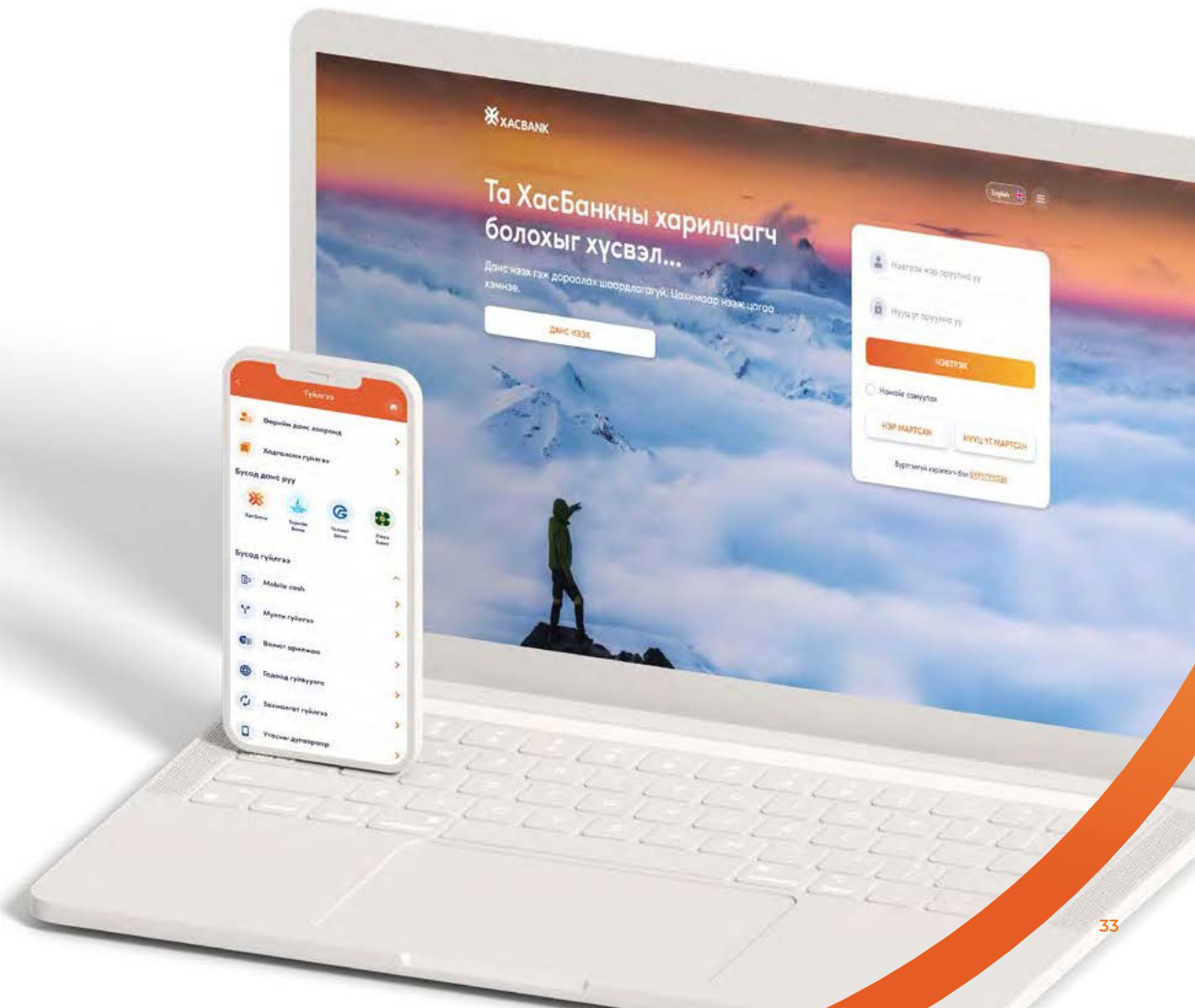
## Digital bank

Past 2 years have been a period for customers to change their behavior due to strict quarantine caused by the pandemic followed by rapidly changing user technology.

During this financial year, we have successfully introduced our freshly designed digital bank application along with a web version that offers the users to create new bank accounts and savings accounts, deposit backed loan, order payment cards, change card PIN codes, mobile cash, request bank statement as well as many other functions.

The total transactions through our digital bank have risen by 65% compared to the previous fiscal year and the total online transactions take up 95% of total transactions made by XacBank, which shows our successful delegation and provision of our services to our customers during this hectic period. There is no transaction fee between XacBank users which is saving of 919 million MNT for our customers in 2021 alone.

▲ **65%**  
Total transaction  
through digital bank





# Digitalization

## Payment cards

Total card users  
▲ **55%**

Card transactions  
▲ **56%**

As part of our strategic partnership and open bank principle, we have cooperated with numerous FinTech companies consistently creating more innovative products and services for our customers which resulted in 55% increase in total card users as well as 56% increase in total transactions in the last 5 years. During this fiscal year, we have successfully introduced the Monpay card to market, the only card that allows users to choose Monpay account or Bank account to use for any type of payment. We successfully pivoted our traditional cards to the contactless card that helps customers to follow quarantine social distancing protocols.



## POS - Merchant solutions

Merchants  
▲ **47%**

POS transactions  
▲ **200%**

In the past 5 years, our merchants have increased 47% and ranked 3rd most POS equipment in the system. Collaborating with our merchants, we started a campaign that gives a 10-25% cashback incentive that resulted in a 200% increase in total transactions. In 2021, we developed our POS to print VAT receipts.



## ATM

During this financial year, active hours of our ATM service was set to 99% which indicates we have successfully delegated our services to customers during this tough period of pandemic and strict quarantine. Since 2017, there is no fee for transaction between XacBank customers, balance inquiry, cash withdrawal which effectively saved 161 million MNT for our customers in 2021 alone.



## Partnerships

Within scope of an open bank principle, XacBank has successfully collaborated with numerous FinTech companies to offer more advanced technology such as open API and ACH payment system, which results in brand new services and opens more business opportunities to our customers. This operation widened our partnership with 360 finance, HiPay, Monpay digital money, Thunes, Ard credit and MostMoney as well as further improving our services to satisfy our customer needs, being more accessible and consistent.















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

## 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
<b>1 NO POVERTY</b> 	<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.	<b>6 INDUSTRY, INNOVATION, INFRASTRUCTURE</b> 	<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.
<b>2 GOOD HEALTH AND WELL-BEING</b> 	<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.	<b>7 REDUCED INEQUALITY</b> 	<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.
<b>3 GENDER EQUALITY</b> 	<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%.	<b>8 SUSTAINABLE CITIES AND COMMUNITIES</b> 	<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.
<b>4 CLEAN WATER AND SANITATION</b> 	<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.	<b>9 RESPONSIBLE CONSUMPTION AND PRODUCTION</b> 	<b>Responsible Consumption and Production:</b> GCF-financed lending programs enable businesses and households to lower environmental impacts via energy efficient purchases.
<b>5 AFFORDABLE AND CLEAN ENERGY</b> 	<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.	<b>10 CLIMATE ACTION</b> 	<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.

Since 2013,  
XacBank's green loan products and projects  
have achieved GHG emission reduction of

# 2,108,210

tonnes of CO<sub>2</sub>

This is equivalent to the planting and growing of

# 151,886,634

coniferous & deciduous trees over

10 years.

Assuming

# 300

trees per hectare, 151,886,634 trees cover

1.1 times the size of Ulaanbaatar.



## Eco Banking



### ➤ Eco Banking Initiatives

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.

### ➤ Implementing Projects and Programs

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.

2021 marked the fifth year of XacBank's MSME 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. Training of clients has been organized systematically with capacity cap in accordance to the eased COVID restrictions.

The Energy Efficient Consumption Loan Program (EECLP), in partnership with the Green Climate Fund successfully concluded its second full 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 workshops at the household level in ger district was organized to raise awareness on energy efficient technology.

