

**ANNUAL
REPORT
2019**



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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.

About us

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

Chairman's Statement



Sanjay Gupta
Chairman, XacBank & TenGer Financial Group

To our Shareholders, Customers and Valued Partners,

On behalf of the Board of Directors, I am pleased to present the 2019 Annual report of XacBank.

It is an honour to lead this esteemed institution. My predecessor, Mr Ganbold Chuluun retired in March 2019 after 15 years at the helm of the Bank. On behalf of the Bank, I would like to thank him for his immense contributions.

Mr Boldoo Magvan, our previous CEO, resigned in May 2019 after over 14 years with the Bank. I would also like to take this opportunity to thank Bold for his many contributions to the development of the Bank over the years.

In May 2019, the Bank appointed Mr Tsevegjav Gumenjav as the new Chief Executive Officer. Tsevegjav has already made his mark on the performance of the Bank and I am confident that the Bank will reach new heights under his dynamic leadership.

To serve all of our stakeholders better than ever before, we have taken many strategic initiatives in 2019. We are improving our Capital and liquidity, making further investments in technology to enhance customer experience, improving asset quality, strengthening the management of currency and interest rate risks and reducing our expenses.

Our country deserves a strong economy and a strong economy needs a strong banking system. Therefore, we welcome the new Prudential Capital Guidelines of MongolBank, the Central Bank of Mongolia, which are designed to make the banking system stronger. I am very pleased to inform you that as of Dec 31, 2019, we have **improved the Tier 1 Capital ratio** of the Bank to **11.9%** and the **Total Capital ratio to 15.9%**. These ratios are 1.9 % and 3.9 % above the new guidelines. We are continuing to improve Tier 1 Capital ratios of the bank even further and we expect to remain significantly above MongolBank's new guidelines.

Our employees are the driving force behind our success. 2019 was a challenging year and the professionalism of our people came to the fore on many occasions. I am grateful to them for their dedication and hard work.

Finally, the Shareholders and the Directors of XacBank with their rich and varied experience are a source of strength for our institution. On behalf of the entire Bank, I thank them for their steadfast support and guidance.

Sanjay Gupta
Chairman.

CEO’s Statement



Tsevegjav Gumenjav
Chief Executive Officer

To our Shareholders, Customers and Valued Partners,

I would like to start this letter with the sense of gratitude for all the confidence placed in me and sincerely honored and humbled to be a member of an exceptional company with extraordinary heritage and a promising future. It is a rare privilege to lead TenGer Financial Group and XacBank, and I am fully aware of the challenges and opportunities we face. It is evident to me that CEO position comes with great responsibility in front of shareholders, customers, employees, funders and all stakeholders.

I follow in a line of previous talented leaders who each made important significant contributions to bring the Group and XacBank to the current level as one of the reputable systemic banks in Mongolia. From the pages of this Annual Report, I would like to thank Chairman Emeritus Mr. Ganbold Chuluun and ex-CEO Mr. Bold Magvan, the leaders who not only played an instrumental role in the success of our organization, but also have supported and guided me since I first joined the Group in 2011. Also, my great appreciation goes to Group and XacBank Chairman Mr. Sanjay Gupta for mentoring our Executive Team during challenging transition period.

My predecessor, Mr. Bold was appointed in 2009 and faced a critical juncture in the Group’s history as it was entering its second decade. In my first-year as a CEO, 2019 marks the beginning of the new era and coincidentally the beginning of third decade for XacBank. Since starting in this role, it has become increasingly clear to me that, while the banking industry remains established sector, it is entering an era of significant changes in customer behavior, technological advancements and stricter banking regulations.

It is no longer a finite game to win the market share where the major players were commercial banks. Mobile operators, consumer stores, non-banking financial institutions, fintechs, IPOs and other new players who are yet to emerge, all bringing new rules and unknown variables, now define the competitive landscape in the banking sector. We can no longer rely on market share driven strategy, our strategy has shifted on improving returns, investing in our people and technology, improving credit quality, and re-shaping the business model for sustainable growth. Market share is the results of what we do, not the objective.

In this letter, I will discuss the content around some of the critical concerns we have received from Shareholders and Board of Directors. Short summary below describes our successes and opportunities, as well as our challenges and responses we have faced and tackled in 2019. Strategic choices made by us in 2019 will further strengthen XacBank in the near future.

#Tier1 Capital: Tier 1 ratio reached **11.9%** at the year-end, which is ~300 bps **improvement** from March 2019 after taking into account of RWA regulatory changes. The management team’s top priority was making the necessary strategic measures to ensure that we meet the new capital regulatory requirements, which meant improving the Bank’s capital position. In anticipation of new capital regulations, we prepared and executed a flexible capital plan with various options to better position the bank for better future.

#Credit Quality: We devoted significant amount of resources on reducing Risk-weighted assets (RWA) in retail and corporate loans, foreign currency credit exposures, managing non-performing loans and building additional credit loss reserves. In addition, we have improved on risk management discipline, credit-underwriting policy and procedures, and tightened delegation of credit approvals. Furthermore, the focus remained on improving the credit quality and reduction of NPL and OREOs. We will double down our efforts in 2020.

#NIM: The team has improved our ALM practices by optimizing our liability structure by repaying expensive USD foreign funds and reducing overall unhedged FX exposures. Optimization of ALM is continues process to improve the profitability of the Bank.

#Operating Expenses: We looked closely into our operating cost base and took number of cost saving initiatives which resulted **controllable operating expense reduction of 5%** and it was the first time **since 2015 operating expenses declined** from previous year. As a result, **cost to income ratio closed at 59.9%** compared to 83.9% last year. We are now the focusing on IT asset optimization in 2020.

#Net Income before Provisions and Taxes: net income before taxes and credit loss expenses was **MNT 44.2bn** which is a sizable improvement from MNT 13.5bn in 2018 and MNT 18.3bn in 2017. This very significant improvement in performance allowed us to book significant provisioning in order to mitigate credit risk in the future.

#Provisions: It was evident that we had to build necessary loan loss reserve for NPLs and OREOs in order to protect the Bank from future uncertainties. In 2019, we **recognized MNT 30.1bn credit loss expenses**, which includes IFRS loan loss provision, OREO provision, OREO sale loss, OREO revaluation loss and provision for other assets.

#Net Income: XacBank generated **net income of MNT 8.7bn**. Moving forward, we plan to improve ROE, driven by sustainable growth in target segments, prudent risk management, improvement in cost structure and efficient use of capital.

#Capital Regulation: We continued constructive dialogue with Central Bank on an ongoing basis to update on our capital improvements, capital plan moving forward and challenges we face. Bank of Mongolia has decided to postpone the minimum 11.5% Tier 1 capital target by 1 year (from Jan 1, 2020 to Jan 1, 2021) and minimum 12.5% target by 6 months (from Jan 1, 2021 to July 1, 2021). Changes to RWA calculation milestones remain unchanged.

#Technology: On the technology and digitalization front, we put emphasis on preparing for the launch of our new mobile banking platform and we are getting ready to migrate to new core banking system in 2020. The Bank is also going through digital transformation where we continue on improving our IT architecture and infrastructure in order to improve customer

service, connect customers closer and faster to banking products in a “Mobile First” era and optimize our delivery channels.

#People: It was a great honor to lead the team of 1,300 strong colleagues who exemplified exceptional dedication to the new strategy and without our employees, the results we have accomplished in 2019 would not be possible. I would like to extend my appreciation to all employees for their professionalism and support during tough transition period. Looking ahead, we will put greater focus on employee engagement and improving on HR policies surrounding career development, succession planning and employee compensation benefits.

#XacLeasing: the company had another successful year generating **Net income of MNT 5.2b** and **delivering ROE of 22.7%**. Credit quality remained strong as **NPLs closed at 0.7%** and risk coverage ratio of 281% including all reserves. Expense disciple remains intact, which resulted cost to income ratio of 26.3 percent.

#Tenger Insurance: the company underperformed in 2019 and closed the year **generating MNT 0.65bn in net income** and **delivering ROE of 6.8%**. Expense and loss ratio was 56.9% and 59.3%, respectively resulting **combined ratio of 116.2%**. Despite this, we feel optimistic. We are starting 2020 under new management and the initial results are very positive.

In closing, on behalf of TFG and XacBank management team, I would like to extend our deepest gratitude to the Board Chairman, Board of Directors, Shareholders and customers for continuously supporting us during challenging legal, economic and operating environment.

Looking back on my first year as CEO of XacBank and TFG, I am encouraged by the progress we made in 2019. We had a clear strategy and we knew major weak points we had to address. Organizationally, we made the structure flatter and the management team worked well together in executing the strategy since May 2019. We have a legacy of a great reputation, brand, image, good governance, transparency and diverse shareholders base, which will continue to be the foundation for our future strategy.

As we look ahead in 2020, we will not lose sight on the strategic objectives we have set in front of us and our management team will continue focusing on execution and committed in delivering on the 2020 budget and beyond. We remain fully committed in building a strong and responsive bank.

Tsevegjav (TJ) Gumenjav
Chief Executive Officer

Highlights 2019

Jan.

