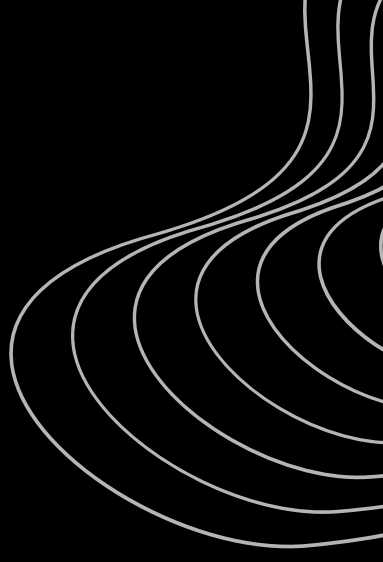


SUSTAINABILITY REPORT

2023

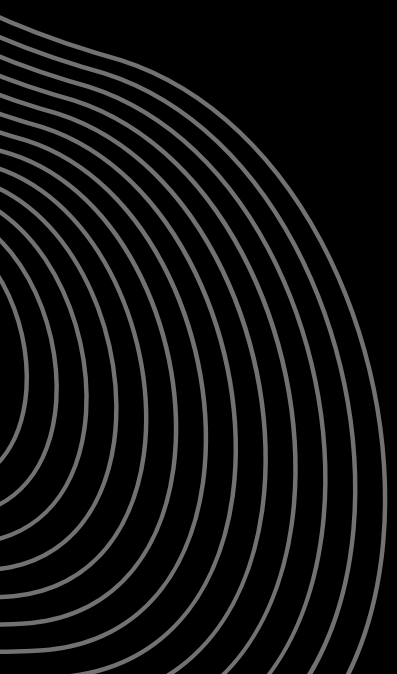


Mission

*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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About



Our annual sustainability report acts as a comprehensive communication tool, detailing XacBank's strategies on various non-financial aspects, significant sustainability initiatives, and impactful achievements in 2023. The report aligns with internationally recognized guidelines endorsed by the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB) Standards, and Task Force on Climate-related Financial Disclosures (TCFD). Through our disclosure, we can demonstrate our commitment to UN Global Compact principles, transparency, and responsible business practices.

Glossary

Certified Emission Reduction (CER)	A unit of greenhouse gas emissions reduction certified under the Clean Development Mechanism (CDM) of the Kyoto Protocol, indicating a quantifiable reduction in emissions.
Corporate Social Responsibility (CSR)	The ethical and responsible conduct of businesses, considering the impact of their activities on social, environmental, and economic aspects, beyond financial considerations.
European Bank for Reconstruction and Development (EBRD)	An international financial institution supporting the development of market-oriented economies and promoting private sector investment in countries undergoing transition.
Energy Efficiency (EE)	The measure of how efficiently energy is utilized to perform a specific task or produce a certain output, often aimed at minimizing energy consumption.
FMO	The Netherlands Development Finance Company, providing finance and support for sustainable private sector development in emerging markets.
Green Climate Fund (GCF)	A financial mechanism under the United Nations Framework Convention on Climate Change (UNFCCC), supporting projects, programs, policies, and other activities in developing countries to combat climate change.
Greenhouse Gas (GHG)	Gases, such as carbon dioxide and methane, that trap heat in the Earth's atmosphere, contributing to the greenhouse effect and climate change.
Global Reporting Initiative (GRI)	A widely used framework for sustainability reporting, providing guidelines for organizations to measure and report their economic, environmental, and social performance.
International Finance Corporation (IFC)	A member of the World Bank Group, offering investment and advisory services to promote private sector development in developing countries.
International Financial Reporting Standards (IFRS)	A set of international accounting standards governing the preparation of financial statements, ensuring consistency and comparability in financial reporting globally.
MSMEs	Micro, Small, and Medium Enterprises (MSMEs) are businesses characterized by their limited scale of operations and workforce, encompassing micro-enterprises with fewer than 10 employees, small enterprises with up to 50 employees, and medium enterprises with up to 250 employees.
Social and Environmental Management System (SEMS)	Our structured framework to integrate and manage social and environmental considerations into decision-making processes and operations.
Sustainability Accounting Standards Board (SASB)	Industry-specific standards for companies to disclose financially material sustainability information to investors.
Standards Task Force on Climate-related Financial Disclosures (TCFD)	A framework providing recommendations for companies to disclose climate-related financial risks and opportunities in their annual financial filings.
Voluntary Emission Reduction (VER)	Greenhouse gas emission reductions that are achieved and verified outside of regulatory compliance, often used in voluntary carbon markets.

CEO Greetings



To our Shareholders, Customers, and Employees,

I would like to begin by expressing my appreciation to our supporters: our Board of Directors, Shareholders, Management Team, 1,300 XacBank employees, and international partners. Through their dedication, XacBank has continued integrating social and environmental values into our business strategy, operations, lending activities, and financial products. I am proud to present our inaugural Sustainability Report, which highlights the significant milestones in XacBank's commitment to responsible business practices and sustainable banking. In this letter, I will share our long-standing dedication to environmental and social priorities, progress on key initiatives, and outlook for 2024 as we advance our role in leading the transition to a sustainable economy.

In 2001, XacBank began as a USD 1.0m UNDP microfinance project. Since our founding, XacBank has upheld its three main pillars for growth: People, Planet, and Prosperity.

People: Today, the bank serves over 1 million customers, offers services in over 70 branches, and has collaborated with over 50 international partners. Beyond our business, we actively contribute to the local community and ensure the well-being of our employees. In 2003, we launched Xac NGO to promote financial literacy, educational courses and resources, and other charitable endeavors for the future generations of Mongolia. The programs have reached over 100,000 participants thanks to the volunteer efforts of XacBank employee members and MNT 815 million in funding. Internally, our workforce has access to mortgage programs, pension plans, health check-ups, additional holidays, and other benefits to sustain their mental, physical, and financial health.

Planet: As a financial institution, we are fully aware of our role in advancing sustainable development. One notable partnership has empowered us to implement innovative and impactful initiatives to address climate change. In 2016, we became the first commercial bank from a developing country and first private entity globally to receive accreditation from the Green Climate Fund (GCF). To continue our collaboration, we were reaccredited in 2022. We have been pioneers in Mongolia's financial sector with notable achievements, such as becoming the first carbon trading bank in the northern hemisphere. Our investments have been channeled towards various sustainable financing initiatives, including renewable energy infrastructure and energy-efficient loan products for small business owners and Ger-district residents. Since 2013, our green financing activities have reduced 2,543,880 tons of CO2 emission.

Prosperity: Since our IPO in June 2023, we have seen remarkable development in our profit, growth trajectory, and business opportunities. Nevertheless, XacBank is dedicated to ensuring socially-inclusive economic development by supporting small and medium-sized enterprises, promoting financial inclusion, and engaging with local stakeholders.

Progress

Over the past year, we made progress in integrating sustainability into our business model. In our operations, we have constructed 10kWh solar photovoltaic (PV) systems at two branches and HQ building, tracked our water and energy use, and implemented recycling efforts. In our governance structure, we have been finalizing our climate risk transition plan to align XacBank with the Paris Agreement and received approval for our Climate Governance structure from our Board. Moving forward, we will continue to strengthen partnerships with international agencies, industry peers, and regulatory bodies to collectively drive sustainable growth in our investments and Mongolia's economy.

Moving Forward

As we navigate a rapidly changing world, we will remain adaptive and innovative in our vision, strategy, and operations. Business as usual is insufficient. The urgency of climate change demands our attention and decisive action. As a responsible financial institution, we recognize our role in addressing social and environmental challenges head-on. As we celebrate the achievements detailed in this report, we look towards an even more ambitious future. Together, we have the power to leverage finance to create a sustainable and prosperous future for generations to come.

TSEVEGJAV Gumenjav
Chief Executive Officer
XacBank







2001

- Received commercial banking license from the Bank of Mongolia.

2002

- Adopted the Social and Environmental Management Policy. The Social and Environmental Management System is aligned with ISO 14001 standards.
- Launched the first long-term savings product—"Future Millionaire"—for children in Mongolia in order to support parents in investing in their children's future and laying a solid financial foundation.

2003

- Founded the Golden Development Fund NGO to dedicate funds for social welfare projects.
- Became the first bank to establish an Employee Stock Ownership Plan (ESOP).

2004

- Became the first bank in Mongolia to be assessed by an international rating agency. Planet Rating, a leading microfinance rating agency, assigned the bank a rating of "A-" after a thorough on-site review.
- Awarded an "Honorable Mention" by the World Bank's Consultative Group to Assist the Poor (CGAP) for achieving a high level of disclosure in their first-ever competition. The competition recognized institutions that attain a high degree of transparency in their annual financial reporting.

2005

- During the UN International Year of Microcredit, the Bank delivered comprehensive financial services to marginalized citizens in remote areas. The Bank successfully expanded its rural banking outreach by entering 72 new soums and raised the number of soums served with mobile banking services to 165.
- Won the Global Micro-Entrepreneurship Award (GMA) from the United Nations Development Program (UNDP). XacBank's "Development Guide" franchising service was named the "Innovative Microfinance Product of the Year" during an awards ceremony held in recognition of the UN Year of Microcredit. Moreover, CGAP awarded its ProPoor Innovation Challenge Grant to XacBank to fund further develop this project.

2006

- Set up a Training Center with full time instructors and essential equipment. Training focused on building technical knowledge on banking, communications, management, leadership skills, and English language proficiency for staff members.
- Further improved the Bank's procurement process by revising procedures, establishing requirements for open and competitive tender process and screening of local and foreign contractors/suppliers, including goods and services in accordance with the IFC Exclusion List.
- Upgraded to an "A" Rating in Planet Rating's Microfinance Institutional Rating
- Received the Consultative Group to Assist the Poor (CGAP)'s Financial Transparency Award for 2006, for a third consecutive time

2007

- Joined Global Reporting Initiative and UN Global Compact principles to improve corporate transparency and CSR management.