Moreover, XacBank in collaboration with the Mongolian Sustainable Finance Association continued the reduced-rate energy-efficient housing loan program for the second year from which clients can benefit from financial relief in the form of a principal reduction of up to 30% of the total loan amount. The program financed Mongolia's first internationally recognized green building and is a committed long term partner in standardizing the energy efficient housing in Mongolia.

Within the company's mission People, Planet, and Prosperity, XacBank is one of the three banks working together with the Ministry of Environment and Tourism to provide concessional green loans to both households and businesses across the country financing 25 different technologies targeting today's major environmental issues such as air and soil pollution.

Our major project and program implementation milestones include:



### 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.
- **2013-2021:** Successfully expanded and continued the implementation of the Business Loan Program for GHG Emission Reduction which reduced 1,697,991.45 tonnes of CO2 emissions.
- **2017-2021:** Continued implementation of awareness raising and capacity building activities under the Business Loan Program for GHG Emission Reduction. Trainings in 2021 reached 502 branch staffs and 121 customers on energy efficiency and financial management
- **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. During this project, the MGFC Establishment Team was created and a Memorandum of Understanding was drafted between the Mongolian Government and leading Mongolian banks.
- **2019-2021:** Mini-grid/Off-grid Solution for Ger Area program 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 households with an affordable business model which is novel for Mongolia. Although the global outbreak of the COVID-19 pandemic in 2020 delayed the implementation of the program, the project was successfully concluded in 2021.
- **2020-2021:** 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.
- **2021:** Continued the knowledge-sharing workshops for two most polluted districts of Ulaanbaatar, reaching 147 sub-district section officers in collaboration with the UB city Municipality.
- **2020-2021:** Successfully launched and implemented energy efficient housing loan program for the second year in collaboration with the Mongolian Sustainable Finance Association.



# Eco Banking

## Carbon Finance

XacBank continued its cooperation with MicroEnergy Credits for facilitating the sale of its remaining carbon credits that are eligible for compensation issued in voluntary carbon markets and in the United Nations Clean Development Mechanism (CDM) from the Energy Efficient Product Distribution Program. Each carbon credit represents the reduction of one ton 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
- 2021: Renewed cooperation to facilitate issuance of further 150,086 VER credits to a private off-taker.



**Vanchig OIDOY |**  
Energy efficient, accessible private housing

Within the scope of the Energy Efficient Consumption Loan Program, XacBank has issued a loan to V. Oidov for energy-efficient, accessible private housing.

Energy-efficient buildings include key technological solutions such as sealing, solar or heat-receiving windows, intelligent ventilation and heating systems, and thermal insulation and storage materials.

First launched in partnership with the Mongolian Sustainable Finance Association, the energy-efficient private housing loan is characterized by its energy audits at the blueprint level and after completion of the house, and focuses on providing quality long-term investments to customers.

V. Oidov's private house is 47% energy efficient from the baseline, and both exterior and interior is designed for people with special needs with accessible ramp, wide doors, accessible toilets and no interior door thresholds.

## 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 2021 focused on continuing disbursements under the Business Loan Program for GHG Emission Reduction, along with the implementation 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.

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
- 2012-2021: 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 2014
  - In 2017, the Green Climate Fund provides USD \$19.5 million in loan financing and USD \$500 thousand in grant funding to expand XacBank's program, the Business Loan Program for GHG Emission Reduction.
  - Since beginning to provide eco business loans in 2013, XacBank has disbursed over MNT 127.9 billion for energy efficient and renewable energy projects and products, offsetting an estimated 1,697,991.45 tonnes 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.
- 2019-2021: 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. As of 2021, the program has already achieved 9,500 tonnes of carbon emission reduction and has potential to reduce up to 469,574 tonnes of carbon dioxide throughout the program lifetime.



# Eco Banking

## ➤ Green Climate Fund (GCF)

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 Sumber 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.

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 FP028: MSME 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 Program – 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 Sumber Solar Power Plant finished construction and was connected to Mongolia's central grid in March 2019. Since the start of operation, the solar power plant has supplied 30,242 MWh of electricity to the grid, reducing emission by 24,103 tonnes CO2. This solar plant provides enough renewable energy production for 20,000 households and saves 171 million liters of water annually and 306,745 tonnes of CO2 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.
- **2019-2021:** Mini-grid/Off-grid Solution for Ger Area program was approved for Green Climate Fund Project Preparation Facility funds. The program was successfully concluded in 2021.
- **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.
- **2020-2021:** The Readiness and Preparatory Support Program – 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. Within the framework of the project, climate change adaptation and mitigation measures were mainstreamed in the mid and long term development policies of Mongolia.
- **2020-2021:** The Readiness and Preparatory Support Program – Energy Savings Insurance Model Development – was approved by the GCF with XacBank as the delivery partner. The implementation of the project commenced in 2021 due to the restrictions associated with COVID-19 pandemic.

## 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.



## Information Technology

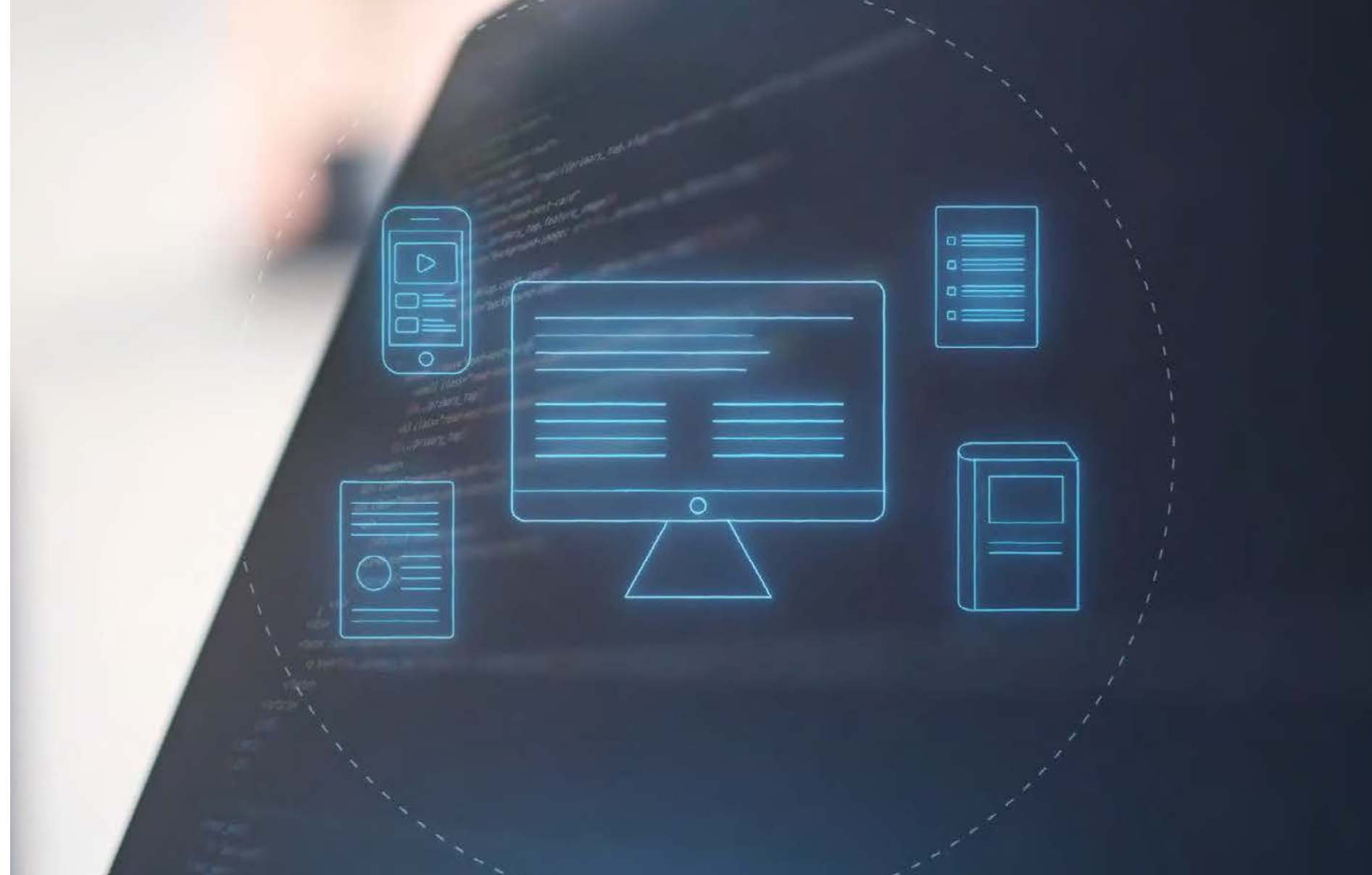
We increased updates to XacBank card system to ensure the growing workload of interbank payment cards, to be compatible with bank card systems, and to support new types of transactions due to the upgrade of the card transaction system of the National Electronic Transfer Center.