Completed the funding of a large scale solar plant in Sumber Soun of Mongolia's Govisumber province. The solar plant is expected to reduce greenhouse gas emissions by 12,270 tons and save 171 million liters of water annually, while at the same time providing 15,395 MWh of electricity every year.



Feb.

XacBank and Mercy Corps collaborate on "Green Pasture Restoration Project" in Khovd aimag's Chandmani soum.



Apr.

Implemented eGateway project in collaboration with FinTech companies. XacBank is collaborating also with 8 companies in total including NEG wallet, Thunes, Candy payment card, 360 Finance.

May.

XacBank ranks 13th among the TOP-100 enterprises in Mongolia.



Jun.

Candy payment cardholders can withdraw Candy as cash from XacBank's ATMs.



Jul.

IFC and FMO provide \$65 million to XacBank to expand lending to MSMEs in Mongolia.



Aug.

Successfully completed "Customer Information Update" campaign and updated over 200,000 customers' personal information.



Oct.

XacBank was the first bank to receive Settlement Agent license from the Bank of Mongolia, which marked a significant milestone in the Mongolian banking sector. Through XacBank, Fintech companies can now directly participate in the Mongolian payment system.

Organized the 3rd Annual Green Financing Forum in Mongolia, in collaboration with Mongolian Ministry of Environment and Tourism's Environment and Climate Fund. XacBank also offers green loans on energy efficient heating appliances and housing insulation retrofits.



Dec.

ADB and XacBank sign \$30 million Private Sector Loan agreement to Support MSMEs in Mongolia.

Card ordering can be issued through Mobicom branches, acting as agent banks.

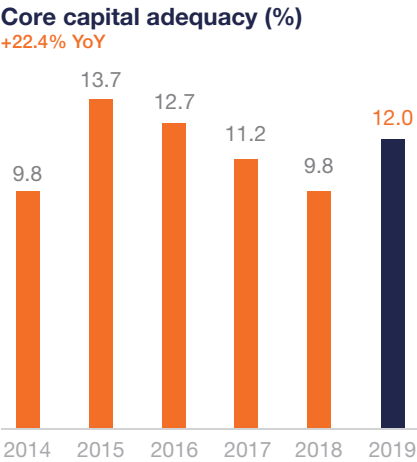
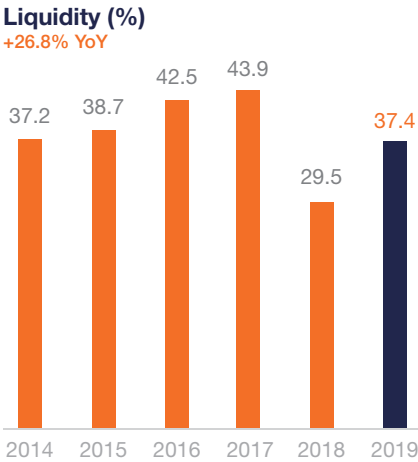
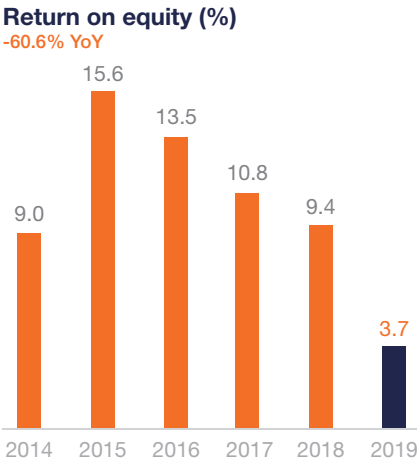
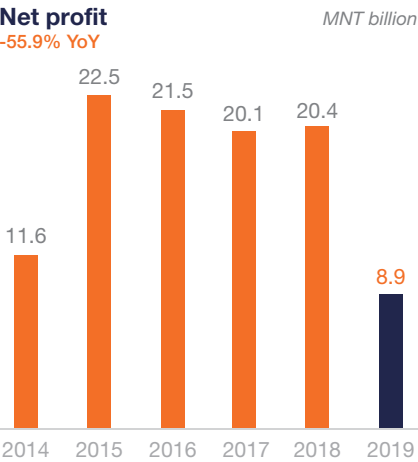
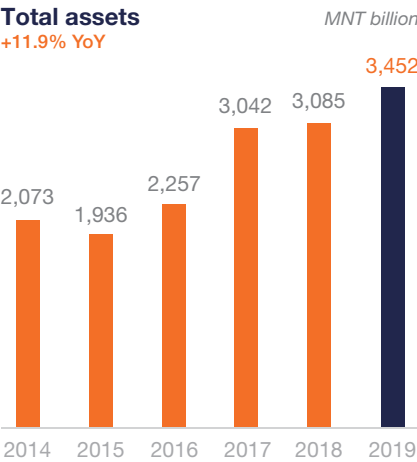
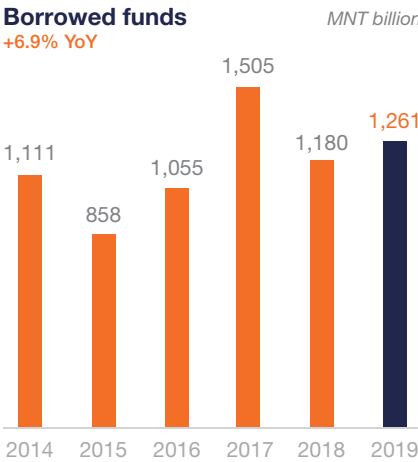
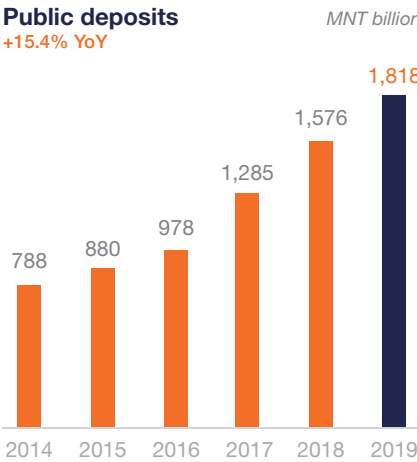
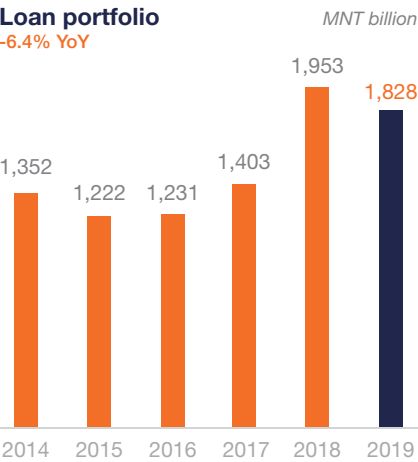
Nov.

Doubled the number of ATMs from 255 to 355, of which 140 are deposit ATMs. By freeing our customers from transaction fee, XacBank saved its customers MNT1.1 billion in transaction fee.

XacBank has the second largest network of ATMs in Mongolia.

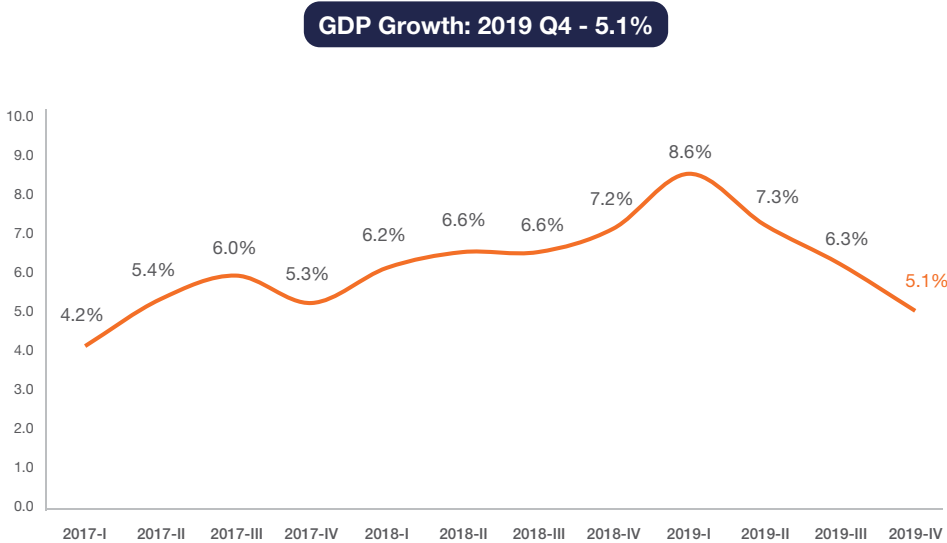


Financial Performance



Macroeconomic Environment

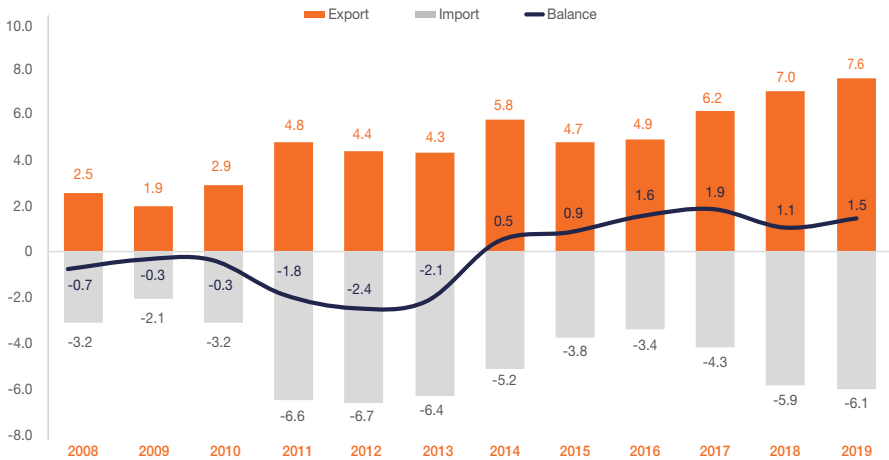
The size of the Mongolian economy as measured by its GDP reached MNT 37 trillion in 2019, growing by 5.1%, the lowest figure since Q1’2017. In terms of composition, household consumption accounted for 55.2% of GDP; government consumption 12.1%; Gross capital 35.8%; and net exports -3.15%. While initially cautiously positive (averaging 5.6% in 2020–21), the short to medium-term growth outlook has significantly worsened after the Covid-19 outbreak in China and has now been revised to 3.0-4.5%.