2008

- Organized the first National Development Financing Forum in partnership with the Bank of Mongolia, the Financial Regulatory Committee, UNDP, and the Mongolian National Chamber of Commerce and Industry. The conference brought an array of global development financial leaders together to discuss industry best practices and the ways to optimize social impacts.
- Initiated a group lending program to support of low-income women in remote areas and collaborated with the EBRD and Mongolian Women Federation
- Established the Public Advisory Committee, which has prominent public figures.

2009

- Received MNT 6.5 billion of syndicated loans from the FMO, which enabled 1,788 consumption loans for energy-efficient products.
- Became the first micro-finance bank in the Northern Hemisphere to sell its carbon offsets and access financing through the voluntary carbon markets. The Bank enabled carbon finance through an innovative partnership with Micro Energy Credits (MEC)
- Established an Eco-Unit, which leveraged FMO energy efficiency funds and accessed carbon revenues through MEC (Micro Energy Credits) to scale up the program
- Launched its Eco Products Program offering low interest loans for energy products to low-income residents in Mongolia. Through the Eco Products Program, the Bank provides an affordable means for Mongolian households to lower their fuel costs, breathe cleaner air, and stay warm during the long winter months.
- The Bank launched a girls' education program in order to promote financial literacy among the youth with the assistance of Women's World Bank (WWB) and Opportunity International. As part of this initiative, the Bank rolled out a new savings product for girls, named TEMUULEL-"Aspire"

2010

- Implemented the Energy Efficient Product Distribution Program, allowing nearly 80% of Ger area households to purchase one or more subsidized energy-efficient products through XacBank's product centers.
- Received a high rating from Planet Rating on the implementation of corporate social responsibility efforts for the first time and was selected as one of the World's Best Socially Responsible Financial Institutions.
- Further solidified its position as a leader in socially responsible banking by retaining the Silver Award in the Social Performance Reporting category for the second consecutive year. This recognition by the Consultative Group to Assist the Poor (CGAP) underscores XacBank's commitment to transparency and accountability in reporting the impact of its micro financial services on the lives of its clients.

2011

- Received reimbursement from the World Microcredit Summit in Spain for offsetting greenhouse gas emissions and served the very first case in the world.
- Adopted the Code of Corporate Governance, further re-affirming the principles of corporate governance applicable within XacBank and other companies under the holding group

2012

- Developed the first mobile banking app in Mongolia.
- Implemented the "Service Excellence" project and became the first bank in Mongolia that met the standards of the project
- Received USD \$20 million in sustainable financing from the Global Climate Partnership Fund (GCPF).

2013

- Received USD \$10 million from the EBRD through the Mongolian Sustainable Energy Finance Facility (MonSEFF).
- Launched Business Loan Program for GHG Emission Reduction and introduced eco-business loans for producers, traders, installation service providers, and end-users to receive concessional financing for energy-efficient and renewable energy products.
- Registered with the Clean Development Mechanism to enable the sale of CER credits.

2014

- Granted the grade of "4," which is the highest grade given by Planet Rating. The rating recognizes institutions in Asia with excellent practices and is likely to achieve a positive social impact. At the international level, XacBank ranks in the top 15 MFIs out of the Social Performance ratings performed so far by Planet Rating agency.
- Collaborated with responsAbility and launched the Eco Car Loan Program for customers to purchase hybrid cars. By the end of 2018, the program had reached 1,067 customers and disbursed more than USD \$5.2 million.

2015

- Evaluated by Planet Rating and was certified by the Smart Campaign Certification for our outstanding achievement and implementation of globally endorsed Client Protection Principles.
- Negotiated a purchase agreement for the eventual sale of CER credits to the Government of Sweden.

2016

- Became the first private entity from a developing country to receive Green Climate Fund (GCF) accreditation.

2017

- Received USD \$19.5 million in loan financing and USD \$0.5 million in grant funding from the GCF to scale the Business Loan Program for GHG Emission Reduction.
- Organized the first Green Financing forum under the theme "Let's make the opportunity a reality" with the support of the Ministry of Environment and Tourism and GCF
- Received approval by the GCF for our Renewable Energy Program proposal and became the first local commercial bank in Mongolia to finance a commercial scale renewable energy facility.

2018

- Financed the construction of Mongolia's first LEED Platinum-certified building project, developed by MyMonSource LLC.
- Launched Green Pasture Pilot with Mercy Corps, aiming to reverse land degradation and improve animal health through concessional loans and capacity building for herders.
- Successfully developed and delivered a GCF Readiness support programme to establish and strengthen the National Designated Authority (NDA) and Focal Point (NFP) for the GCF. This included developing Frameworks for Engagement with the GCF and the Mongolia country programme.
- Organized the second annual Green Financing Forum under the theme of "Energy saving" with the slogan "We support".

2019

- Successfully completed the GCF's Project Preparation Facility (PPF) for the establishment of the Mongolia Green Finance Corporation (MGFC).
- Launched the Energy-Efficient Consumption Loan Program in collaboration with the GCF. The program was the first of its kind in Mongolia to offer loans for energy-efficient heating appliances and housing improvements on a national scale.
- Organized the third annual Green Financing Forum, which was held under the slogan "We Support Eco Thermal Solutions", and was open to companies, suppliers, citizens, and the public who are interested in selling EE heating and insulation solutions with Eco consumption loans.

2020

- Launched and implemented the energy-efficient housing loan program in collaboration with the Mongolian Sustainable Finance Association.

2021

- Completed GCF's Project preparation facility programme to determine the feasibility of a mini-grid/off-grid energy generation and heating solution in the ger-area.

2022

- Partnered with UNICEF to provide loans for the all-in-one heating and insulation solution which targets Ger district residents in both rural and urban settlements.
- Established an MoU with the Mongolian Housing Innovation Center to promote green building solutions in the Mongolian housing market.
- Signed agreements with EBRD, IFC, and FMO to source green financing facilities amounting to USD \$79 million to expand our impact to waste management and resource efficiency.
- Relaunched the Eco Car Loan Program, financing 100% Electric Automobiles through XacLeasing to contribute to UB's air pollution, of which 10% is derived from vehicles.
- Successfully implemented the GCF's next NDA Readiness Support Program. The program facilitated the NDA/FP process by developing and implementing concise policy guides for various stakeholders. It also strengthened NDA/FP capacity by establishing robust internal regulations, operational manuals, and clearly defined roles and responsibilities.

2023

- Started our Climate Corporate Governance project
- Approved our Climate Risk Transition Plan and Sustainability Governance structure with the Board of Directors.
- Successfully finished the GCF's readiness support program, collaborating with BASE and Tenger Insurance, to launch an innovative Energy Savings Insurance (ESI) mechanism in Mongolia.
- Constructed 10kWh solar photovoltaic systems at two of our branches and the Head office building of XacBank.

2023 Highlights

Environment

>>> 2023 Outstanding Green Bank of Mongolia <<<

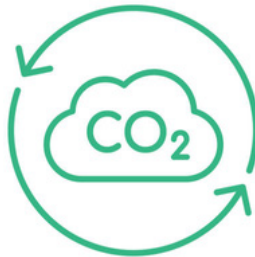
CONSUMPTION



76,608,744
cubic meters of water



731,028.7
kWh of heating
2,380,298.6
kWh of electricity



182.3

tons CO2e Scope 1 emissions

2,750.4

tons CO2e Scope 3 emissions

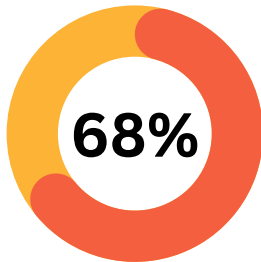
2,543,880

tons CO2e reduced
since 2013

Social

1,172

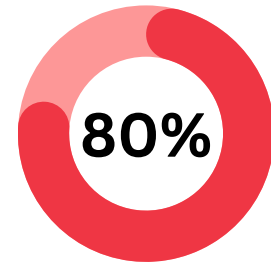
ACTIVE EMPLOYEES
(1300)
TOTAL EMPLOYEES



Female Employees



Employees in our
Mortgage Program



Employee
Membership
in XAC NGO

Operations

>>> 23 years of operation <<<

> 1 million
Customers

72
Branches

>7,000
Merchants

>50
International
Partnerships

ESG Overview

ESG Framework and Policy

Risk Management

At XacBank, risk management encompasses ESG considerations, reflecting the broader impact of our operations on the local economy, society, and environment. Our bank has exemplified our dedication to ESG principles through the implementation of a Social and Environmental Management System (SEMS) since 2002. The system performs thorough risk assessments and collects relevant data to identify and assess ESG risks. Regular training and workshops ensure that employees involved in loan and procurement processes are well-versed in identifying ESG issues. Loan officers in branches are required to utilize our ESG Risk Screening Tool to assess clients' compliance with labor, health, and environmental legislations. The tool allows us to identify issues related to the impact of clients' business activities on communities and the environment. Common environmental and social concerns for our decisions include air pollution, labor law compliance, and environmental impact. We conduct the environmental risk assessment for all customer business loans exceeding MNT 50 million and with tenors over 12 months.

Governance

XacBank has pragmatically embedded ESG considerations into our risk governance model. Under the Chief Risk Officer, the Risk policy and control department ensures transparent sustainability reporting and monitors ESG risk screening. At the highest levels of our risk governance, we promote informed decision-making and maintain the Board's awareness of portfolio alignment against ESG risks.