According to the request of Ministry of Labour and Social Protection and within the framework of social responsibility, food vouchers are now accepted at POS terminals of XacBank in shops and supermarkets that are allowed for the reform of food and nutrition support services for targeted group of individuals.

Servers and storage devices of core and backup data centers are improved with high-capacity, compact, modern HCI advanced technology thus improved continuous, reliable operation of systems.

We improved security and reliability of the banking network during the pandemic (Covid-19), replaced the old network protection device / Firewall/ with a new high-capacity device, and facilitated capacity for all employees to work remotely.

We implemented the Cyber security systems to business operation such as Data Loss Prevention, Privileged Access Management, and Mobile Device Management.



We successfully completed “Retail” module for citizens of the new digital banking project, including more features such as opening an online account, ordering a card, making a refund, changing PIN code of card, registering remotely, and additional transactions for up to dating online banking system.

We are working on implementation of Finacle system, which fully meets international standards, including Treasury, Payment, Trade Finance, and card systems for expanding our products and services to our customers and support virtual transition.

We successfully implemented “Array Application Delivery Controller” device to ensure reliability of the bank’s core and subsystems operation and to enable the systems to be quickly transferred to the backup center in the event of a system failure.

We executed system development of CAM (Central Address Module) that automatically provides account information from the banking system to account warehouse of Central Bank.

We completely updated the computer network and ancillary equipment as part of the renovation of XacBank head office.

We automated the process of sending E-Barimt transaction receipt to the Tax system made by Android POS, and started to accept payment cards and MonPay cards.

We successfully implemented the next phase of the “Port Security” project to ensure the internal network security of the Bank’s head office and branches.

We executed MIK’s loan terms change on time according to the decision of the regulatory authorities due to the pandemic(Covid-19).

As part of the continuous improvement of the card system, VISA enhancement was made on security, continuity and reliability of card system.



# Social Responsibility

*XacBank is committed to investing back into the community and contributing to the protection of the environment through its business activities, in line with its three pillars of People, Planet and Prosperity. We strictly refuse to finance environmentally harmful or illicit business activities as per our Social and Environmental Management policies.*

## Promoting access to finance

To provide legitimate assistance to small business owners reviving their operations, “Business Support Months” has been announced and implemented nationwide, where loans of up to 30 million MNT with an interest rate of 0.9% per month (10.8% per annum), the lowest interest rate on the market was offered. In addition, XacBank has joined the 3% interest rate loan program to support small and medium businesses.

Mobicom, Skytel and G-Mobile users now have free data when using the updated digital app.



## Sport

Founded in 2004 to support and contribute to team sports, the 18-year-old “Xac Broncos” professional basketball team has won the seventh major league championship, setting a historical record.

The DOTA 2 Championship was successfully organized in cooperation with the Mongolian E-Sports Association to encourage e-sports enthusiasts and athletes, helping them succeed in international competitions and make a name for their country.

## Protecting customers

We will continue to protect our customers, whose income or business has been damaged due to the pandemic by extending loan tenors, providing principal moratorium, and waiving fines and penalties in case of overdue loans, as was done in 2020.

Additionally, during the pandemic, we have enabled our customers to remotely cancel their time deposits and send requests for government financial assistance to the bank without visiting the bank.



## Environment

We continue to financially support energy-efficient, environmentally friendly, eco-consumption and greenhouse gas reduction businesses through our loan programs.

We partook in the “Billion tree” national movement initiated by the President of Mongolia and planted trees near Bumbat spring in Baruu Salaa.



## Education

For the seventh year in a row, the Student Scholarship Program, in honour of former XacBank board member Peter Morrow, has recognized and awarded scholarships to outstanding students studying banking, finance, economics, business administration, and data analytics.

In association with World Savings Day, a month of financial literacy for people of all ages, including children, was held.



## Arts and culture

In collaboration with HYP Entertainment and Xyyp Music, we have successfully implemented the “HYP Stage” project by supporting new singers, songwriters, and artists to release audio content to the public.



# Financial & Operating results

## Operating environment

Covid19 pandemic, the main theme for 2020 globally, carried on well into 2021 with ever so increasing difficulties in world order resulting in unprecedented level of socio-economic hardships (+6.1 million reported death toll) for communities in every corner of the planet. There were serious waves of the virus spreading due to new strain or mutation of it which brought about further challenges with it, however worldwide health organizations whether private, public or cooperatively begun to develop and introduce numerous vaccinations successfully from early 2021. As of today approximately 60% of the world's 4.57bn people is fully (most vaccine types required 2 dose injections) vaccinated.

Although trending downwards, more than 660k daily new cases and potential for another strain mean that back to normal is not in sight. In fact, the world is under new-order due prolonged cross border restrictions and protectionist insular economic policies by governments resulting in immensely skewed world trade flow from supply chain disruptions, worn down business sectors such as tourism and highly strained public economy from rising inflation, therefore the road recovery is sure to be slow and gradual.

In April 2020, Mongolian government passed pandemic specific law authorizing short-term executive powers for taking sweeping actions, for mobilizing efforts and for taking macroeconomic measures in order to combat the pandemic impacts whereby some of the measures have been further extended to end of year 2022, even though the national emergency status had been downgraded to normal operations domestically, in February 2022.

As one of the fundamental clog in Mongolian economy, the commercial banking sector has been the main channel for implementing and effecting various regulatory and fiscal measures in the system. These measures included regulatory allowance of loan moratoriums, government subsidized lending program as well as the implementation and persistence for systemic update for banking entity structural change as intended and resolved from Banking law amendment which was introduced pre-Covid19.

XacBank, one of the systemically important banks in Mongolia, has been at the forefront for facilitating and expediting these measures proactively whilst recognizing our corporate citizenship by continuously providing our employees with necessary support through these challenging times.

Most importantly our prudent and proactive risk management allowed us to be flexible and resilient both operationally and financially whilst upholding our high standard duty of care to protect our customers and shareholders. As such despite the challenges in its operating environment, the Bank is proud of its record breaking results with improved financial metrics, notably managed through its internal resources without state aid, which is demonstrating effectiveness of our current strategy and present objectives.