Unemployment rate increased by 0.4pps to 8.1% (Feb’20), as compared to yearend 2018, whereas the monthly average salary stood virtually unchanged at MNT 1.2 million (Dec’2019). Meanwhile, real household income continued to grow (8.6% y/y) as of Q3’19.

Major global uncertainties to the Mongolian economy are surrounding the impact of the recent trade deal between China and the USA, especially China’s energy imports from non-US sources. In addition, given the strong economic linkages between China and Mongolia, the economic outlook has been be adversely affected by the Covid-19 outbreak. Protracted China border closures due to virus- or weather-related shocks (e.g., drought/flooding, harsh winter) add to the existing uncertainties.

In terms of foreign trade, Mongolian foreign trade balance has been in surplus since 2014 and foreign trade surplus reached USD 1.5 billion in 2019, increased by USD 355.4 million (31.3%) from previous year. China is dominating destination for Mongolia’s exports with a share of 89.1% in 2019. In total export of goods to China, 44% was coal and 26.4% was copper concentrate. In terms of outlook, the OT management indicated that copper production contracted by 8% in 2019. The gold production also contracted by 15.2% in 2019. The contraction in copper and gold production is expected to continue in 2020, mainly due to lower grade ore. The shutdown of the concentration factory of the OT mine for maintenance reasons in September also contributed to a weaker performance. In 2021, higher grade ore and a significant increase in gold production are expected.



The current account deficit decreased to USD 1.7 billion in 2019 from USD 2.2 billion in 2018. The robust growth of exports (8.7% in 2019) and a sharp deceleration of import growth (from 45.5%, in May 2018 to 4.3% in 2019) contributed to this trend. Stronger external demand supported relatively high commodity prices (especially for coal and iron ore) through the year.

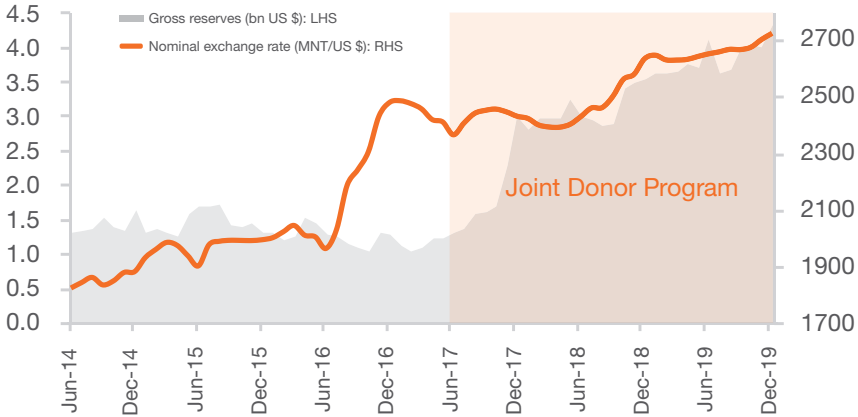
The fiscal balance improvement continued, from a deficit of 15.3% of GDP in 2016 to a surplus of 2.6% of GDP in 2018 and 1.4% in 2019. The government has avoided any budget amendments during 2019 and has kept expenditures under control. The Parliament approved an expansionary 2020 budget. The approved 2020 budget assumes that government revenue will grow by 16.6% on the back of improved tax collection and increased border traffic. In light of the recent

developments, those assumptions may turn out to be overoptimistic in terms of assumed coal exports to China (+14.7% vs 2019).

National CPI inflation has fallen sharply in recent months. Declining meat prices, decelerating credit growth, and some base effects from the previous year were the main factors for the declining inflation rate. Food inflation moderated to 8.3% (y/y) in December 2019 from 19% in September following a seasonal decline in meat prices.

The MNT depreciated by 3.4% against the USD and by 2.1% against the Chinese RMB in 2019, compared to depreciation of 9% and 3.4%, respectively, in 2018. The Bank of Mongolia is estimated to have sold USD 2.86 billion to defend the MNT in 2019, up from USD 1.5 billion for 2018.

Gross International Reserves and Exchange Rate (US\$ billion), January 2012 - December 2019



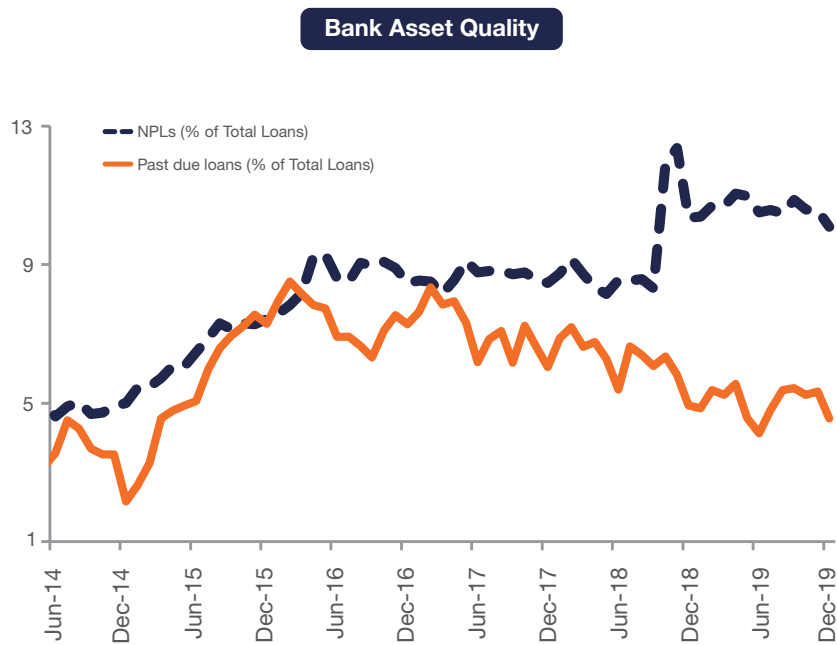
Sources: Balance-of-payments/external debt statistics (Bank of Mongolia); World Bank staff estimates.

Banking Sector

The 2019 annual increase in the total amount of corporate and retail loans outstanding was MNT 870.4 billion (+5.1%) from the same period of previous year. Out of a total outstanding of MNT 18.1 trillion, MNT 9.4 trillion (52.1%) were retail loan, MNT 8.7 trillion (47.9%) were corporate loans.

Systemically, this 5.1% increase is substantially lower than the 25.8% registered in 2018 and shows the effects of the stricter Bank of Mongolia macro-prudential measures aimed at limiting the debt-to-income ratio of individual borrowers from as high as 100 percent to 60 percent, reducing the maturity on non-mortgage household loans, and raising the risk rating on unhedged foreign currency borrowing.

The non-performing loans in the banking system make up 10.1% of total loans in December 2019, showing a decrease of 0.3 percentage points year-on-year. The persistently elevated level of NPLs raises concerns about the underlying health of the banking sector.

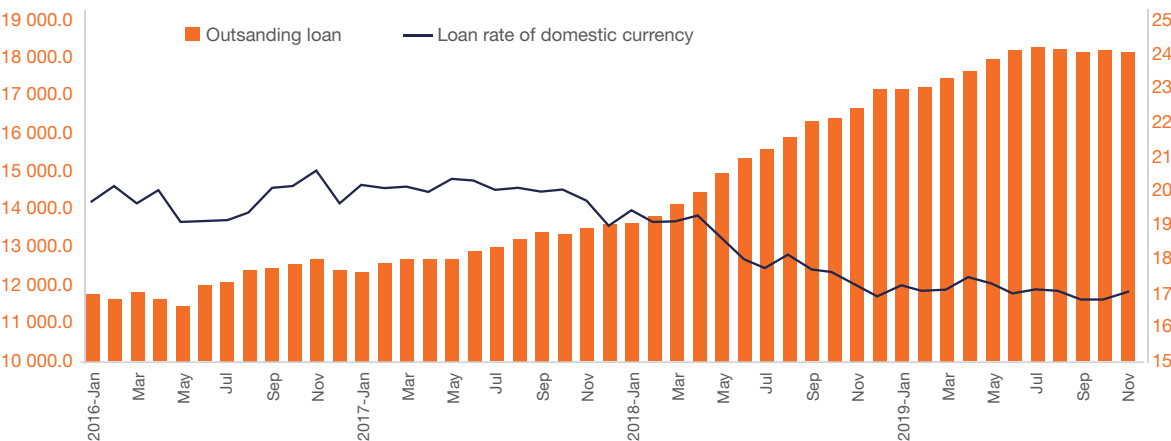


Sources: BoM; World Bank staff estimates.
Note: NPLs = nonperforming loans.