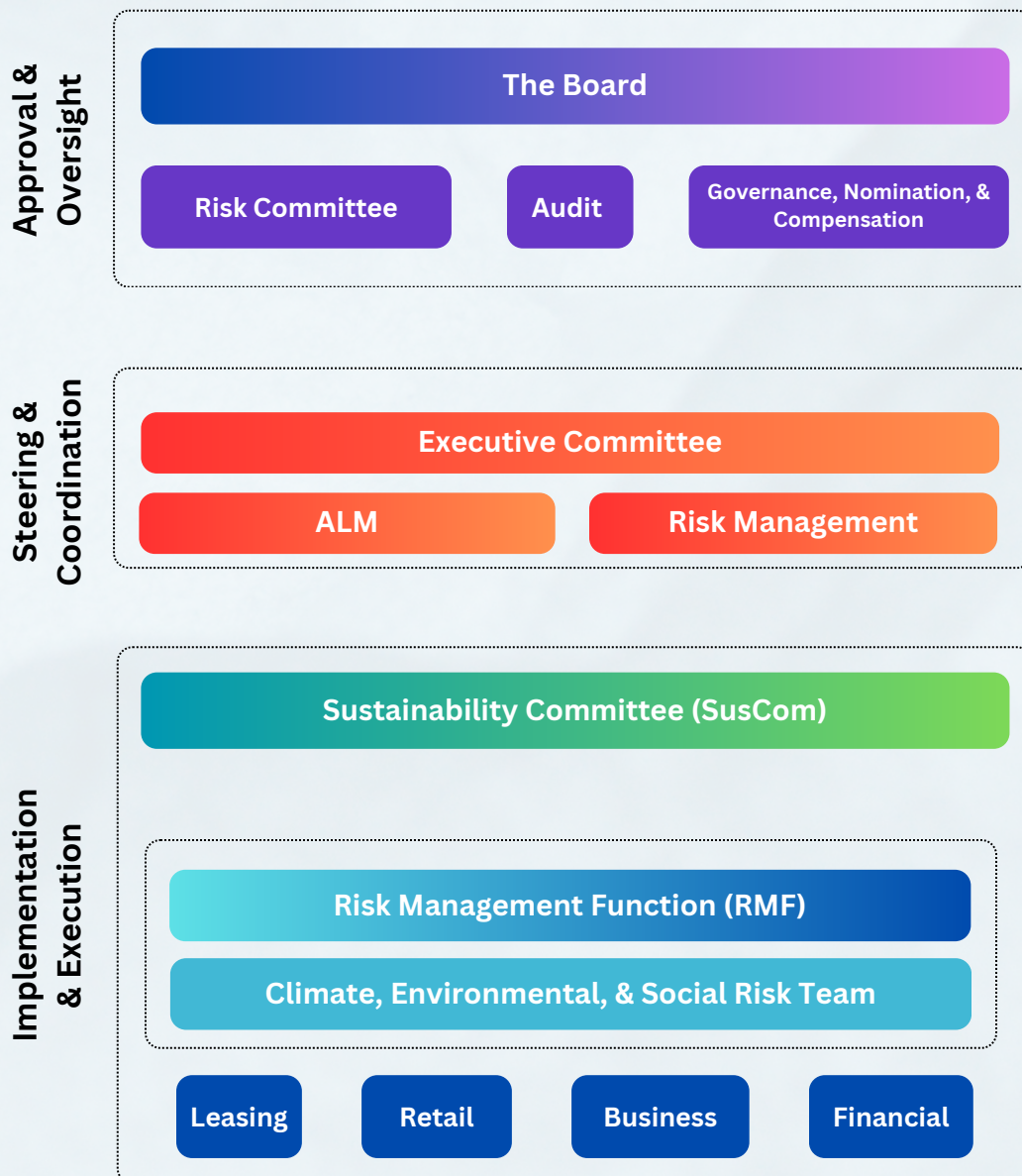


TCFD Reporting

Governance of Climate-related Risk <<<

XacBank has begun to integrate climate risk governance throughout the organization's decision-making processes. The Risk policy and control department currently provides trainings for employees to understand and integrate climate risks into the bank's processes. Management-level bodies, including the Board of Directors and Executive Committee, possess a collective foundation of climate-related knowledge through ongoing trainings.

We are in the process of implementing a governance framework that prioritizes climate-related factors. In 2023, the Board has approved the creation of an official Sustainability Committee, which will embed climate risks into the risk management function and identify climate-related opportunities in the bank's strategic planning. Starting in 2024, new climate governance structures include a designated unit focused on climate-related risks, strategic advising through the Sustainability Committee, and remuneration schemes with climate KPIs. The Sustainability Committee's activities will drive transparency, accountability, and adherence to sustainable practices throughout XacBank.



TCFD Reporting

Governance of Climate-related Risk <<<



The Board

- Approves sustainability strategy, overseeing its implementation over time.
- Oversees the management of ESG risks, including climate-related risks, and ensure that appropriate risk management systems and controls are in place.
- Risk Committee provides support to Board on the bank's current and future climate risk appetite and climate risk strategy.

Executive Committee

- Sets XB's sustainability ambition and is accountable for the sustainability strategy and roadmap.
- Conducts regular review of the Bank's exposure against climate risks and assessment the implementation of the climate risk management.

Sustainability Committee

- Chaired by the CEO (SusCom)
- Ensures the implementation of sustainability decisions across the bank in line with the Transition Plan
- Mandated to guide and align the different sustainability activities within XB per the Transition Plan
- Provides recommendations to the XB on decision making regarding sustainability strategy, ambitions, and resources

Risk Management Function

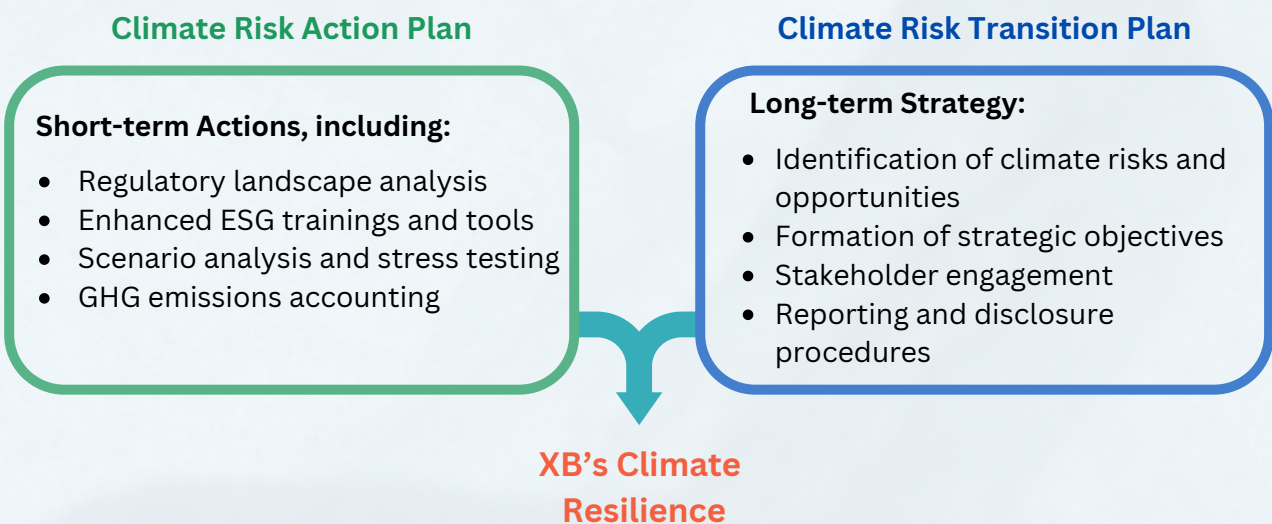
- Ensures effective implementation of risk management framework, including climate-related and E&S risks. (RMF)
- Ensures that risk appetite levels are within the XB's limits.
- C&E&S Risk Team accountable for assessing transactions against C&E&S risks, setting sector and exclusion policies.
- Accountable for developing and implementing regulatory requirements such as climate risk identification, assessment and external disclosures.

Strategy <<<

XacBank's climate ambitions stem from a sense of urgency and a commitment to lead Mongolia's financial sector in a green transition. Strategic goals include decarbonizing our operations, responding to climate-related risks, and contributing to an economy-wide shift. To define a clear roadmap, we collaborated with EBRD to develop our two integrated approaches: the Climate Risk Action Plan and Transition Plan.

The Climate Risk Action Plan responds to national and international expectations, serves as a comprehensive checklist of immediate actions, and positions us for future requirements. In 2024, our priorities include formulating our climate risk strategy, setting our targets in line with Mongolia's Nationally Determined Contribution, and defining sectoral policies.

The Climate Risk Transition Plan unifies our long-term vision to meet climate commitments for the Bank and clients. By facilitating a coordinated approach to governance and risk management, the plan ensures effective risk assessment and alignment with regulatory disclosure requirements. Moreover, the plan sets the tone for our climate strategy through internal engagement across units and functions to achieve shared sustainability objectives. XacBank is committed to transparently communicating our climate ambitions, integrating them into the corporate strategy, and driving a culture shift in the financial sector.



Future Outlook and Goals

XacBank is committed to playing a strategic role in Mongolia's transition to an inclusive and climate-resilient economy. Aligned with this mission, the bank places significant emphasis on financial inclusion, responsible lending, and gender mainstreaming, intertwining these aspects with its long-term strategy to meaningfully contribute to Mongolia's sustainable development. In the upcoming year, XacBank will continue promoting energy efficient solutions, green financial products, circular economy programs, and capacity-building initiatives for MSMEs.