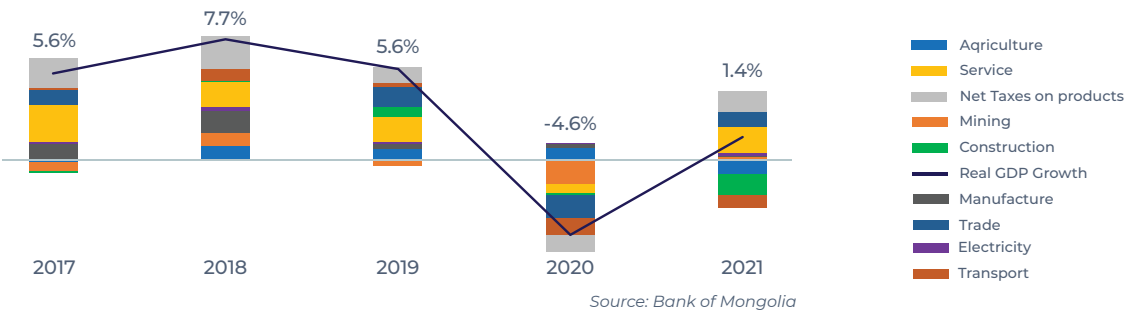


# Macroeconomic Environment

According to the preliminary estimates of National Statistical Office of Mongolia, the economy of Mongolia has expanded by 1.4% in 2021, following a contraction of 4.6% in 2020 due to the sporadic lockdowns. Although the international organizations had predicted a real GDP growth at 4.5% in 2021, the actual economic performance fell short of expectations due to the uncertainties such as the new COVID-19 variants and the border restrictions.

From production perspective, the sectors such as agriculture, transportation, construction have contracted, which caused the real GDP growth to underachieve the expectation. On the other hand, trade, service and taxes less subsidies on products had a positive impact on GDP growth.

### Mongolian economic growth 2015-2021

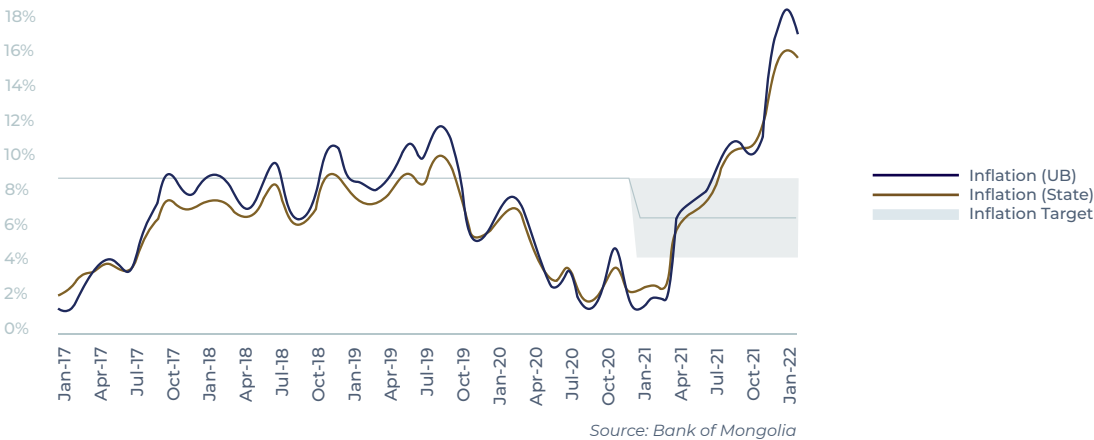


The authorities in Mongolia have taken decisive actions in terms of fiscal and monetary policies to shield the economy against the backdrop of the COVID-19 restrictions and the unfavorable business environment. As these conditions have persevered in 2021, the Government of Mongolia has announced a three-year Economic Recovery Program of 10 trillion MNT (27% of GDP) in March 2021. Preferential and cheap lending was offered through commercial banks to key sectors such as the SME and non-mining exports, construction, agriculture and strategic projects, which contributed to the economy expanding by 1.4%.

On the other hand, as a result of China's tight anti-covid policy, the closure of major trading ports has slowed down the mineral exports in October 2021 having a negative impact on Mongolia's economic recovery.

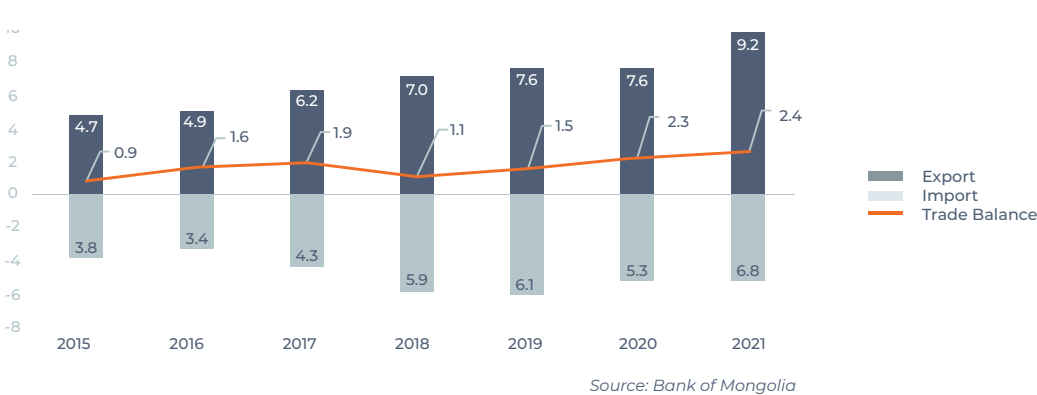
Inflation, as measured by the change in the consumer price index, has risen sharply since the second quarter of 2021, reaching 13.4% at the end of the year, the highest level since 2014. In particular, rising meat and fuel prices and their indirect effects have contributed to the increased inflation levels. The border restrictions, rising oil prices, and outbreaks of infectious animal diseases were the main drivers. As a result of the measures taken by the Government of Mongolia and Bank of Mongolia, money supply has increased by 13.8% in 2021, which led to demand-side inflation as well. Furthermore, high inflation is expected to persist in 2022 due to the escalating geopolitical instability.

### Inflation



Imports declined significantly in 2020. However, in 2021 the restrictive anti-pandemic measures eased and total imports increased by 29.4% as oil prices rose. Despite the declining volumes of mining exports, a sharp rise in commodity prices supported the export earnings and boosted the trade balance to a \$ 2.4 billion surpluses.

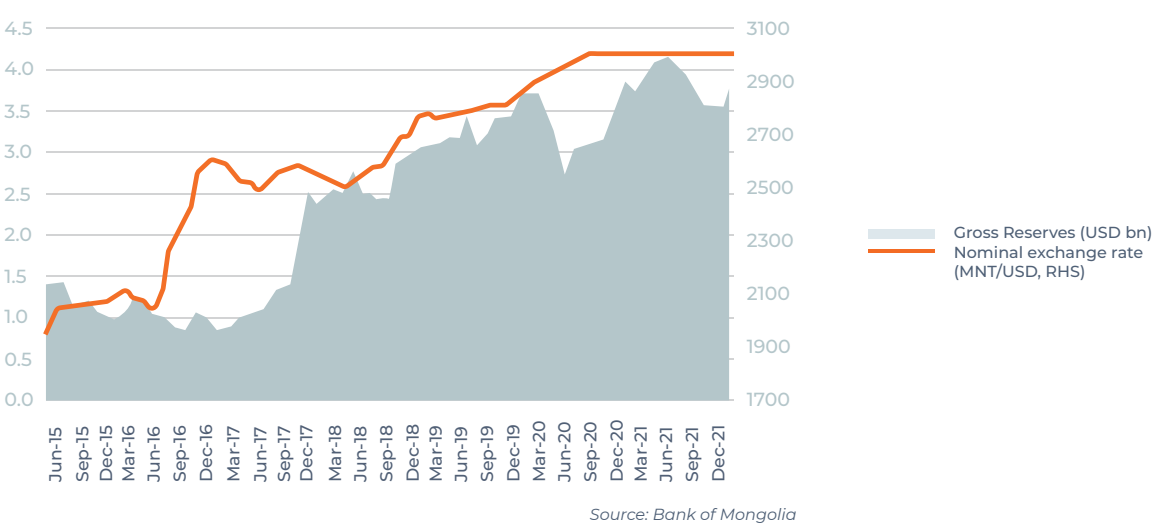
### Trade balance (billion USD)



On the other hand, the Balance of Payments (change of international reserves) had a deficit of \$222 million in 2021 driven by a widening current account deficit.

Thus, by the end of 2021, the Bank of Mongolia's international reserve reached USD 4.3 billion, marking a decrease of 7.7% in the second half of 2021. Nevertheless, MNT/USD exchange rate remained mostly flat at about 2,850 during 2021.