According to Bank of Mongolia, the system-wide capital adequacy ratio is currently above the minimum threshold of 12 percent. Bank reserves stood at about 27 percent of total deposits in December 2019, above the 10.5 percent reserve requirement ratio. Meanwhile, the ratio of liquid assets—including bank reserves, central bank bills, and government bonds—to total bank liabilities was 37.2 percent in December 2019, above the minimum threshold of 25 percent imposed by the central bank.

At the end of November 2019, the weighted average rate of the loan in domestic currency was 17.0%, decreased by 1.2 percentage points, and the weighted average rate of loan in foreign currency was 10.7%, an increase by 1.9 percentage points from the same period of previous the year. Domestic currency deposit rates—which were stable at around 13% on average during most of 2017—fell to 12% in 2018 and to 10.5% in 2019. The relatively slower rate of decrease in deposit rates reflects strong competition among banks for large deposits concentrated in the hands of a few depositors.

The outstanding loan in MNT billion, the weighted average rate of loan in domestic currency, percent, at the end of selected month



A recent study by Bank of Mongolia and the World Bank found that commodity prices and economic growth are the strongest contributing factors to private credit growth. Credit growth is, therefore, closely linked to macroeconomic shocks. To mitigate the negative impact of external shocks such as Covid-19 and slumping commodity prices, the authorities decided to loosen the monetary policy by reducing the policy rate by 100 basis points to 10% in March 2020. Further fiscal stimulus measures may follow. However, with the recent downward revisions of the economic outlook, an expansionary credit cycle is an unlikely scenario in 2020.

Re-strategizing

Connect customers closer and faster to banking products in a “Mobile First” era

Senior Management Team

(as of 31 December 2019)

Mr. Tsevegjav Gumenjav

Chief Executive Director
Appointed 8 May 2019

Ms. Ulambayar Enebish

Chief Operations Officer
Appointed 1 August 2014

Ms. Zul Ganzorig

Chief Human Resources Officer
Appointed 1 August 2014

Ms. Undarmaa Enkhbayar

Chief Auditor
Appointed 5 May 2016

Mr. Erdenebayar Ganzorig

Chief Financial Officer
Appointed 7 January 2013

Mr. Iliya Avramov

Chief Risk Officer
Appointed 15 October 2019

Mr. Unurbat Hurelbaatar

Chief Information Officer (interim)
Appointed 2 January 2019

Ms. Ashidmaa Dashnyam

Chief Governance Officer and Corporate Secretary
Appointed 1 August 2014

Board of Directors

(as of 31 December 2019)

CHAIRMAN

Sanjay Gupta

Re-elected as Non-Executive Director and elected as Chairman on 28 March 2019

DIRECTORS

Mr. Andrzej Witak

Elected as Non-Executive Director on 28 March 2019

Mr. Michael Madden

Re-elected as Non-Executive Director on 28 March 2019

Ms. Tselmuun Nyamtaishir

Re-elected as Non-Executive Director on 28 March 2019

Mr. Tsevegjav Gumenjav²

Appointed as Executive Director on 8 May 2019

Mr. Niraj Vedwa

Elected as Independent Non-Executive Director on 28 March 2019

Ms. Melissa Moy Tian¹

Appointed as Non-Executive Director on 19 June 2019

Mr. Ryoji Nishimura

Elected as Non-Executive Director on 29 March 2018

Mr. Yves Jacquot

Re-elected as Non-Executive Director on 29 March 2018

Mr. Ulambayar Bayansan

Re-elected as Independent Non-Executive Director on 29 March 2018











Mr. Maurice Lam³

Appointed as Independent Non-Executive Director on 27 March 2019

Shareholding Structure

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

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

20.00%	“MONGOLYN ALT” (MAK) LLC	
17.17 %	INTERNATIONAL FINANCE CORPORATION	
16.81 %	ORIX CORPORATION	
12.91 %	EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)	
10.52 %	NATIONAL BANK OF CANADA	
10.15 %	RONOC	
6.63 %	MONGOLIA OPPORTUNITIES PARTNERS	
3.73 %	TRIODOS FAIR SHARE FUND	
1.59 %	OPEN SOCIETY FORUM	
0.30 %	UB ROTARY CLUB	
0.10 %	BOLD MAGVAN	
0.09 %	GANBOLD CHULUUN	

¹Interim appointment subject to approval at the Annual General Meeting in 2020.

²Interim appointment subject to approval at the Annual General Meeting in 2020.

³Interim appointment subject to approval at the Annual General Meeting in 2020.

Retail Banking



...



355 ATM +152%



5000 POS +70%



60% of total loan disbursement were made through online platforms.

DIGITAL BANKING

Empowering customers through digital transformation 2018-2019 marked an important year in terms of XacBank's digital transformation journey as the bank enhanced its core technology and infrastructure to support the transformation. These enhancements not only strengthened the foundation for further digital transformation, but also allowed the bank to launch new products enabling our customers to access extended and hassle-free banking services.

XacBank's digital strategy continues to pursue key strategic partnerships as the bank successfully embarked on business partnerships & system integrations with 360 Finance, NEG, HiPay, Candy and Thunes (formerly TransferTo) platforms.

The bank continues to redefine the customer needs with one simple goal - to carve out simple, yet tailored products that help our customers to enjoy everyday banking services. At the core of the strategic partnerships sits XacBank's new open API architecture. This technological framework allows third-party vendors, namely fintech companies to make secure direct connection with the bank's core system, further extending banking and payments service, and ultimately enabling the discussion of brand new business model concepts that reach a broader customer segment.

Through the open API, XacBank integrated with Thunes, a real-time cross border transaction platform, to instantly process incoming transactions to all banks in Mongolia, helping the customers living abroad to get fast and affordable money transfer service.

Since 2018, XacBank continued to invest aggressively in digital channels as the bank increased its ATM fleet by 152% and POS terminals by 70%. This extended digital outreach gives our customers the opportunity to enjoy zero fee cash-in and out ATMs, access 24/7 banking services and collect rewards

for using XacBank cards at numerous locations around the country.

In addition, XacBank's partnership with 360 Finance to digitize the payments services in the underserved small business communities was a tremendous success and rolled out 4500 portable POS payment terminals around the country. Now these business owners have access to instant micro-loan at a touch of a button on their smartphones through system integration.

XacBank established a full-fledged partnership with MobiCom Corporation, the leading telecommunication operator in Mongolia, to introduce Candy co-branded debit card. Candy is the only approved and regulated digital currency by the Central bank of Mongolia, formerly the loyalty arm of MobiCom.

The Candy debit card offers 1% cashback in Candy currency to customers rewarding active usage. Combined with the Candy e-wallet app, the card offers full spectrum of payment options to the customers as the digital currency can transact freely with MNT on a 1:1 basis. On addition, the cardholder can easily withdraw Candy on XacBank's ATM network, or conveniently make purchases with the digital currency on XacBank's merchant network, both 2nd largest in the country. Through the partnership, MobiCom customers can order cards and access banking services at ease from MobiCom's extensive branch network.

XacBank introduced fully automatic deposit backed loan functionality on its digital banking platform. The service became an instant hit with the customers as it effectively removed the traditional constraint of a mandatory visit to a bank branch, and allowed access to instant loans in less than 8 seconds. As of year-end, more than 77% of the total deposit backed loan disbursement has originated from digital channels.



Altansukh Batbayar owns a mobile phone and repair shop with his wife Oyuntsetseg Amgalan. Altansukh started his business on a micro-loan from XacBank in 2012, and his family has been a loyal customer of XacBank ever since.

His business is located at the busy Dragon Center bus terminal, which was later relocated to a new building in 2015. Since the relocation, Altansukh's family business expended quickly with the support of XacBank and now owns five locations at the area. While the main payment method in the area is still cash, Altansukh requested and acquired a POS terminal from XacBank in 2019.

He now believes that it is not only easier to track sales for his business, but also getting more sales volume. Altansukh has always been grateful for our cooperation and given laudatory remarks.

"For us, XacBank has become the most reliable financial partner and this gives us drive, energy and enthusiasm for everyday business. Today, we can say this confidently."