Risk Management <<<

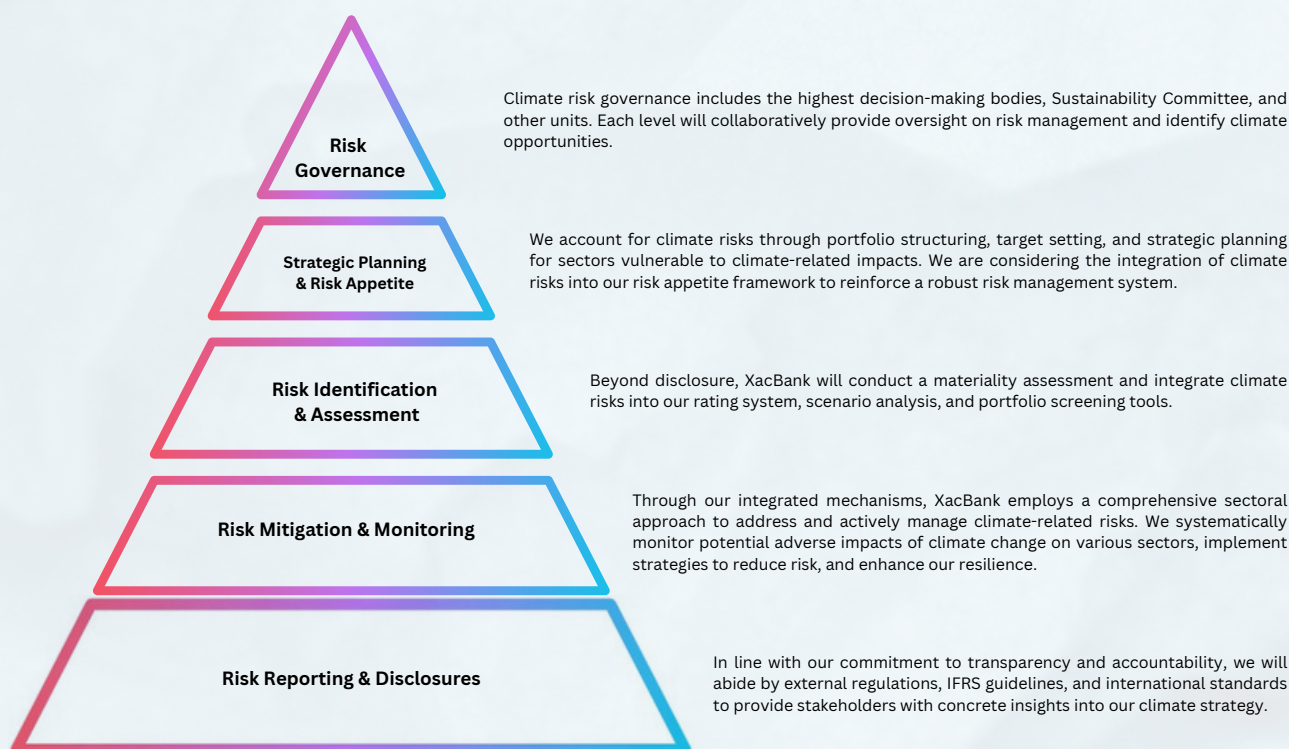
Materiality Assessment

Internationally, climate risks have become imperative for financial institutions to address. From the direct threats of extreme weather events to the indirect consequences of regulatory changes, climate risks demand proactive and strategic responses. Materiality involves identifying issues, risks, or opportunities that could influence decision-making by stakeholders, such as investors, regulators, and customers.

In partnership with EBRD, we are in the process of conducting a materiality assessment to ensure that our risk management strategies and financial decisions are climate resilient. Our assessment, aligned with GRI standards, discerns opportunities and risks associated with significant climate-related issues. The process involves understanding Mongolia's vulnerabilities to physical and transition risks and conducting a regulatory landscape analysis. By evaluating high-exposure sectors in our portfolio, we aim to plan for anticipate future conditions and adapt our strategy accordingly.

Sector	Physical Risks	Supply Chain Disruption	Increased Costs	Stranded Assets	Changes in Demand	Reputational Risks	Regulatory Risks
Wholesale & Retail Trade		●					
Real Estate, Renting & Business			●	●	●	●	
Manufacturing		●	●			●	●
Construction			●	●	●	●	
Transportation and Storage	●		●				●
Mining & Quarrying	●				●	●	
Agriculture, Forestry, Fishing & Hunting	●						
Electricity, Gas, Steam and Air Conditioning	●						●

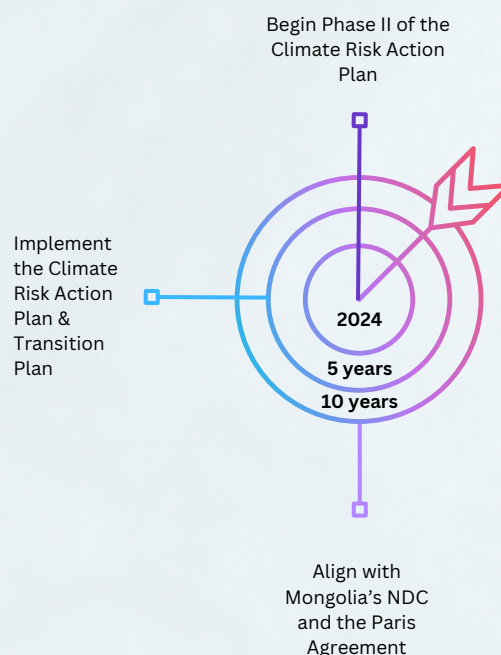
Climate Risk Management



Metrics and Targets

Looking ahead, XacBank is poised to define specific targets for our climate strategy, including benchmarks for carbon emission reductions, disclosure of financed emissions, and climate risk metrics. Our upcoming initiatives will include developing sector-specific targets, promoting green shares, emissions reductions in alignment with Nationally Determined Contributions, and addressing material risks upfront in our strategy. These measurable objectives underscore XacBank's commitment to transparency, accountability, and continuous improvement in sustainable practices within Mongolia's banking sector.

In response to climate-related risks, XacBank has delineated concrete actions to identify challenges, implement the new climate governance framework, and align our long-term strategy with sustainability goals. The effectiveness of these strategies will be tracked through key performance indicators (KPIs) and targets, which will be established in 2024. As we assess our progress against these benchmarks, we will continually enhance our operational policies, procedures, and stakeholder engagements.





Environmental Performance



Scope 1 & 2 Emissions

XacBank actively gathers data to track the social and environmental impacts of our operations. We embrace in-house environmental protection measures, such as promoting efficient energy, fuel, and water use; reducing paper consumption; and managing our waste.

Mobile Sources



182.31
tons CO₂

Heating



646.23
tons CO₂

Electricity



2104.18
tons CO₂

Scope 1

Scope 2



Energy Consumption

731,028.79 kWh



Total Heating Usage

2,380,298.61 kWh



Total Electricity Usage



Renovations for Energy Efficiency

In 2023, we have shifted towards renewable energy and heating conservation initiatives. Branches, central offices, and properties that underwent major renovations between 2021-2023 were made more energy efficient by installing a new electrical wiring system.

Solar Photovoltaic Systems

207,301.80 kW.h
Projected Annual Output

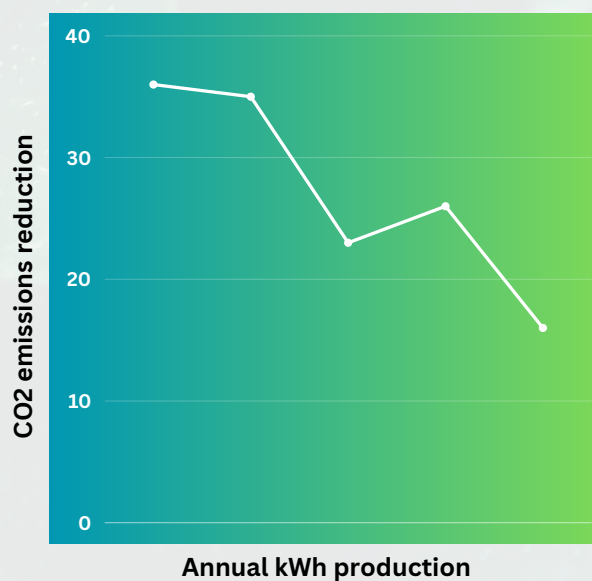
180.6 tons of annual
CO2 Emission Reduction

19.6kWh

Headquarter
Panels

15%

Energy
Savings



Solar Panels at Selenge and Baganuur branches

41%

Energy Reduction Savings in Selenge and Baganuur

60%

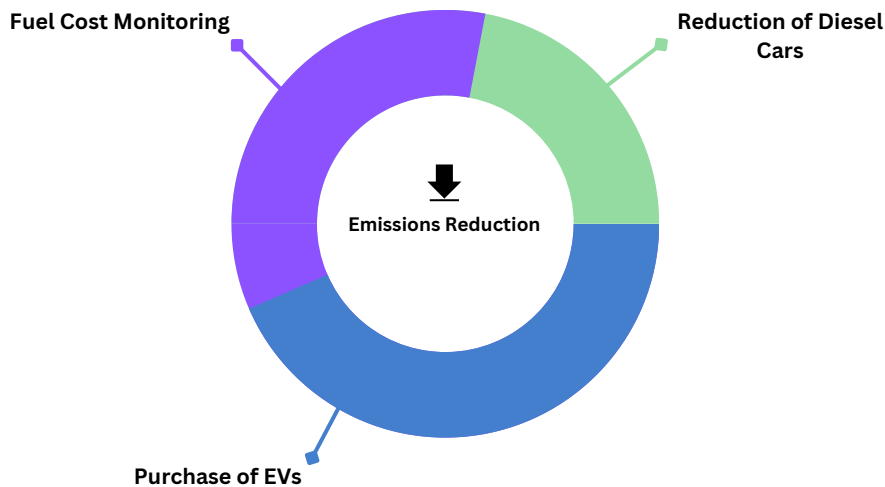
Heating Cost Savings in Tsogtsetsii

A contract is in progress that will enable the installation of 9.8 kW solar panels on the buildings of the Selenge and Baganuur branches to reduce up to 40% of the branch's energy consumption.

Heating costs were reduced by 60% by connecting the Tsogtsetsii branch to the central heating system.