### International reserves and FX rate



# Banking Sector

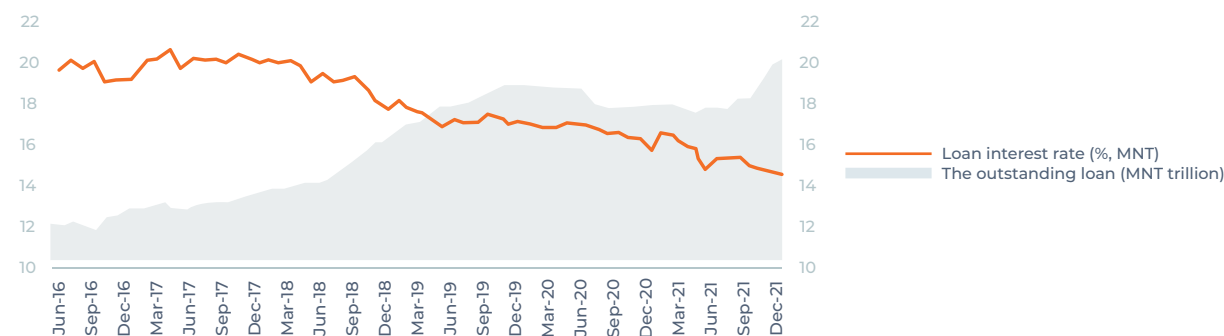
The Mongolian banking sector consists of 11 commercial banks, of which five are deemed “systematically important” by the Bank of Mongolia, and these top 5 banks account for 94% of the total asset in the banking sector.

The total amount of assets and capital in the banking sector has increased by 11.9% and 7% in 2021 to 40.9 trillion MNT and 4.0 trillion MNT, respectively. The profitability has increased to 548.6 billion MNT which is 1.9 times larger than previous year. According to Bank of Mongolia announcement, the banks are within the prudential ratio limits including capital adequacy, liquidity and required reserves.

The total amount of loans has increased by 21.3% to 20.7 trillion MNT in 2021. Out of the total outstanding loans, MNT 10.4 trillion (50.3%) were loans to individuals, MNT 9.8 trillion (47.5%) were corporate loans and the MNT 0.5 trillion (2.2%) were other sectors. Corporate loans increased by 23.8% and the loans to individuals increased by 21.8% in 2021. The major loan growth was in job support loans, repo-financing loans and mortgage loans, all being parts of the Mongolian government's 10 trillion MNT program to protect the citizens' health and to recover the economy.

As of December 2021, the weighted average rate of the loans in domestic currency (new loans) was 14.3%, down by 0.5 pp compared to a year earlier, and the weighted average rate of loans in foreign currency (new loans) was 7.8%, a decrease by 1.6 pp from a year earlier. Domestic currency deposit rates were 5.76% (new deposits), a decline of 2.6 pp, by December 2021. The decline in tugrik interest rates largely followed the cuts in Bank of Mongolia policy rate and the temporary removal of interest on current accounts and demand deposits.

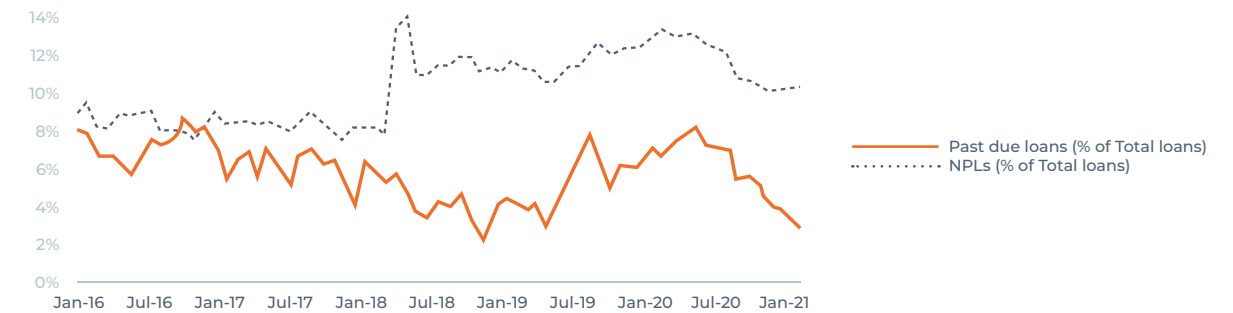
## ➤ The outstanding loan and the interest rate



Source: National Statistical Office

The NPL ratio in the banking system has decreased to 10% by end-2021 and the share of the past-due (PD) loans has dropped to 4.5% of total loans. Consequently, the loan portfolio quality indicators have reached their pre-pandemic 2019 levels.

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



Source: Bank of Mongolia



# Operational and financial report

Net profit (MNT)  
**75.3 billion**  
▲123.4%

Net interest income (MNT)  
**157.8 billion**  
▲32.2%

### ➤ Record breaking performance:

The Bank reported MNT 75.3 billion in net profit which measures as 123% increase, whilst return on shareholder's equity of 24.0% doubly higher and major improvement compared to 2020. Profit before tax and credit loss charge improved by MNT 43.5bn to MNT 107.1bn as a result of much better net interest earnings as well as lower loan loss provisioning level thanks to management's prudent approach for provisioning.

Net interest income rose by 32.2% to MNT 157.8bn which was primarily a function greater savings being made on interest expenses due to liability optimization, offsetting the drop interest earnings due to repricing or depletion of lending rates as a result of government measures and overall financial sector development.

Non-interest income includes fees and commissions and ancillary services which makes up about 10% of total operating income at MNT 18.9bn (MNT 16.9bn in 2020). It also includes treasury trading income which at MNT 6.2bn for 2021 is almost triple the amount of 2020, as a result of higher volume in transactions as well as bigger size of liquidity under management throughout the year.

Overall credit loss costs amounted to MNT 4.6bn which is about 4.3 times less than that was incurred in 2020 due to pre-emptive and effective management of our non-performing loans as part of a medium term de-risking strategy carried out since mid-2019 which is further demonstrated by enhancement of our portfolio health in terms of risk coverage ratio for non-performing loans which has improved from ~103% to ~119%, the highest ever been.

The Bank continue strive on improving its operating expenditure efficiencies across all headline items hence the Bank achieved further 8.0% reduction to bring its cost-to-income down to 41.9%. There were benefits or savings realized on operating expenditures from government measures such as temporary annulment of social health insurance and utility charges, however the Bank devoted all of these gains for continuously providing health and safety supplies to its employees as well as increasing their salaries, more notably benefitting the entry level staff and on the contrary to many businesses who made salary cuts due to pandemic.

### ➤ Highly optimized financial and operational structure:

The Bank is one of the 5 systemically important banks in the sector with total assets of MNT 3,500bn including MNT 149bn growth in 2021 through 11% increase in deposits from the public and companies to reach balance of MNT 2,228bn which in turn supported growth in lending portfolio with total loans and advances to customers reaching MNT 1,850bn after over 2 years of continued attrition (up 26% yoy).

The total deposits under administration comprise of approximately 20% in foreign currency deposits as well as cash/ current accounts, that are consistent and on par with 2020 levels. Other main funding sources include senior debt of MNT 638bn and local funding of MNT 139bn which is mainly state funding for specific economic sector purpose lending and includes increase of MNT 56bn during the year as a result of Covid19 related government programs. The senior debt is foreign funding raised from reputable international financial institutions and it is making up 21% of XacBank's liability structure, lowest in the past 5 years due to 16% reduction.

The Bank did not requisition any fresh funding during pandemic period of 2020/2021 due to its high liquid asset base in CB bills, which are short term in tenor and investment grade. Our investment position in theses CB bills stand at MNT 910bn as at year end equates to 10.5% of market share and includes reduction of MNT 300bn which transitioned into supporting lending as organic growth of portfolio.