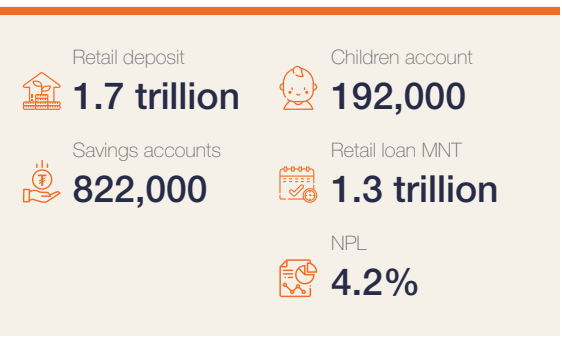
Altansukh.B
Customer of Unur branch

Retail Banking



In 2019, XacBank was the first bank to receive Settlement Agent license from the Bank of Mongolia, which marked a significant milestone in the Mongolian banking sector. Through XacBank, fintech companies can now directly participate in the Mongolian payment system, enabling payment service processing companies like HiPay to offer new and simplified online payment options to the customers.

In the upcoming years, XacBank will commit to continuing its digital transformation journey and spearheading the technological advancements in the Mongolian banking sector with one ultimate goal - introducing innovative products and services that truly caters the needs of our customers and to make everyday banking simpler and even more hassle-free.



Zorigtsaikhan.A
Customer of Narantuu branch

Zorigtsaikhan, a Zuunkharaa (Khentii province) native, moved to Ulaanbaatar in 2004 and joined Altanjoloo Group as a truck driver.

In 2012, while working as a driver, he applied for a micro-loan at XacBank and purchased a Hyundai Porter, a cabover truck that is widely used in Mongolia for short to mid distance transportation. This marked the beginning of his own transportation business.

As Zorigtsaikhan's business grew, he took additional loans to invest in a bakery shop booth at Amgalan market, the eastern outskirt of Ulaanbaatar city. Today, as a successful business owner, he credits his success on his long-term partnership with XacBank. In 2019, he bought his first personal Jeep SUV, a dream he had since he moved to the city.

Zorigtsaikhan's businesses own multiple POS terminals and he enjoys instant business micro-loans through his smartphone based on his POS sales.

RETAIL DEPOSIT

Current and savings portfolio pooled by retail customers has risen by 13% compared to the last year, reaching 1 trillion 667 billion MNT, and the number of savings accounts has increased to 822 thousand, out of which 192 thousand are owned by children. The bank has reduced the savings interest through a step-by-step method in view of conforming to the economic conditions, which resulted in the cost of fund for the fiscal year dropping 1 percent, and has become the main catalyst for the increase in financial efficiency.

The ACH (automatic clearing house), a reformed payment system project, initiated by Central Bank of Mongolia in 2019, has been successfully implemented and the license for acting as a representative for payments and calculations was granted. As a banking system, this is the first of its kind. As a positive consequence, fintech and biller companies are now able to increase their current account portfolio through payment collection services, in addition to performing payments and calculations themselves.

RETAIL LOAN

During the reporting period of 2019, despite the Central Bank of Mongolia's austerity measures manifested through new, strict requirements for consumer loans, XacBank has maintained stable levels of retail loan portfolio and reached to 1 trillion 302 billion MNT moreover; better outcomes in number of customers increased by 12 thousand. Furthermore, XacBank adhered to customer protection principles, and has issued necessary financing to customers, without subjecting them to loan burdens. This action allowed the bank to keep the bad debt level at a record-breaking figure among banks, at 4.2%.

As a result of our efforts to simplify our products for our customer's convenience and to ensure prompt and timely consumer service, we had developed online loan products (online deposit backed loan, POS 360 loan) with the help of advanced digital technology. After successfully launched online loan products, in 2019 up to 60% of total loan disbursement were made through online platforms.



Badamlyankhua Hospital
Customer of Uvs Branch

Badamlyankhua Hospital was established in 2010 at Ulaangom soum of Uvs province by doctor Ms.Badam. As the owner and director of the hospital, she has nothing but good words for XacBank and regularly recommends the bank to her patients.

The hospital is specialized in infertility and cancer treatment in women and female patients from all over the western provinces come for treatment at the hospital.

In 2013, with the support of JICA, XacBank financed a project to enhance the medical equipment to help early stage diagnosis. The fund helped the hospital to secure a state of the art Samsung Medison ACCUVIX A30 3D ultrasound, and help the hospital staff attend capacity building training programs in South Korea.

Since the JICA project, Badamlyankhua hospital helped over 50,000 patients with the following results:

- 65 diagnosed with ovarian cancer
- 229 diagnosed with cervical cancer
- 1552 diagnosed with early stage cervical cancer.

XacBank is genuinely proud to have financed a project that delivered real impact to the health of women in remote regions of Mongolia.



Customer Protection Principles

We implement the globally endorsed Client Protection Principles standards in our operations. Planet Rating, a French-based internationally accepted microfinance and social rating agency, evaluated our entire operation in 2015 and granted XacBank the Smart Campaign Certification. In 2017, our Board re-affirmed its commitment to the Client Protection Principles by approving a renewed Customer Protection Principles Policy.

1

Appropriate product design and delivery

We take adequate care to design our products and delivery channels in such a way that they do not cause customers harm. Products and delivery channels are designed with customer characteristics taken into account.

Prevention of over-indebtedness

We take adequate care in all phases of the credit process to determine that customers have the capacity to repay without becoming over-indebted. We implement and monitor internal systems that support prevention of over-indebtedness and will foster efforts to improve market level credit risk management.

2

3

Transparency

We strive to communicate clear, sufficient and timely information in a manner and language that customers can understand so that customers can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted.

Responsible pricing

Pricing, terms and conditions will be set in a way that is affordable to customers while allowing for the Bank to be sustainable. The management will strive to provide positive real returns on deposits.

4

5

Fair and respectful treatment of clients

We strive to treat our customers fairly and respectfully. We do not discriminate. The management will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by staff and agents, particularly, during the loan sales and debt collection processes.

Privacy of client data

The privacy of individual customer data will be respected in accordance with the laws and regulations. Such data will only be used for the purposes specified at the time when the information is collected, or as permitted by law, unless otherwise agreed with the customer.

6

7

Mechanisms for complaint resolution

The management will have in place timely and responsive mechanisms for complaints and problems resolution for the customers and will use these mechanisms both to resolve individual problems and to improve its products and services.

Branch network

In an increasingly digital banking industry, we are rethinking our branch network and the services it offers to deliver a different transformed branch experience. With most of conventional banking services are being moved to digital channels, downward trend in our physical branch sales continues. Yet customer interest and preference in going to the branch for face-to-face interaction and financial consultation still remains solid and we are committed to meeting such demand and expectations.

Our focus is redirected on investments to innovate our branches as channels for relationship-based banking and consultative selling. More versatile new roles of financial advisers created at branches to enhance customer service.

We continue to optimize our branch network to increase branch efficiency and profitability by merging and relocating branches. In 2019, we operated 77 branches nationwide.

ULAANBAATAR CITY	
BRANCHES	10
SUB-BRANCHES	24
EXTENSIONS	1
RURAL AREA	
BRANCHES	23
SUB-BRANCHES	17
EXTENSIONS	2
TOTAL	77

Awards

Bank of the Year
Banker magazine

Top 100 enterprises
Mongolian National Chamber of Commerce and Industry

Top Banking Entrepreneur
Mongolian National Chamber of Commerce and Industry.

Business Banking

Business Banking has team of highly experienced Relationship managers and Credit analysts for better serving our corporate clients in all economic sectors. 2019 was the year to seek sustainable growth and portfolio optimization after year of substantial increase of 39% in 2018. Our key highlights of the strategy in 2019:

Disbursed loan
215 billion

Documentary credits
4,792

CUSTOMER CENTRIC:

- Through our variety of financial instruments, our clients are able to manage their financial needs more efficiently such as our master account service which enables cash pooling at the end of day from multiple accounts for better cash management.
- We support our clients to build sustainable growth and financial stability in the long run rather than seeking short-term return.
- As part of customer protection policy, we took protective measures to prevent our clients from currency risk and converted exposure equals to MNT 65.2 billion from foreign currency.
- Being part of our clients' business through our experienced relationship managers on daily basis helps us to understand to our clients' needs and provide our tailor-made services on time.

PORTFOLIO OPTIMIZATION:

- Portfolio optimization was one of the key drivers of business banking in 2019 through increasing cross sell and increasing rate of return of the portfolio.
- Providing tailor-made financial services to our client enables cross selling full range of banking and Tenger financial group products.
- We have taken proactive risk measures to prevent our corporate clients from undesirable economic downturn as result we disbursed loan of MNT 215 billion which was half the size of 2018 volume. At the end of 2019, total corporate exposure was decreased by 15%.
- Trade finance team had generated MNT 3.2 billion of fee income while facilitating the issuance of 4,792 documentary credits for FY2019, a net increase of 43% in transactional volume compared to last year.
- The bank has adapted new tool in the credit underwriting process to calculate return of regulatory capital to analyze the new transactions.
- We have successfully facilitated MNT 43 billion in risk sharing arrangements with the cooperation of multilateral development institutions.



Asia Pharma LLC

Asia Pharma LLC is one of leading pharmaceutical companies in Mongolia and their business have been growing significantly since our relationship began in 2017. We are not only supporting their business with variety of banking financial products but also launched closed-loop credit card to their buyers' in supply chain to solve short-term financing needs.