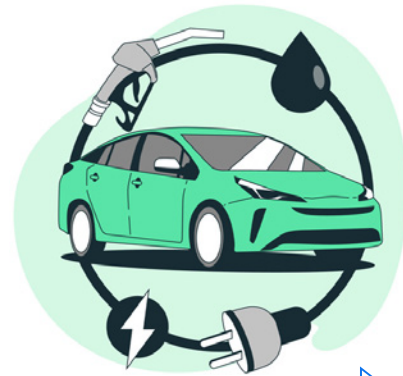
By recirculating the heating water and installing a circulation pump in the central HQ building's heating unit, the building's heating costs were reduced by 30%.

Emissions Reduction Initiatives



Transition to Gasoline-Powered Cars

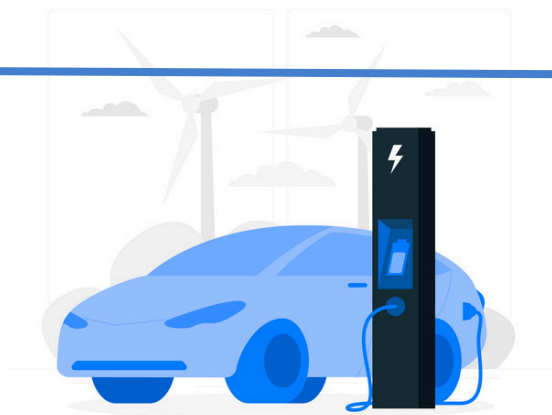
To reduce the number of diesel cars, we introduced and approved a policy of using only gasoline-powered cars.



Electric Vehicles at Central Office

Purchased 5 electric vehicles for central office 100% weekday usage

The EVs not only reduced fuel costs, but also allowed the cars to have 100% usage through the weekdays without being affected by license plate number restrictions.



Fuel Cost Monitoring in Data Center

Improved fuel monitoring saves 120 million MNT annually

By improving the monitoring of the fuel costs of additional power generators in the data center and headquarters, the annual cost of switching between winter and summer fuel was reduced by about MNT 120 million.





Water Consumption

Initiative A: Water-Efficient Fixtures



Headquarters and renovated branches all had new water-efficient sinks and bathrooms installed.

Initiative B: In-House Boiler Installation



The headquarters building previously only received cold water from the central water pipeline. By installing an in-house boiler, the building can always have hot water. As a result, the use of hot water from the central water line was no longer needed and removed.

76,608,744 cubic meters

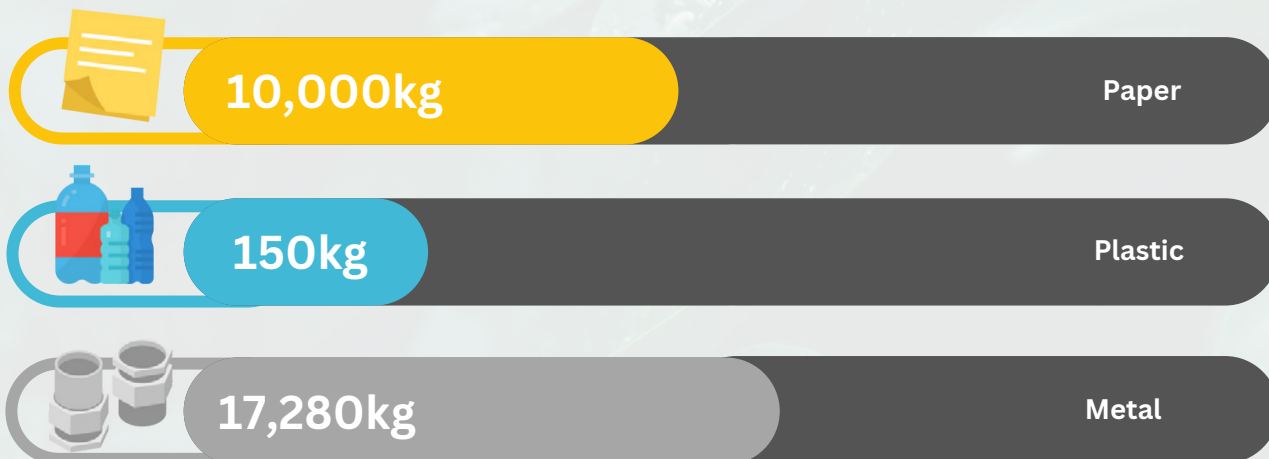


Total Water Used

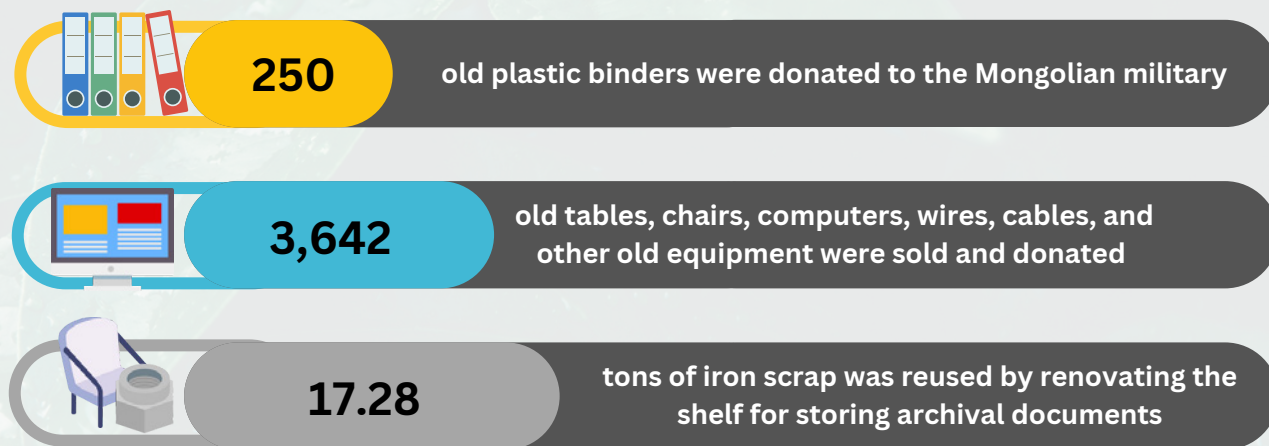
Waste Management

Through strategic initiatives, we have successfully diverted a substantial portion of our waste away from traditional disposal methods. For instance, expired archival records were destroyed and delivered to the egg carton factory to be recycled. We have implemented various other sustainable waste management practices to reduce our environmental impact and contribute to our commitment to responsible corporate citizenship.

Waste Production



Reuse



Paper Recycling



Archival Records Recycled into Egg Cartons



Sustainable Finance

Overview of Sustainable Finance Initiatives

XacBank has taken measurable steps to catalyze sustainable finance in Mongolia through our lending programs and project implementation activities. We offer a unique range of financial products and services that uplift Micro, Small, and Medium-sized Enterprises (MSMEs), incentivize the adoption of energy efficient technologies, and support vulnerable communities. Our green lending framework is based on Mongolia's Green Taxonomy and aligned with international standards. By embedding sustainability into our core functions, such as lending and investments, we have actively contributed to the realization of the bank's broader social goals and reinforced our position as a pioneer in green finance in Mongolian's financial sector.

EcoBanking Division

XacBank's Eco Banking Division specializes in providing sustainable finance solutions. Established in 2009, the Eco Banking Division is dedicated to developing environmentally conscious banking products and services, promoting renewable energy and energy efficiency market penetration, and raising awareness on climate-related issues. Since its creation, the department has introduced, scaled, and implemented various eco-friendly programs to support Mongolia's low carbon development. The Eco Banking Division collaborates with various stakeholders, including international partners, government agencies, local NGOs, and customers.

Notably, XacBank maintains a close partnership with the Green Climate Fund (GCF). As the first commercial bank in the world to sign an Accredited Master Agreement with the GCF, we have leveraged our position as a responsible financial institution to tangibly improve Mongolia's sustainable growth. In our first 5 years of accreditation, the bank has implemented 9 projects in cooperation with GCF. Six projects have been completed and three are ongoing. After being reaccredited in 2022, XacBank received an additional USD 8 million in October 2023 for our energy-efficient heating, insulation, and affordable housing financing programs. With the support of the GCF and other partnerships, XacBank is able to provide affordable, concessional financing for energy efficient and renewable energy technologies in Mongolian businesses and households.

Since 2013, XacBank's green loan products and projects have achieved GHG emissions reductions of

2,543,880

tons of CO₂e

This is equivalent to planting and growing

183,274,544

coniferous & deciduous trees over 10 years

1.3x

the size of Ulaanbaatar, assuming
300 trees per hectare

Projects and Programs

XacBank's sustainable finance activities are centered around capacity building, awareness raising, green lending, and monitoring program implementation.