Overall loan to deposit ratio has increased from 73% to 83% year on year which is a ratio showing core product composition of commercial banks, in other words it is a comparison of interest yielding asset base (excluding investments) against interest incurring liabilities (excluding foreign funding).

### ➤ Stronger than ever fundamentals:

The Bank of Mongolia imposes various prudential ratios on the banking sector's for regulating financial health commercial banks. XacBank has not only been fully compliant with these prudential requirements without exception but also improved upon in most. The common equity tier I capital adequacy ratio further improved to 17.4% from 16.9% in 12 months prior adding onto the already substantial buffer against the minimum prudential baseline threshold of 9%.

This positive capital build is a result of organic accretion thanks to higher net interest margin and lower provisioning contributions further enhancing operating profitability as well as further cost efficiency from continued disciplined approach to operating expenditures. XacBank aims to maintain low net foreign currency position at all times as such the largest open currency position ratio (single currency net balance compared to capital) as at financial year end was 1.1% against prudential requirement of 15% and our foreign funding is cost effectively currency hedged by BOM swap facility. At 144% our credit concentration ratio (total of credits provided that are greater than 5% of capital) stands less than half of what is required prudentially at 300% meaning lower risk from credit quality concerns of corporate clients especially current depressed business environment.

Similarly our deposit concentration ratio (calculated as sum of top 10 deposit to capital) of 7.1% is more than 3.5 times below prudential requirement of 25%. The liquidity ratio reduced by 10.5% through the year to close at 44.3% at year-end however it is substantially well cushioned against the minimum 25% prudential threshold. The Bank managed to reduce its excess liquidity through effective deployment into lending as well as servicing of debt obligation during the year but objectively aims to retain its liquidity ratio above 35%.

## Internal audit

### › Objectives and structure of the Internal Audit Division

Internal audit contributes to the sound and proper conduct of the Bank's operations by assessing the effectiveness of its internal control and risk management systems, providing recommendations for improving internal control at all levels, performing audit follow-ups, and reporting to the Audit Committee, the Board of Directors, and the Executive Management.

In 2021, the Internal Audit Division (IAD) made structural changes and established an On-site Audit Department and a Methodology and Monitoring Unit.

IAD operates as the third line of defense for risk management and complies with the International Professional Practices Framework and Code of Conduct issued by the Institute of Internal Auditors.

### › Highlights of 2021

During the pandemic year of 2021, IAD conducted 7 head office process assurance audits, and 4 Information Technology audits according to our risk-based plan and performed remote audits of 12 rural branches.

Through a combination of continuous auditing techniques with traditional assurance services and the development of remote monitoring tools, we are able to perform remote audits of branches.

As a response to pandemic situations, we have conducted Business Continuity and Customer Service audits, which contributed to the identification, assessment, elimination of the potential risks, and relevant recommendations to improve the internal control environment were given.

During the COVID-19 full lockdown, the Bank has continuously provided its services and customer support remotely. Accordingly, remote monitoring reports were developed and used to detect and prevent potential risks in daily operations. With the start of project loans, the loan monitoring tools were modified to conduct monitoring of the loans that were issued under projects implemented by the Government of Mongolia.

Internal auditors are regularly enrolled in online training and programs organized by the Institute of Internal Auditors and are actively encouraged to pursue international certifications. In 2021, one auditor was assigned the title of CFSA (Certified Financial Services Auditor).

## 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 and provides guidance on an ongoing basis;



#### 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 how effectively the Bank assesses and manages its risk profile and assessing the effectiveness of the first two lines of defense.



# Risk management

## ➤ Credit Risk Management

Credit risk is defined as risk of financial loss to bank due to the failure of borrowers to meet the obligations with the agreed terms. The Bank manages its credit risk through appropriate credit risk environment, sound credit process and ensuring adequate credit controls by developing and implementing the Bank's credit related policies and procedures as follows:

- Credit risk management policy is formulated with the consultant with business units by setting the framework of the lending operation in connection with economic condition.
- Loan approval authorities are delegated to the branches and business units based on the market capacity and capabilities, and approval authorities are controlled to ensure the compliance of the delegated approval authorities.
- Credit risk is reviewed and assessed by setting the limiting the concentrations to exposures to economic sectors and loan product.

The Bank uses application scoring for retail lending and a rating model for business lending to defend credit burdens on customers and to speed up the loan underwriting and decision-making process. In addition, the Bank developed and implemented early warning system and behavioral and collection scoring models based on historical data as part of the loan portfolio risk management. Moreover, the expected risk of the loan portfolio is calculated according to International Financial Reporting Standard 9. Based on that, the relevant provision is established and reported in a transparent and public.

The year 2021 was still challenging due to the Covid 19 pandemic. The Bank continued to restructure the loans of borrowers whose businesses and incomes were effected with pandemic.

Despite the pandemic, the Bank could successfully increase its loan portfolio through issuing the loans, well manage its credit risk and improve its portfolio quality. At the same time, the Bank issued the loans under the Government program to support the economy through increasing the working capital of businesses.

## ➤ Market and Liquidity Risk Management

The Bank's risk appetite metrics are reviewed and revised in line with the Bank's business plan and strategy, and approved by the Board Risk Management Committee every year.

In 2021, the Bank's market risk and liquidity risk profiles remained in compliance with both the approved risk appetite and the regulatory limits.

In terms of liquidity risk management, the Bank fully met the minimum limit required by the Bank of Mongolia. As well as the liquidity buffer, short-term liquidity ratio, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) stayed in line with the approved risk appetite.

The Bank managed the net gap between interest rate sensitive assets and liabilities, and interest rate sensitivity analysis has been conducted regularly in accordance with the financial risk management framework.

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.

In a business environment characterized by heightened uncertainty, the Bank conducts stress testing regularly to support the decision-making and assess the potential negative impact on the Bank's financial condition, capital adequacy and liquidity caused by specific sudden events and/or stress scenarios.

## ➤ Compliance

The mission of Bank's Compliance function is to deliver the right outcomes for the Bank, its clients and communities by partnering internally and externally, and performing to the highest standards in order to enable sustainable business and to fight financial crime.

Compliance risk refers to the risk of the Bank not being able to successfully conduct its business because of failures to comply with the laws, regulatory requirements, industry codes or standards of business and professional conduct applicable to the financial sector. This includes, in particular, laws and regulations applicable to the financial crime such as anti-money laundering and countering the financing of terrorism, fraud and bribery/corruption.

Mongolia has made significant progress in improving its system for combating money laundering and the financing of terrorism and addressing its shortcomings. In this context, the Financial Information Unit (FIU) launched the goAML portal, developed by the United Nations Office on Drugs and Crime (UNODC) specifically to combat money laundering and terrorist financing. XacBank has developed the corresponding in-house solution for the goAML portal, which is being implemented by the FIU.

It was a special year for the Bank's Compliance Department, which underwent major structural changes. The Compliance Department has been significantly expanded to include three teams: Know Your Customer, Transaction Monitoring, and General Compliance, and is training new staff to become subject matter experts. As a result, the Bank's transaction control has been greatly enhanced and the number and quality of Suspicious Transaction Reports (STR) submitted to the FIU has increased.

The Bank maintains a compliance program designed to identify, assess, measure, mitigate and report on such risks through a combination of policy and relevant systems and controls. The Bank's Financial Crimes Policy has been developed and approved by the Board of Directors.

The Bank also provides relevant training to its employees and implements assurance processes. We strongly believe in the need to promote a sound compliance culture as well, and this is developed through the leadership of our Board and senior management.

## ➤ Operational Risk Management

Bank is exposed to operational risk on daily basis resulting from failed internal process, IT systems and people as well as from external events and strives to maintain risk within acceptable level and implement sensible control. In order to detect risks in early stages and mitigate them, the business units assess their processes annually with guidance and recommendation from the operational risk unit, and in 2021, bank's non-financial risk metrics and appetite were reviewed and updated.