In the past 3 years, the customer was able to increase its number of branches by 13 and reached total number of branches to 34, increased number of wholesale centers to 13, created new employment opportunities for 130 people and reached total number of employees to 415.

Asia Pharma has worked with more than 80 leading global pharmaceutical companies in over 30 countries including EU, USA, Korea, Russia, and India to import over 1800 high quality medical raw materials and over 6000 medical equipment and supplies.

Eco Banking

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

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.

2019 marked the third year of XacBank's Business Loan Program for GHG Emission Reduction, our first partnership with the Green Climate Fund. Program activities include awareness raising and facilitation of financial and energy efficiency capacity building trainings for XacBank's MSME clients, trainings for credit officers on eco loan identification and best practices, developing approved technology lists to facilitate loan identification, and Green Financing Forums for MSMEs.

2019 also marks the successful launch of the Energy Efficient Consumption Loan Program (EECLP), in partnership with the Green Climate Fund. The project activities under the EECLP include providing consumption loans to buy clean heating appliances and insulation; managing the collection and dismantling of old stoves of participating households; awareness raising and knowledge-sharing workshops about the benefits of energy efficient consumption, to convince ger area households to shift to clean heating technologies; and trainings for credit officers on energy efficient consumption loan disbursement progress and the benefits of energy efficiency at the household level.

In addition, we successfully organized the third Green Financing Forum "We Encourage Energy Efficient Heating Solutions" in 2019, which brought together 250 stakeholders from various entities, including small and medium-sized business owners that offer clean heating solutions and building insulation materials. The highlight of the third Green Financing Forum was a two day exhibition of 30 supplier companies that offer energy efficient heating appliances and building insulation material for ger area households.

Our major project and program implementation milestones include:

- 2010-2015: Implementation of the Energy Efficient Product Distribution Program, allowing nearly 80% of ger-area households to purchase one or more subsidized energy efficient products through XacBank product centers.
- 2017-2019: Continued implementation of awareness raising and capacity building activities under the Business Loan Program for GHG Emission Reduction. Trainings in 2019 reached 384 customers and 285 credit officers.
- 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: Mini-grid/Off-grid Solution for Ger Area programme was approved for Green Climate Fund Project Preparation Facility funds. In 2019, an international consultant team was hired to design a mini-grid pilot for the ger district, which will be launched in 2020.

Eco Banking

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 power plant has supplied 13,714 MWh of electricity to the grid, reducing carbon emission by 11,945 tons CO2. This solar plant provides enough renewable energy production for 20,000 households and saves 171 million liters of water annually, over a project lifetime of 25 years.

Carbon Finance

In 2019, XacBank continued to monitor the usage of energy efficiency products distributed in the Energy Efficient Product Distribution Program. This monitoring allows XacBank and its partner MicroEnergy Credits to issue carbon credits on both the voluntary carbon credit market and in the United Nations Clean Development Mechanism (CDM) certified carbon credit market. Each carbon credit represents the reduction of one tonne of carbon dioxide emissions. The credits can be sold to organizations for corporate social responsibility purposes or to countries seeking to meet carbon emissions reduction targets. Major carbon credit purchasers under XacBank’s programs include the Government of Sweden and Microsoft Corporation.

Our major carbon finance milestones include:

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

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 2019 focused on continuing disbursements under the Business Loan Program for GHG Emission Reduction, along with the launch of the Energy Efficient Consumption Loan Program (EECLP). The EECLP launched to the public in September 2019.

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
- 2012-2019: Eco business loans are introduced, allowing producers, traders, installation service providers, and end users of energy efficient and renewable energy products to receive concessional financing.
 - In 2012, XacBank receives an initial USD \$20 million sustainable financing facility from the Global Climate Partnership Fund (GCPF)

- This is followed up by the European Bank for Reconstruction and Development’s USD \$10 million facility through the Mongolian Sustainable Energy Finance Facility (MonSEFF) in 2013
- In 2017, the Green Climate Fund provides USD \$19.5 million in loan financing and USD \$500 thousand in grant funding to scale up XacBank’s program, now formally called the Business Loan Program for GHG Emission Reduction.
- Since beginning to provide eco business loans in 2013, XacBank has disbursed over MNT 111.9 billion for energy efficient and renewable energy projects and products, offsetting an estimated 1,392,560 tons equivalent of CO2 emissions compared to business-as-usual activities.
- 2014-2018: Collaboration with responsAbility begins and the Eco Car Loan Program is launched, allowing customers to gain access to better-than-market loan rates to purchase hybrid cars with reduced emissions and fuel usage. Through the end of 2018, the program has reached 1,067 customers and disbursed more than USD \$5.2 million.
- 2018: XacBank’s Green Pasture Pilot launches in partnership with Mercy Corps, aiming to reverse land degradation and improve animal health through concessional loans and capacity building to herders who agree to reduce herd sizes, as well as working with a similar project in Khovd in partnership with the Swiss Development Corporation.
- 2019: The successful launch of Energy Efficient Consumption Loan Program, which was approved with a USD \$9 million loan and USD \$1 million grant by the Green Climate Fund. The newly launched program has already achieved 1,290.08 tonnes of carbon emission reduction and has potential to reduce up to 469,574 tonnes of carbon dioxide throughout the project lifetime.

Eco Banking

Green Climate Fund

XacBank is the only 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.

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

- 2016: XacBank becomes the first private sector entity in the developing world to become an Accredited Entity of the GCF.
- 2016: XacBank's first Funding Proposal, FP 028: Business Loan Program for GHG Emission Reduction, is approved with USD \$19.5 million in loan financing and USD \$500,000 in grant funding from the GCF.
- 2017: Funds are disbursed to XacBank to begin lending under the FP 028: Business Loan Program for GHG Emission Reduction, in the GCF's first-ever full disbursement for a Funding Proposal.
- 2017: XacBank's second Funding Proposal, FP 046: Renewable Energy Program #1, is approved with USD \$8.65 million from the GCF. XacBank becomes the first commercial bank in Mongolia to finance a commercial-scale renewable energy facility.
- 2018: XacBank's third Funding Proposal, SAP004: Energy Efficient Consumption Loan Program was approved with USD \$9 million in loans and USD \$1 million in grant funds from the GCF. XacBank becomes the first private sector Accredited Entity to have a Funding Proposal approved through the Simplified Approval Process.
- 2018: The Readiness and Preparatory Support Programme – Establishing and Strengthening National Designated Authority (NDA) and National Focal Point (NFP), and Strategic Frameworks for Engagement with the Fund, including the Preparation of Country Programs – was approved by the GCF with XacBank as the delivery partner.
- 2019: XacBank's first GCF project completion: the Sumber Solar Power Plant finished construction and was connected to Mongolia's central grid in March 2019. Since the start of operation, the power plant has supplied 13,714 MWh of electricity to the grid, reducing carbon emission by 11,945 tons CO2. This solar plant provides enough renewable energy production for 20,000 households and saves 171 million liters of water annually, over a project lifetime of 25 years.
- 2019: Mini-grid/Off-grid Solution for Ger Area programme was approved for Green Climate Fund Project Preparation Facility funds to develop a mini-solar-grid pilot in the ger area. This pilot will be the first time a mini-grid heating solution is tested in Mongolia.
- 2019: The GCF Project Preparation Facility for the Mongolian Green Finance Corporation (MGFC) was successfully completed. During this project, the MGFC Establishment Team was created and a Memorandum of Understanding was drafted between the Mongolian Government and leading Mongolian banks.

XacBank is proud to be the leading financial institution of sustainable finance in Mongolia, and we plan to continue financing activities that mitigate climate change.

Tumen Amgalan Urgoo LLC | Green building

Xacbank issued a loan to Tumen Amgalan Urguu LLC for the construction of Shine Mongol Haramafuji School through its Business Loan Program for Emission Reduction for two consecutive years since 2018. The school facility is comprised of three block sections with a total area of 18,392 sq meters. In 2019, Xacbank financed the construction of Block C, which includes a development center, sports facility, libraries and cafeteria, all efficiently designed to reduce energy consumption while meeting compliance standards.

Shine Mongol Haramafuji School has 1,140 students, 65 teachers and 30 administrative personnel, and is a leading education institution recognized for its strong principles and diverse programs.

The school facility achieved 47% energy savings over standard construction methods by incorporating insulated windows, reduced glass facade, ventilation heat recycling and solar panels. The biggest energy saving factor is a 50kW capacity solar panel system installed on the roof, which produces 60MW/h and reduces heating energy demand by 30%. By achieving 47% energy savings compared to the baseline, the school sets a prime example for its students to be socially responsible and have proactive actions towards their carbon footprint. Shine Mongol Haramafuji School has successfully demonstrated how energy efficiency can be maximized through incorporating renewable energy solutions, and has set new standards for the construction of school facilities in Mongolia.



Social Responsibility

Education

XacBank organized “Aflatoun” financial education lecture in 10 high school for over 6000 children, of which 230 were disabled.

XacBank continues Peter Morrow’s Student Scholarship program the 4th year. This year 5 students received Peter Morrow’s Scholarship award.

In collaboration with Badraa Foundation NGO for the 11th year, XacBank continues to support students with their financial need and hire outstanding students of the program.