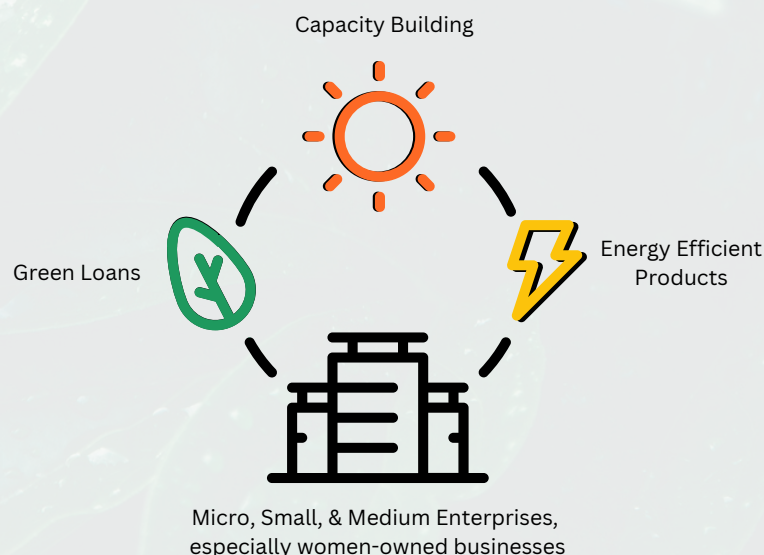
MSME Business Loan Program for GHG Emissions Reduction

Goal:

Support MSMEs with investing in energy efficiency and adopting low-carbon business models

Approved Year	Total Project Value	Projected Tons of CO2 Reduction
2016	60 Million USD	1.2 Million Tons

Over 90% of businesses in Mongolia fall under the MSME category, and many utilize inefficient equipment and processes. Approved in 2016, XacBank's MSME Business Loan Program for GHG Emission Reduction is our first partnership with the GCF. The program is designed to encourage the adoption of energy efficient and renewable energy solutions in Mongolia's MSME market. The program also aims to support women-led MSMEs by offering more concessional loan terms. Project activities include capacity building trainings for XacBank's MSME clients, trainings for credit officers on eco loans, technology lists to facilitate loan identification, and Green Financing Forums for MSMEs.



Energy-Efficient Consumption Loan Program

Goal:

Provide loans for heating appliances and housing products that reduce energy usage by at least 20%

Approved Year

2018

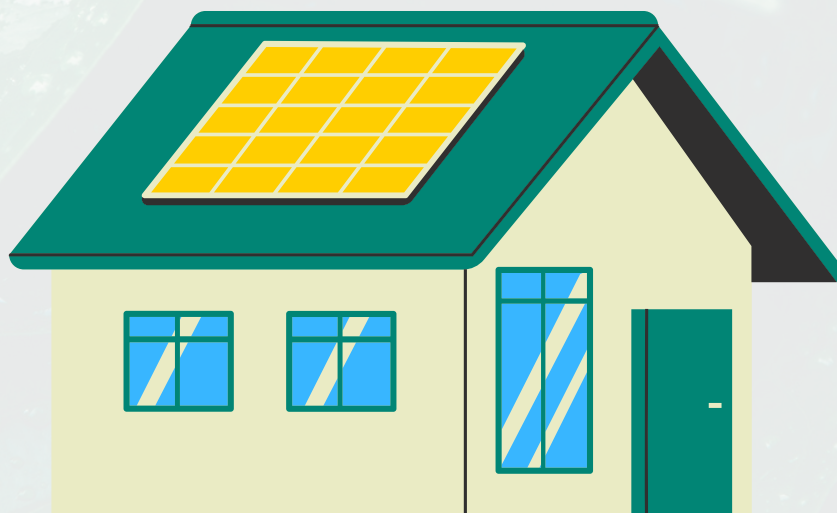
Total Project Value

21.5 Million USD

Projected Tons of CO2 Reduction

0.47 Million Tons

In 2019, XacBank initiated the Energy Efficiency Consumption Loan Program (EECLP). The program encourages Mongolian households to transition to energy-efficient products, reducing reliance on low-grade coal and inefficient cook stoves. Offerings include electrical heating appliances, insulation improvements, retrofitting options, and loans for energy-efficient housing. In 2022, the bank focused on capacity building for geographical expansion, conducting training sessions with energy auditors and partnering with UNICEF for case studies and marketing campaigns. XacBank also strengthened ties with policy-implementing entities, such as the Energy Regulatory Commission, through training sessions and an MOU with the Mongolian Housing Innovation Center. In its fourth year, XacBank, in collaboration with the GCF and the Ministry of Environment and Tourism, provided consumption loans with interest rate subsidies for clean heating appliances and insulation. Through EELCP, XacBank successfully reduced greenhouse gas emissions by a total of 5,557 tons from disbursing eco-consumption loans.



Mongolian Green Finance Corporation

Goal:

Borrow through local partner financial institutions (PFIs) for thermal insulation, energy efficiency for businesses, and mortgages for green affordable housing

Approved Year

2020

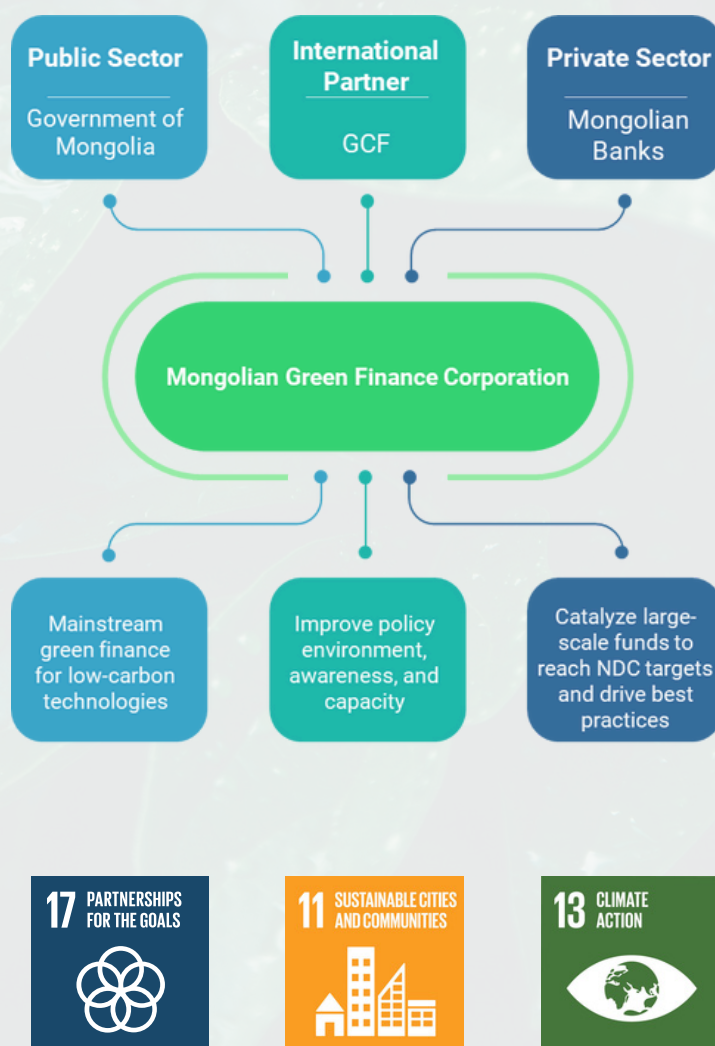
Total Project Value

49.7 Million USD

Projected Tons of CO2 Reduction:

**3.8 Million
Tons**

Our fourth Funding Proposal, FP153: Mongolia Green Finance Corporation (MGFC), was approved by the GCF Board. MGFC is Mongolia's first green financial institution and advances the Mongolia's 2050 Development Vision to "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 between GCF, the Government of Mongolia, and local private sector actors. The three-party collaboration will play an important role in supporting Mongolia's green finance development, capacity building, and legal environment.



Energy Savings Insurance (ESI)

Goal:

Reduce perceived risks in energy efficiency adoption and mobilize private investments

In a pioneering collaboration with BASE and Tenger Insurance, XacBank unveiled the Energy Savings Insurance (ESI) mechanism, a unique insurance model incentivizing MSMEs to embrace energy-efficient solutions. The strategic partnership, presented in February 2023, addresses local barriers and aligns with Mongolia's specific needs. The feasibility study underscored the substantial potential for Mongolia's MSMEs, particularly in carbon-intensive industries. After introducing the model, XacBank achieved a significant milestone with the launch of two pilot projects in November 2023. The bank plans close collaboration with Tenger Insurance during the initial implementation, aiming to establish strong relationships with local providers for long-term success. Ongoing discussions with key organizations, including UNEP and the Energy Regulatory Commission, highlight efforts to integrate the ESI model into government procurement, advocating sustainability and energy efficiency in public projects.



Event Highlights

Sustainable Finance Week 2023

The "Financing of Energy-efficient Buildings" sub-session, part of the "Sustainable Financing Week 2023" forum, was a notable event held under the patronage of the President of Mongolia.

The primary objective of this session was to engage in high-level discussions about the policies, technological innovations, and financial strategies necessary for significantly enhancing energy efficiency and reducing greenhouse gas emissions in the construction sector. The aim was to foster the development of an energy-efficient housing ecosystem. Participants in this session sought to achieve a shared understanding and consensus on these critical issues.

The session covered several important areas:

- Examination of government policies for promoting energy-efficient building and housing development.
- Exploration of the latest technological solutions in energy-efficient building, along with the associated opportunities and challenges.
- Insights into XacBank's approach to funding energy-efficient construction projects, including their methods for tracking and measuring the outcomes have been thoroughly addressed through a series of presentations and in-depth discussions.

Green Loan Fair

In September 2023, XacBank hosted Green Loan Fair, a groundbreaking event promoting environmental awareness and sustainable finance. Citizens were offered eco-usage loans with a remarkably low annual interest rate of 2-3%, facilitating the adoption of eco-friendly technologies like energy-efficient heaters and insulation solutions. With the active participation of 28 supplier organizations, Green Loan Fair aimed to empower citizens to make environmentally responsible choices while supporting local businesses committed to sustainability. Our collaborative effort created a vibrant platform that fostered a community-driven approach to environmental stewardship. The event reinforced our dedication to improving the accessibility of green credit solutions and making sustainable living financially advantageous.



Energy Efficient Housing Bus Tour

In July, 2023, XacBank organized an informative bus tour, offering participants a firsthand view of model houses from seven collaborating companies. Additionally, during the tour, energy-efficient housing options from ten other partner companies were showcased through electronic presentations. This event attracted 120 attendees, providing them with a comprehensive insight into the latest sustainable housing solutions.



The 'Green Loan Fair' and the 'Bus Tour to Introduce Energy-Efficient Housing & Townhouse Loans to Citizens' led to a significant increase in energy-efficient loans in September. The number of these loans rose by 102.29%, doubling from the previous month, showing the success of these events in promoting eco-friendly financing.