The prolonged period of Covid-19 pandemic had an unfavorable impact on banking operations. However, it provided essential stimulus for the banks and other businesses and organizations to deliver products and services through digital channels rather than using the traditional face-to-face method and the outcome of this development became a major step forward in prevention and mitigation of operational risk caused by human error.

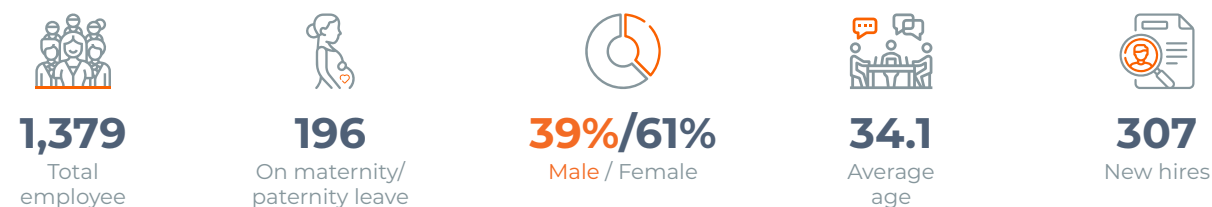
# Human resources



## People management

As of 31 December, 2021, XacBank had 1,379 employees, 1,183 (85.8%) of whom were active employees and 196 (14.2%) were on a long term maternity/paternity leave. During the year 103 employees take and 65 employees returned from their long term maternity/paternity leaves.

The average age of the staff was 34.1 years. The average length of service in the organization was 7.4 years. 61.2% of active employees were women and 38.8% were men.



### ACTIVE EMPLOYEES



## Working environment:

Throughout 2021, XacBank continued adapting to the “new normal” resulting from the lockdown imposed as a result of COVID-19 and the fact that the vast majority of XacBank staff had to work from home for a prolonged periods of time.

Swift decision-making, combined with digital and remote working arrangements has allowed the Bank to continue providing its services throughout the country during pandemic, while taking social distancing, sanitation, and other preventive measures required.

In order to ensure compliance with policies on work-life balance and to keep colleagues properly informed and engaged during this unprecedented situation, XacBank launched Workplace platform in 2020 and enhanced its use throughout 2021, and it served as a main communication channel with and among employees. Only in 2021 alone, it generated 1.3 million messages, 7.2 thousand posts, 140 thousand comments and reactions, activated 100 groups by interest and topic. Most notable contents include:



**XacStories:**  
an initiative where XacBank employees shared inspirational stories on shared values, career development and bank culture;



**XacTank:**  
contest among employees for best ideas to improve processes, products and work environment;



**MyPhotoStory:**  
employees share their photos associated with experience working at XacBank;



**XacGotTalent:**  
discovering best talents among employees;



**EXacCup:**  
virtual sports tournaments organized with 200 employees participating;



**Virtual events:**  
5 virtual and hybrid town hall meetings;

## Training and Development:

Continuous learning is an inseparable from XacBank culture, despite the circumstances resulting from COVID-19, the bank provided 226,331 man-hours of training to 2,010 employees on a cumulative basis. Online training platform, launched in Q4 2020, enabled the bank to increase delivery of the training to all employees.

In 2021 online training represented 97.6% of the whole training activity, 57 online training provided to 1,622 employees accounting 221,403 training man-hours. During 2021, the focus was to provide training required for the business, internal certification of its professional knowledge for all branch staff, official external certifications enabled employees to accredit specialized knowledge in the main business matters. More than 300 employees participated in a sustainability finance training, more than 100 employees registered in compliance training.

Basic training data:	2021	2020
Total investment in training (MNT million MNT)	126.9	91.0
Total man-hours of training	226,331	27,336
Employees who received training	2,010	1,077





# Corporate Governance

## ➤ Ensuring Strong Corporate Governance

Good governance is integral part of XacBank's identity and fundamental culture ensuring that we grow as a successful and sustainable banking business. XacBank's commitment to sound corporate governance gained new importance in 2021 when we started preparation to go public in the next year.

Throughout the year, continuous focus has remained on maintaining and upscaling our corporate governance practices to ensure that we, as a public company going forward, have a strong system of corporate governance capable of meeting increased oversight from regulators and investors, stricter compliance and disclosure rules and new regulatory requirements safeguarding public shareholder interests.

The global Covid-19 pandemic has become a lingering reality continuing to challenge our recovery and sustainable growth. Our Shareholders, Board and Management maintained focus 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

- Effective decision making on a multitude of aspects of IPO preparation to ensure that we go public successfully, building long-term value

### Board

- Guidance, support and constructive challenge to the management team to ensure that effective and timely management decisions are made to maintain recovery and ensure future growth
- Leadership in IPO preparation to ensure presence on board of strong independent judgment and diversity of experience to meet expectations as a public company

### Management

- Strategic decisions on internal restructuring to strengthen further the financial position and asset quality of the Bank to ensure successful listing
- Preserved focus on longer term objectives to maintain the Bank's competitive edge such as continued digital transformation and customer-experience improvements

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 2021 was held via a combination of a physical meeting and participation through electronic means of communication. On 31 March 2021, 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 2020. Major focus was given to support strategies and decisions to take the Bank public.

The Shareholders approved a decision on the distribution of a dividend on the 2020 results. This was a milestone in the dividend history of the Bank providing the appropriate pre-IPO message to the investor community.

In connection with the 2-year terms of certain Board Directors expiring at the AGM, decisions on elections and re-elections of the board directors were made 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

In 2021, the central focus of the Board has been on safeguarding the resilience and sustainability of XacBank and positioning and preparing it well for public listing by providing strategic guidance and support to the management in the continuing Covid realities and renewed IPO laws and regulations.

## 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 as a public company 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 2021, the Board had 10 directors, consisting of one executive director, 5 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	Michael Madden	Non-Executive Director	Ronoc Partners
6	Tselmuun Nyamtaishir	Non-Executive Director	MAK LLC
7	Yves Jacquot	Non-Executive Director	Natioanal Bank of Canada
8	Ulbayar Bayansan	Independent Non-Executive Director	Independent
9	Niraj Vedwa	Independent Non-Executive Director	Independent
10	Maurice Lam	Independent Non-Executive Director	Independent

*\*The CEO is a board member under the clauses of the Charter.*



# 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 2019 and 2021, he was re-elected for two-year terms as Non-Executive Director. 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.



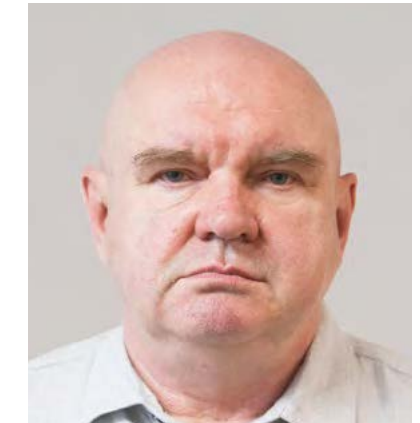
**Tselmuun Nyamtaishir**  
*Non-Executive Director*

Ms. Tselmuun Nyamtaishir serves on the Board of Directors of XacBank since 2013. Ms. Tselmuun was re-elected in 2015, 2017, 2019 and 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.



**Albertus Bruggink**  
*Non-Executive Director*

Mr. Albertus Bruggink was appointed ad interim by the Board in June 2020 and elected at the 2021 AGM as Non-Executive Director with membership on the Board's Risk Management Committee and Audit Committee. 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 was re-elected in 2021 for another 2 year term. 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.

# 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 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,



**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, 2020 and will be standing for re-election at the Annual General Meeting in March 2022. 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 was re-elected in 2021 for another two-year term. 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, 2020 and will be standing for re-election at the Annual General Meeting in March 2022. 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 will be standing for re-election at the Annual General Meeting in March 2022. 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 who will be standing for election and re-election at the AGM in 2022 are:*

- *Mr. Yves Jacquot – Re-election*
- *Mr. Ulambayar Bayansan – Re-election*
- *Mr. Maurice Lam – Re-election*
- *New IFC-nominee director – 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 2021, the Board continued the lead in taking timely response actions in its organizational arrangements to ensure stability and continuity of board leadership and decision making to mitigate the challenges that the continued Covid-19 related travel restrictions and other safety measures may have on board functioning.