To celebrate Global Money Week, XacBank visits high schools to present lectures on financial education, how to save and benefits of having a bank account for their future needs.

XacBank received over 50 orphan children aged 6-17 for tour of the bank and financial education lecture that will help them on how to spend save and spend money and the importance of having a financial education.



Arts

In cooperation with the Arts Council of Mongolia, XacBank successfully organized the “Every Child is an Artist” arts and crafts competition on Children’s Day, between the ages of 3-14. Over 100 children participated in annual painting class and over 600 children sent their artwork. Five winners from 3 age group has been announced.



Sports

XacBank supported “BOOM 2020” football tournament for the 13th year and sponsored 40 teams of five schools.

XacBank continues to sponsor XacSteeds basketball team for 12th year, winning silver medal in national league.

XacBike team successfully participated in various international competitions.

To support archery sport in Mongolia, XacBank sponsored Mongolian Archery Association to build the first ever international standard “360” Archery field.



Environment

XacBank issues 6.9 billion worth of green loan to support effective use of energy.

Since 2017, XacBank issued 60.9 billion worth of green loan to 138 businesses, in order to reduce greenhouse gas emission, which resulted in reduction of 82,434 tons of carbon emission and saving 74,6 million kWh.

In collaboration with Global Climate Partnership Fund (GCPF), XacBank introduced a new tool to measure environment risk of business.



Corporate Governance

CORPORATE GOVERNANCE FRAMEWORK

We are committed to sound corporate governance practices which strengthen confidence in XacBank and contribute to long-term value creation for shareholders and all other stakeholders. Good governance is an important part of our identity and fundamental culture ensuring that we grow as a successful and sustainable banking business. We strive to maintain a high standard of corporate governance in line with both Mongolian legal and regulatory requirements and recommended international practices and standards. The corporate governance framework of XacBank is based on equitable treatment of all shareholders, including minority and foreign shareholders, accountability at all levels, disclosure and transparency, and responsibility before all stakeholders. Our goal has always been to achieve the next level of excellence in corporate governance in decision making. Roles of the shareholders, the board and executive management are internally regulated more comprehensively than is required by legislation.

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

During the year of 2019, the continuous focus of the board of directors and the executive management has remained on maintaining and enhancing our sound corporate governance practices.

In addition to having a continuous focus on corporate governance, the Board and the executive management carry out, on a regular annual basis, a comprehensive review and evaluation of its principles for corporate governance and the implementation of these.

This report (the “Report”) summarises the Company’s corporate governance work and compliance with applicable requirements and fulfils the Company’s reporting obligations under applicable law and other legal frameworks.

The Charter of XacBank includes a separate clause on the appointment of independent directors to ensure strict compliance with the legal requirements of the laws and regulations and avoid any misinterpretation during the nomination, election and release from office of independent directors.

SHAREHOLDERS’ MEETINGS

In 2019, the annual general meeting (“AGM”) of the Shareholders was held on 28 March 2019. The main decisions of the AGM were the approval of the annual operational and financial results and the audited financial statements for 2018, election and re-election of the board directors and approval of the board budget. The Shareholders approved the decision on non-distribution of a dividend on the 2018 results in order to finance growth and strengthen capital of the Bank.

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.

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. As part of its corporate governance structure, the Bank has established full-time dual reporting positions of a chief internal auditor and corporate secretary. The chief internal auditor serves as the director of the internal audit department with overall responsibility for the internal control and audit and reports to the Audit Committee of the Board. In line with global governance practices, the corporate secretary serves also as the chief governance officer who represents the Bank in the corporate governance related matters and ensures the implementation of the corporate governance policies and best practices.

Corporate Governance

BOARD LEADERSHIP

Board size and composition

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

performance of the management. The size and composition of the Board is reviewed from time to time to identify any need for change considering the strategic direction of the Bank.

As of 31 December 2019, the Board had 11 directors, consisting of one executive director, 6 non-executive Shareholder-nominee directors and 3 independent non-executive directors. The Chairman of the Board is not a shareholder and is not associated with any shareholder. The board directors have a broad range of experience and industry expertise.

#	Name	Position	Nomination
1	Mr.Sanjay Gupta	Chairman	Independent
2	Mr.Tsevegjav Gumenjav	Executive Director	-*
3	Ms. Tselmuun Nyamtaishir	Non-Executive Director	MAK LLC
4	Ms.Melissa Moy Tian*	Non-Executive Director	IFC
5	Mr.Andrzej Witak	Non-Executive Director	EBRD
6	Mr.Ryoji Nishimura	Non-Executive Director	ORIX
7	Mr. Yves Jacquot	Non-Executive Director	NBC
8	Mr. Michael Madden	Non-Executive Director	Ronoc Partners
9	Mr. Ulambayar Bayansan	Independent Director	Independent
10	Mr. Niraj Vedwa	Independent Director	Independent
11	Mr. Maurice Lam*	Independent Director	Independent

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

**Interim appointment by the Board decision subject to approval and election at the AGM in 2020.*

Role of the Chairman and the CEO

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.

In 2019, Mr. Ganbold Chuluun, who served as Chairman since 2004, stepped down and Mr.Sanjay Gupta was elected as the new Chairman on 28 March 2019. Mr. Sanjay Gupta has served on the Board since March 2017 as Non-Executive Director nominated by IFC. Immediately after his election as the Chairman, his mandate with IFC was terminated and his status changed to independent.

In 2019, Mr. Boldoo Magvan, who served as Chief Executive Officer since 2014, stepped down and Mr. Tsevegjav Gumenjav was elected as the new CEO in May 2019. Mr. Tsevegjav Gumenjav has been with the Bank since 2011 serving on various management positions, with the previous position being President, Retail Banking.

The Chairman 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.

The Chief Executive Officer 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.

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 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.

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

- Ms. Melissa Moy Tian – Election
- Mr. Maurice Lam – Election
- Mr. Ryoji Nishimura – Re-election
- Mr. Yves Jacquot – Re-election
- Mr. Ulambayar Bayansan – Re-election

Corporate Governance

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 2019, the Board held 4 regular quarterly meetings and 1 extraordinary meeting. All board meetings were held in Ulaanbaatar, Mongolia. Attendance at the Board meetings was as follows:

#	Date	Type	Attendance
1	27 March 2019	regular	10/10
2	28 March 2019	extraordinary	9/9
3	19 June 2019	regular	11/11
4	18 September 2019	regular	9/11
5	29 November 2019	regular	10/11

In 2019, the Board issued 46 resolutions, including 12 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.

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.

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.

Induction, training and continuing development

As part of the Bank’s governance practice and to comply as well with Article 75.8 of the Company Law of Mongolia, the directors of the Board of the Bank enroll in corporate governance training and receive a training certificate.

In 2019, the newly elected board directors enrolled in corporate governance training and received training certificates.

An induction program is provided to board directors to enable new directors to receive information and review the strategy of the Bank, its operations and its internal controls. New directors 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 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 2019, all standing committees had 4 regular meetings.

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.

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.

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.

MEMBERS²

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

MEMBERS³

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

MEMBERS⁴

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

CONFLICT OF INTEREST AND DISCLOSURE

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

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

In accordance with the disclosure procedures, all board directors and executive management members filed their Annual Disclosure Statements for 2019. 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.

BOARD SELF-EVALUATION

Continuing its good governance practice and to improve further its governance and functioning, the Board of the Bank performs an annual self-evaluation to 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 based on set criteria.

The Board of the Bank completed its self-evaluation for 2019.

ACCOUNTABILITY AND AUDIT

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

The Board is responsible also for the selection and appointment of an external auditor based on change and rotation at certain intervals. Deloitte, which replaced Ernst & Young Mongolia Audit in 2014, was re-appointed as the external auditor for 2019.

² As of 31 December 2019
³ As of 31 December 2019
⁴ As of 31 December 2019

Ratings

In 2019, the Bank’s rating agencies Moody’s Investors Service and Fitch Ratings undertook their regular review and upgraded 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, especially in light of the 2017 Asset Quality Review and the positive economic development as reflected in the upgraded sovereign rating.

LATEST UPDATES ISSUED:

- January 2018: Moody’s updated its credit opinion of sovereign rating from Caa1 to B3 stable outlook.
- December 2019: Moody’s confirmed the previous rating through annual and semi-annual credit analysis.
- October 2018: Fitch Rating updated the Bank’s Long-Term Issuer Default Ratings and the Viability Ratings outlook from B- to B.
- September 2019: Fitch Rating confirmed the previous rating.

Moody’s

Moody’s Investors Service (www.moody’s.com) a global credit rating agency, which performs international financial research and risk analysis on commercial and government entities.

Moody’s Investor Service	DEC 2019
Counterparty Risk Rating	B2/NP
Bank Deposits - Foreign currency	Caa1/NP
Bank Deposits – Domestic currency	B3/NP
Baseline Credit Assessment	B3
Issuer Rating	B3
Outlook	Stable

FitchRatings

Fitch Ratings (www.fitchratings.com) is a leading global rating agency committed to providing the world’s credit markets with independent, timely and prospective credit opinions.