“She Owns” Event

XacBank supported the "SheOwns" event, organized by the Mongolian Women's Scout Association, aimed at empowering young girls aged 15-25 in Ulaanbaatar. The event focused on finance and entrepreneurship education, sharing inspiring success stories, and skill development.

A total of 70 participants engaged in presentations and discussions on various topics including "Story of Success from Zero," "Story of a Peer Girl," and "Opportunities to Start a Business." The event also featured interactive sessions on business ideas, marketing, case studies, financial management, and teamwork. Additionally, seven teachers from the Ministry of Education and Culture attended, contributing to the practice-based course designed to inspire and motivate young women.



Impact Measurement



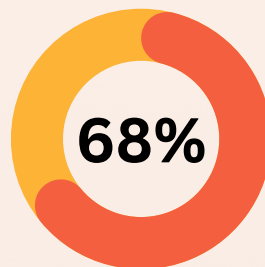
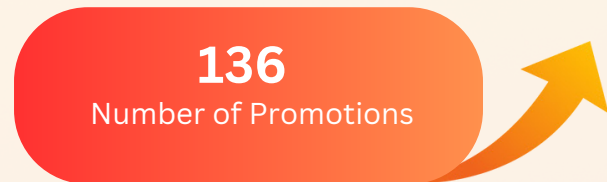
XacBank has secured a total financing of USD 87.4 million, with a significant portion of 32.4 million provided by the Green Climate Fund (GCF). Over the years, our sustainable financing initiatives have resulted in a noteworthy reduction of 2,543,880 tons of CO₂e in greenhouse gases since 2013. For perspective, the environmental impact is equivalent to the growth of 183,274,544 deciduous and coniferous trees over a decade.

Moreover, XacBank has gained commendable recognition for its pivotal role in contributing to Mongolia's sustainable growth. The Mongolian Sustainable Finance Association (ToC), the Bank of Mongolia, and the Financial Regulatory Commission have commended XacBank's performance throughout the years. These accolades affirm XacBank's position as a trailblazer, from actively integrating sustainability principles into our core operations to generating positive environmental and social impacts.

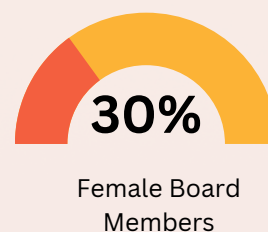
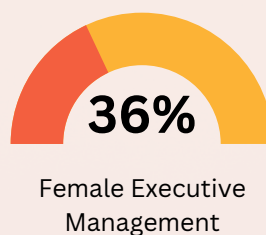
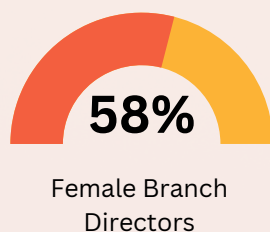
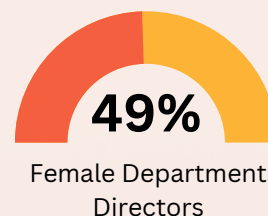
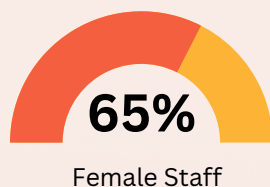


Social

Employment and Diversity



Female Employees



Employment Benefits

XacBank emphasizes employee welfare by offering holistic employee benefits and fostering stable working conditions. To enhance employee satisfaction and motivation, the bank offers rewards, incentives, compensations, and assistance aligned with relevant laws. Health and financial support programs, as well as a pension scheme for long-serving employees, contribute to creating stable employee retention. Additionally, the bank provides preferential mortgage loans, flexible working hours, and additional holidays to meet diverse employee needs. Employees have 3 additional days of paid leave: 1 for their birthday and 2 complimentary holidays from the CEO.

Health Insurance

Employee health is prioritized through preventive medical examinations, stress reduction initiatives, and adherence to workplace safety and hygiene standards. This year, XacBank provided free health check-ups for over 1,000 employees.

Employee Mortgage Program

The specialized mortgage program is tailored for XacBank employees and was created in 2003 to support those looking to secure their dream home. The mortgage plan is available to all XacBank employees who have worked over 12 months at XacBank. Additionally, the program offers a maximum loan period of 240 months, providing flexible repayment terms. In 2023, the mortgage loan program for XacBank employees was updated and 120 new employees entered the program. The biggest update to the terms was lowering the required down payment from 15% to 10%.

Pension Account

XacBank introduced the Pension Account savings program in 2007, which transitioned to savings products with special conditions in 2018. The program offers stable savings, high returns, and risk protection for retirement in response to evolving pension documentation policies and demographic trends. As soon as an employee joins XacBank and fulfills the starting deposit, the account is created, and the savings rate is determined by the employee's annual reviews.



>1000

Employees received health check-ups



158

Employees received maternity benefits



20

Employees with disabilities



361

Employees in XB's mortgage program



120

New employees in the mortgage program



1,157

Employees in XB's pension program

1 Year

2 Years

3 Years

4 Years

5 Years

20%

40%

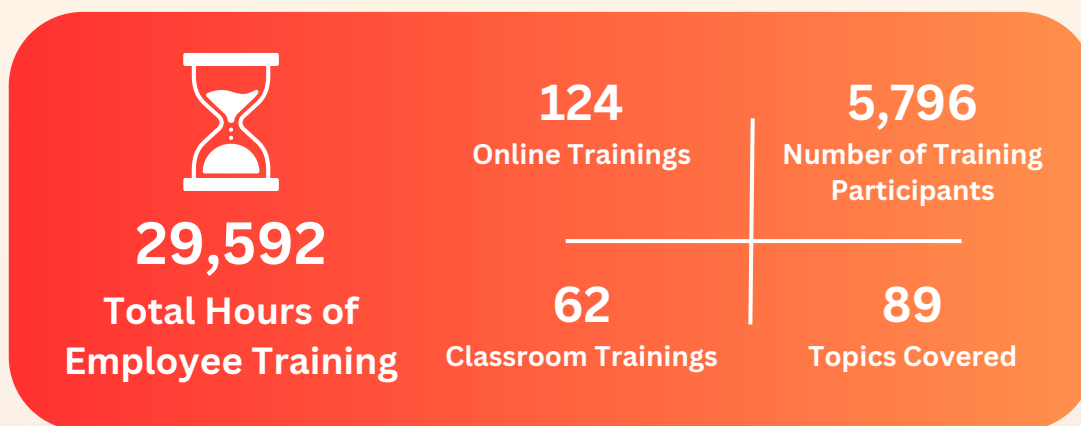
60%

80%

100%

Employee Training and Development

XacBank values and prioritizes continuous learning by regularly organizing training programs tailored to our unique business model, environmental and social issues, and other needs. Measures are in place to develop employee skills and knowledge essential for the bank's operations, ensuring a sustainable talent pipeline.


171

Training for new staff members

175

Gender and Sexual Harassment in the Workplace training through XacBank's talent.lms platform (open to all employees)

68

Sustainability and Climate Risk Management training in the Head office, including Chief Officers


328

Eco Banking Products training for branches, officers, and other staff

1,246

Eco Banking awareness-raising events and workshops for customers

Community Engagement and Investment

20 years ago, with the initiative and desire of the young people with of XacBank, the "Golden Foundation for Development" Association NGO was founded to make its own contributions the environment, society, and especially to the children of Mongolia who are the future of this nation. The NGO is operated by volunteer members from XacBank. The association operates in three main areas including: children's development, children's education, and the environment.

Since its foundation the NGO has continued its "Talented" aid program. The program supports the development of children with special talents in arts and sports who have poor living conditions and opportunities, so far over 100,000 children have benefitted from the program.

By spreading financial education to more than 600 teachers and more than 360,000 children in 21 provinces, 117 schools and more than 360,000 children in 21 provinces, the content of this program changed the field of education and became the basis of the "Business Studies" course to be selected in the senior classes of general education.

The "Aflatoun" and "Temuulel" program, which aims to provide social and financial education, has been successfully implemented throughout Mongolia since 2009, and has reached out to more than 600 teachers in 117 schools and more than 360,000 children in 21 provinces. The content of this program changed the field of education and became the basis of the "Business Studies" course which is available to high school seniors as an elective subject. As a result of the project, children have learned to:

- To understand the value of money and other wealth, to accumulate savings,
- Spend money wisely,
- Acquired the knowledge and skills to become a socially responsible citizen who is confident, and aware of his duties and rights.

In order to preserve the balance of the environment and to reduce desertification, we initiated the "Xac Tugul" program in cooperation with XacBank and planted a total of 29 groves and 40,000 trees in Ulaanbaatar city and the 21 provinces, with a growth rate of 87%, thus contributing to maintaining the ecological balance of the environment.

— S.Ankhtsetseg

Executive Director of the "Golden Foundation for Development" Association NGO
Director of Cash, Card and ATM operations department of XacBank



815
million MNT
fund

100,000
participants
(2003-2014)

>1,000
members

110
million MNT
invested by
XacBank
(2009-2023)

80%
XacBank
employees

Projects and Programs

X.A.C NGO was established in August 2003 through the voluntary efforts of XacBank employees. Also known as The Golden Fund for Development Association (GFDA), the organization's mission is to nurture Mongolia's next generation and enhance their living environment. Funded by a combination of membership fees, donations, grants, and NGO activity revenues, GFDA has grown to 1,500 members. With over 100,000 participants from 2003 to 2014, GFDA has built a fund worth MNT 627 million, primarily dedicated to children's development and environmental initiatives. Since 2009, XacBank has invested over MNT 110 million in financial education programs for children, underscoring its commitment to the future of Mongolia. Currently, the NGO is led on a voluntary basis by seven main officers, with four supporting sub-teams comprised of seventeen employees. The majority of bank employees—80%—have become members of XAC NGO.