- Conducted 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 (via Zoom conference calls).
- Enhanced use of online voting in between regular meetings.
- Adopted board resolutions by written consent throughout the year.
- Continued monthly Board Update Calls in between regular board meetings.

In 2021, the Board held 4 regular quarterly meetings, 3 special meetings, 12 online voting meetings and 2 board update calls. All board meetings were held via electronic means of communication as Webex and Zoom.

In 2021, the Board issued 42 resolutions, including 13 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 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

In 2021, the Board conducted board self-evaluation and director evaluation and reported the findings at the AGM.

## ➤ 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.

## ➤ 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 2021, 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*  
*Andrzej Witak*  
*Sanjay Gupta*  
*Tselmuun Nyamtaishir*  
*Albertus Bruggink*

## ➤ 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*  
*Ulbayar 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)*  
*Ulbayar 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. In 2021, Ernst & Young Mongolia Audit was appointed as the external auditor for 2021, replacing Deloitte.

# Audited financial statements

## XacBank LLC

### Statement by executives

We, Tsevegjav Gumenjav being Chief Executive Officer of XacBank LLC (the "Bank") and Erdenebayar Ganzorig being Chief Financial Officer primarily responsible for the financial statements of the Bank, do hereby state that, in our opinion, the accompanying financial statements set out on pages 7 to 90 give a true and fair view of the financial position of the Bank as at 31 December 2021 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.



Tsevegjav Gumenjav  
(Chief Executive Officer)

A handwritten signature in black ink, consisting of a series of loops and a final downward stroke.

Erdenebayar Ganzorig  
(Chief Financial Officer)

Ulaanbaatar, Mongolia  
Date: 25 March 2022



# Independent Auditor's Report

## ➤ To the Board of Directors of XacBank LLC

### Opinion

We have audited the financial statements of XacBank LLC (the "Bank"), which comprise the statement of financial position as at 31 December 2021 and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"s) as issued by the International Accounting Standards Board ("IASB").

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"s). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

### Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

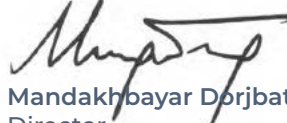
### Other Matter

The financial statements of the Bank for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 31 March 2021.

This report is made solely to the shareholders of the Bank, as a body, in connection with the audit requested by shareholders in accordance with Article 94 of the Company Law of Mongolia and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

  
*Ernst & Young Mongolia Audit LLC*  
**ERNST & YOUNG MONGOLIA AUDIT LLC**  
Certified Public Accountants

Signed by

  
**Mandakhbayar Dorjbat**  
Director

Ulaanbaatar, Mongolia  
Date: 25 March 2022

Approved by

  
**Adrian Chu**  
Partner

## XACBANK LLC

## Statement of profit or loss and other comprehensive income

For the year ended 31 December 2021

	2021	2020 Restated*
Interest and similar income	332,086,338	381,757,320
Interest and similar expense	(174,330,045)	(262,486,698)
<b>Net interest income</b>	<b>157,756,293</b>	<b>119,270,622</b>
Fees and commission income	26,944,135	23,288,862
Fees and commission expenses	(8,019,386)	(6,389,820)
<b>Net fees and commission income</b>	<b>18,924,749</b>	<b>16,899,042</b>
Net trading income	6,194,516	2,053,595
Net income from other financial instruments at FVTPL	3,601,665	3,255,082
Net other operating income/(expenses)	(374,161)	(8,661,562)
<b>Total operating income</b>	<b>186,103,062</b>	<b>132,816,779</b>
Net credit loss expense	(4,571,200)	(19,925,538)
<b>Net operating income</b>	<b>181,531,862</b>	<b>112,891,241</b>
Operating expenses	(80,470,954)	(70,279,670)
Amortisation of deferred grants	1,407,264	1,174,729
<b>Profit before tax</b>	<b>102,468,172</b>	<b>43,786,300</b>
Income tax expense	(27,205,297)	(10,101,675)
<b>Profit for the year</b>	<b>75,262,875</b>	<b>33,684,625</b>
<b>Other comprehensive income</b>		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Movement in investment revaluation reserve, net of tax	2,653	169,431
Gain on revaluation of premises	2,997,142	-
<b>Other comprehensive income for the year, net of tax</b>	<b>2,999,795</b>	<b>169,431</b>
<b>Total comprehensive income for the year</b>	<b>78,262,670</b>	<b>33,854,056</b>
<b>Earnings per share (MNT):</b>		
Basic earnings per share	75.26	33.68
Diluted earnings per share	75.26	33.68

\*Comparatives have been restated as a result of the merger during the year, please refer to note 2.5 for details.

The accompanying notes form an integral part of the financial statements.

## XACBANK LLC

## Statement of financial position

As at 31 December 2021

	2021	31 December 2020 Restated*	1 January 2020 Restated*
<b>ASSETS</b>			
Cash and balances with BoM	248,313,381	179,504,648	571,202,452
Mandatory cash balances with BoM	214,231,304	186,372,668	213,044,263
Financial instruments at FVTPL			
Derivative financial instruments	49,223,110	75,684,020	99,390,188
Securities	76,288,953	42,356,444	34,916,469
Loans and advances to customers	90,000,608	62,983,322	69,873,744
Financial assets at FVTOCI			
Equity instruments	3,613,197	3,609,660	3,383,754
Financial assets at amortised cost			
Due from banks	42,487,278	82,528,044	122,475,712
Debt instruments	926,714,515	1,207,367,188	467,741,147
Loans and advances to customers	1,701,557,761	1,364,714,782	1,824,598,102
Other assets	60,592,954	58,197,748	55,193,096
Properties held for sale	133,594	3,033,923	4,705,877
Property, equipment and right-of-use assets	67,214,011	63,559,418	68,574,045
Intangible assets	15,452,521	14,706,533	12,085,606
Investment property	-	21,260,252	31,919,060
Deferred tax assets	4,135,441	3,534,627	2,105,695
<b>TOTAL ASSETS</b>	<b>3,499,958,628</b>	<b>3,369,413,277</b>	<b>3,581,209,210</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Financial instruments at FVTPL			
Derivative financial instruments	371,050	-	-
Financial liabilities at amortised cost			
Repurchase agreements	-	-	297,898,939
Due to banks	2,691,406	1,938,909	12,229,311
Due to customers	2,252,099,731	2,025,470,938	1,843,143,656
Borrowed funds	768,775,737	937,585,863	1,012,101,730
Debt securities issued	8,403,663	10,618,643	3,226,701
Subordinated loans	-	-	54,415,887
Deferred grants	9,243,242	10,318,966	8,047,821
Lease liabilities	5,422,527	3,176,591	4,942,594
Other liabilities	64,250,454	58,300,003	63,357,321
Income tax payable	4,705,974	8,771,190	467,132
<b>TOTAL LIABILITIES</b>	<b>3,115,963,784</b>	<b>3,056,181,103</b>	<b>3,299,831,092</b>
<b>EQUITY</b>			
Ordinary shares	100,000,000	58,625,979	58,625,979
Share premium	1,817,773	1,817,773	1,817,773
Reserves	84,602,413	57,851,872	46,561,682
Retained earnings	197,574,658	194,936,550	174,372,684
<b>TOTAL EQUITY</b>	<b>383,994,844</b>	<b>313,232,174</b>	<b>281,378,118</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,499,958,628</b>	<b>3,369,413,277</b>	<b>3,581,209,210</b>

\*Comparatives have been restated as a result of the merger during the year, please refer to note 2.5 for details.

The accompanying notes form an integral part of the financial statements.



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