Aspire Program

Goal

Launched in collaboration with Women's World Banking and Microfinance Opportunities, Aspire provides after-school financial education to youth aged 12-18.

Impact

- Delivered 3 hours of financial education program to 120 teenagers
- Organized field trips to visit financial organizations for 40 students from secondary education schools in Ulaanbaatar
- Held financial enterprise trainings at 5 secondary education schools involving 1,700 students and 650 parents
- Executed the "Train the Trainer" Program to train 40 primary grade teachers from 5 secondary education schools over 2 days



AFLATOUN Program for Social and Financial Education

Goal

The goal of the Aflatoun Program is to provide social and financial education to children and young adults aged 6-18. Our curriculum trains them to become self-confident and socially responsible citizens. The program was interrupted for 4 years, so we tested our updated curriculum this year.



Impact

- Reached over 13,100 children from 2010 to 2014
- Improved our training techniques by organizing 2 test courses for a total of 50 children
- 61 XacBank employees participated



13,100
children
involved



50
children
participated in
new trainings



61
XacBank
Employees



Tree Caretaker Project

Goal

In support of the Billion Tree Foundation's movement, we launched the project to increase opportunities for children to learn in a healthy green environment. The project allows young generations to pay attention to the growth of trees, provides green facilities to kindergartens and schools, and contributes to the reduction of air pollution and dust

Impact

XacBank employees, their children, school staff and students planted a total of 521 trees in 12 locations



521
Trees

12
Locations

Events

“Future to Brothers” Donation Campaign



23.5
Million MNT

700
children



Goal

To support children for the school year, XacBank employees donated school supplies including clothes, desks, books and textbooks. The NGO prepared the donations in school bags and bundles.

Impact

For more than 700 children (covering 21 provinces of UB)



“Let’s Help You Choose a Profession”

Information Technology Careers

Partner

XacBank IT

Goal

To foster early career development, the children of XacBank employees had the opportunity to learn about information technology. Topics included schools, work experiences, and future trends in the industry.

Impact

Educated 50 children of employees aged 14-20.

Careers in Health and Medical Sciences

Partner

Mongolia National University of Medical Sciences

Goal

To understand the human body and its organ systems based on real observations, we created a training about the tiring yet fulfilling career paths in medicine. Children experienced an in-depth study of chemistry and biology in a real world application.

Impact

15 children participated in the training and 9 wanted to become doctors after the training.

How To Successfully Study Abroad

Partner

UN Mongolia

Goal

To educate children on opportunities to pursue study abroad programs and scholarships.

Impact

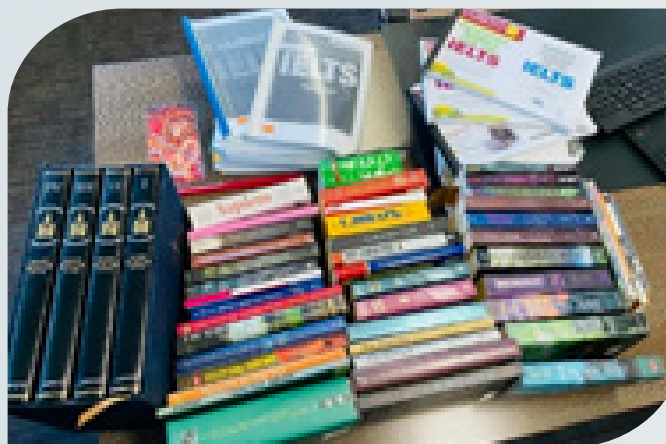
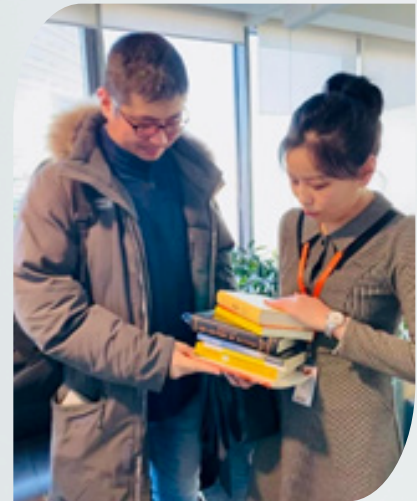
55 children participated in the department and online.



Book Donation Campaign



135 Books and 4.6 Million MNT Donated



Secret Santa



Goal

To give reusable gift bags filled with fairytale books, hat, gloves, socks, traditional products for immune support, candy and fruit to children of low socio-economic backgrounds.

Impact

Provided gifts for 100+ children of Tsangadavaan in Chuluun Oovo.

100
children



Sports Challenges



Goal

Through athletic challenges, employees improved their health with various exercises including building blocks and running. NGO members and athletes also supported youth team sports tournaments.

Impact

- 80 employees were involved in XacBank's athletics challenge
- XacNGO members participated the young athletes volleyball tournament, a local football tournament, a debate competition for children, the 7th Sports Festival of Bulgan province, and a youth archery competition.

80
Employees

3 GOOD HEALTH
AND WELL-BEING



Governance

Ethical Business Conduct



Code of Ethics

XacBank is committed to lawful business conduct and an ethical culture led by its shareholders, directors, and management team. The bank's Code of Conduct & Conflict of Interest policy showcases our best-in-class corporate governance, grounded in the principles of honesty, integrity, fairness, and transparency.



Anti-Corruption and Financial Crime Measures

Anti-Bribery and Anti-Corruption Policy

Our Anti-Bribery and Anti-Corruption Policy is a set of guidelines and procedures established to prevent bribery and corruption. The policy outlines our commitment to conducting business with integrity and in compliance with applicable regulations. In the policy, we define measures to identify and mitigate corruption risks, guidelines for gifts and hospitality, procedures for reporting suspicious activities, and consequences for violations. The aim is to foster a transparent business environment that promotes fair competition and maintains our ethical standards. Everyone, including employees, agents, and partners must adhere to our anti-corruption policies.

Insider Trading Policy

Our Insider Trading Policy prevents the misuse of material, non-public information by individuals within the organization. The policy outlines restrictions on trading securities based on privileged information that could impact the market. Sensitive information includes blackout periods during which employees are prohibited from trading company stock, procedures for pre-clearance of trades, and guidelines for reporting and addressing potential violations. The aim is to maintain market integrity, ensure fair trading practices, and uphold the trust of investors and the public in XacBank.

Anti-Money Laundering Policy

XacBank's Anti-Money Laundering Policy is a crucial framework to detect and prevent activities associated with money laundering and other financial crimes. Our policy involves rigorous customer due diligence, monitoring of financial transactions, and reporting suspicious activities to relevant authorities. By implementing comprehensive measures, we can comply with regulatory requirements, safeguard our operations from illicit financial activities, and contribute to the broader efforts to combat money laundering and the financing of terrorism.

Financial Crime Policy

The Financial Crime Policy covers a range of processes to address various financial crimes, including money laundering, fraud, and other illicit activities. Our policy provides a concrete strategy to identify, assess, and mitigate the risks associated with financial crimes. Measures include customer due diligence, transaction monitoring, and reporting mechanisms for suspicious activities. The Financial Crime Policy is a critical component of our risk management framework, ensuring compliance with legal and regulatory obligations while actively preventing and combating financial crimes.



Know Your Customer Policy

Our Know Your Customer (KYC) policy is a fundamental component of risk management and compliance practices. It is designed to verify the identity of clients and assess potential risks associated with their financial activities. By implementing rigorous due diligence procedures, the KYC policy ensures we have a clear understanding of our customers, their financial behavior, and the nature of their transactions. The policy involves collecting and analyzing relevant information, such as identification documents, financial history, and business affiliations, to establish the legitimacy of a customer's identity and to prevent illegal activities including money laundering, fraud, and terrorism financing. A robust KYC policy not only helps maintain the integrity of our client base but also contributes to a more secure and transparent financial system.



Consumer Data Protection

XacBank prioritizes the protection of customer information by implementing robust security measures in compliance with federal laws. These measures include device safeguards, secured files, and monitored buildings to prevent unauthorized access to personal and account information. Online and mobile services benefit from the added layer of protection through Online Banking Security. XacBank adheres to SmartCampaign certification standards for appropriate product design, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, and privacy of client data. The bank provides effective mechanisms for complaint resolution, and we are committed to helping victims of identity theft by providing information on recognizing and avoiding scams. We employ a proactive approach to information security, including the development and implementation of policies aligned with legal standards, up-to-date research on international information security standards, and engagement with skilled information security specialists.



Whistleblower Protection

XacBank's directors and employees diligently avoid situations or activities that may give rise to actual or perceived conflicts of interest. Our Whistleblower Policy governs the process of detecting, reporting and addressing unethical or fraudulent activities with confidentiality. Whistleblowing is encouraged in cases of law and regulation violations, internal policy breaches, misuse of the bank's capital and assets, discrimination, abuse of power, harassment, professional errors, and any actions concealing illegal or morally wrong incidents. Whistleblowers can report and provide evidence via a dedicated email address or in person to the Compliance officer. Anonymity is preserved, and individuals receiving and investigating the information must protect confidentiality. Disciplinary action is outlined for any employee disclosing the whistleblower's identity or submitted information, emphasizing the bank's commitment to a secure and confidential whistleblowing process.



Internal Auditing

XacBank prioritizes robust internal control activities, with the Chief Auditor overseeing auditing functions that directly report to the Board of Directors. The Chief Auditor plays a crucial role in ensuring the efficiency of risk management, corporate governance, and internal controls. Complemented by the Finance and Credit management units, responsible for daily financial transactions and lending operations, the audit function comprises on-site and offsite departments. Together, they provide independent assurance by reviewing internal controls, monitoring overall operations, and making recommendations for performance enhancements. The Internal Audit Unit conducts investigations into fraud and corruption cases referred by the Compliance Department, aligning with stringent procedures.



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