Fitch Ratings	NOV 2019
Long term foreign currency Issuer Default Rating	B / Stable
Short term foreign currency Issuer Default Rating	B
Long term local currency Issuer Default Rating	B / Stable

Funders and Partners



IFC, a sister organization of the World Bank and member of the World Bank Group, is the largest global development institution focused on the private sector in emerging markets. IFC’s aim is to create opportunities for people to achieve better living standards by mobilizing financial resources for private enterprise, supporting businesses which create jobs to those who are poverty stricken - USD 361 billion in SME loans by 2018. XacBank counts IFC as its equity holder and raised its subordinated debt from IFC Capitalization Fund and funding for women owned entrepreneurs from WEDF; funds from IFC Asset Management Company amongst other long term financing.



Netherlands Development Finance Company (“FMO”) is a triple-A rated, entrepreneurial development bank that is majority owned by the Dutch government. FMO regards entrepreneurship as key to create sustainable economic growth thus improving people’s life for the better. FMO’s mandate is to provide long term capital for projects where their risk capital investments are focused in the sectors with long lasting contribution including financial institutions. In December 2019, FMO has arranged USD 100 million in syndicated debt financing to XacBank.

responsAbility

Established in 2003, ResponsAbility investments AG (“ResponsAbility”) is a leading asset manager in the world that is independent and specializes in development financing of emerging markets. ResponsAbility provides both debt and equity financing mainly to non-listed companies. ResponsAbility currently manages XacBank’s two debt funds with specific purpose of supporting businesses classed as micro or small as well as those with eco friendly footprints.



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



Swedfund is a development finance institution, established in 1979 and wholly owned by the Swedish government. Swedfund is managed by the Swedish Ministry of Enterprise and Innovation and it’s mission is to finance and develop sustainable businesses from developed private sector with decent jobs contributes to stable communities and reduced poverty in developing countries. XacBank has debt financing sourced from Swedfund in support of its micro and small borrowers is due to mature in 2021.



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. In December 2019, IBEC signed an agreement to fund XacBank for financing its export/import focused customers, as part of an USD 100 million syndicated debt facility.



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



The European Bank for Reconstruction and Development (“EBRD”) is a financial institution that is a multilateral developmental investment bank, established in 1991. EBRD only lends in countries of operations and currently active over 40 countries including Mongolia since 2006. EBRD is the first multilateral bank with a specific environmental mandate in its mandate and having already reached the goal to dedicate its 40% of financing in green investment in 2017. XacBank’s long standing relationship includes equity, debt investments and trade financing from EBRD.



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 20 funds for a range of clients and during 2019, the Bank’s relationship Symbiotics further strengthened through refinancing of their existing fund as well as addition two further funds.



Developing World Market (“DWM”) is U.S based investment manager dedicated to promoting sustainable economic development and exclusively invests in emerging markets. Established in 1994 and privately owned by its partners, DWM partners and manages wide range of funds from Netherlands, Germany to Japan with investment origination of more than USD 1.7 billion to date. In 2019 XacBank successfully concluded refinancing of its existing debts with DWM’s european fund partners.



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



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



The OPEC Fund for International Development (“OFID”) is a multilateral development finance institution established in 1976. OFID provide public, private, and trade sector financing in order to support sustainable social and economic advancement worldwide. In 2019, as part of an USD 100 million syndicated debt facility, OFID has reached an agreement with XacBank to extended trade financing to our customers.



The Global Climate Partnership Fund (“GCPF”) public-private partnership setup as closed-ended fund from German Federal government initiative. GCPF is for unlimited duration and finances projects tackling greenhouse emissions targeting SME businesses and private households through local financial institutions.



Asian Development Bank (“ADB”) a regional development bank, founded in 1966 with 68 members including Mongolia since 1991. ADB origin was in public sector lending in education, environment, infrastructure, regional cooperation and financial sector, however its private sector lending has grown substantially in the last decade and now account for around 20% of its ordinary capital resources. In 2019, XacBank completed a 5 year debt financing facility of USD 30 million from ADB for the purpose of sub-lending focused on women owned enterprises and rural businesses.

TriodosInvestment Management

Triodos Investment Management BV (“Triodos”), is a wholly owned subsidiary of Triodos Bank one of the pioneer in ethical banking promoting sustainable development of businesses with social and ecological benefits. Assets under management of EUR 4.6 billion with direct investments of over 750 worldwide. Triodos investments cover wider range of strategies from energy, financial inclusion, sustainable agriculture to impact equities and bonds. As of 2019 XacBank is both an equity and debt investee of a Triodos fund.



Incofin Investment Management (Incofin IM) advises funds that invest in microfinance institutions (MFIs) in developing countries. MFIs provide financial services, such as credits, savings and insurances, to people who cannot have recourse to regular banks. As a specialist in rural microfinancing, Incofin IM’s main goal is to reach out to people who live in more secluded rural areas and/or who are active in the agricultural sector. Incofin IM finances and supports 152 institutions in over 40 countries.



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



















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



CaixaBank, S.A is a group of financial services with a leading retail banking presence in Iberian peninsula. CaixaBank international banking (CIB) has extensive network globally and its two main pillars are offering of foreign trade and payment products as well as relationship with local financial institution. XacBank has been continuously sourcing short-term trade financing for its customers since 2017.

Correspondent Banks

	National Bank of Canada Montreal, Canada	BNDCCAMMINT
	Australian and New Zealand Banking Group Ltd Melbourne, Australia	ANZBAU3M
	Agricultural Bank of China Inner Mongolia Branch, China	ABOCCNB050
	Industrial and Commercial Bank of China Inner Mongolia Branch, China	ICBKCNBJNMA
	Bank of China Hong Kong Branch, Hong Kong	BKCHHKHH
	ING Belgium NV/SA Brussels, Belgium	BBRUBE010
	Commerzbank AG Frankfurt, Germany	COBADEFF
	HypoVereinsbank Munich, Germany	HYVEDEMM
	OCBC Singapore OCBC Centre South, Singapore	OCBCSGSG
	Raiffeisenbank JSC Moscow, Russia	RZBMRUMM
	Sberbank Moscow, Russia	SABRRUMM
	Transkapitalbank Moscow, Russia	TJSCRUMM
	The Bank of Tokyo Mitsubishi UFJ, Ltd. Tokyo, Japan	BOTKJPJT
	Sumitomo Mitsui Banking Corporation Tokyo, Japan	SMBCJPJT
	Kookmin Bank Seoul, Korea	CZNBKRSE
	KEB Hana Bank Seoul, Korea	KOEXKRSE

IT & Cyber security



XACBANK'S SYSTEM RELIABILITY, AVAILABILITY AND CYBERSECURITY

- In accordance with the BOM's "Information Technology Indicator Regulations", the bank had performed an independent IT audit based on the COBIT5 and the requirements enforced by Bank of Mongolia towards commercial banks have been fully complied with.
- Successfully migrated the database version to Oracle 12c for 5 months to ensure proper operation of card system "Tranzware" of Compass Plus and to continuously implement Visa enhancement upgrade requirements.
- Completed and submitted to VISA a SAQ in accordance with the PCIDSS v3.2.1 international standard for payment card security.
- 77 servers in the local and Ulaanbaatar branches were shut down to reduce operating costs and improve security.
- The low amount system, Interbank transactions up to 3 million MNT, was upgraded with Bank of Mongolia and a new batch transaction system (ACH) was implemented.
- 800 computers are renewed at Xacbank's headquarter and branches and the operating system of 1300 computers are upgraded from Windows 7 to Windows 10 in order to enhance the performance of employees and improve the security of the operation systems.
- Implemented into the Core Banking System the possibility of scheduling repayment of monthly loan repayments on a regular 2 days per month in accordance with the client's solvency and interests.
- 802.1x port security solution to improve the security of the branch center network and prevent threats to the banking network by connecting external users was implemented.
- Updated Core Switch devices in the core and backup centers to secure the bank's core network.
- Swift Alliance system for fast and secure international customer transactions was implemented.
- Fully implemented dedicated cyber threat detection and prevention system where we are now able to be protected against 15000 to 35000 different types of threats depending on the defense type.

Finance

Fundamentals backdrop

Domestic economic recovery continued well into first half of 2019 boosted by consumer confidence spurring growth in the banking sector aided by unchanged policy rate. However in the second half of the year growth has stagnated and average GDP growth of less than 5% is lowest since 2017. The next phase of IMF stimulus program was put on hold as a result of progress to date, deemed to be unsatisfactory therefore government approved MNT 2.1 trillion deficit-budget faced increased financing risk since more than 85% of it is open to donor support uncertainty.

In July, Bank of Mongolia introduced updated prudential requirements aligned with Basel standard which further heightened the need for commercial banks to focus on their asset quality and capital. The policy rate was kept at 11 % throughout the year. Increased macro-economic un-certainty and events such as FATF listing shaking public confidence were the factors inevitably led to pro-cyclical monetary policy of increase in foreign currency reserve requirements, which although aids FX stability, it is detrimental to banks as direct increased cost at a time when banks are looking to improve their organic capital growth.

Business foothold:

For 2019 the Bank adopted flexibility to its strategic objectives by attuning to changes in regulatory landscape and the shift in economic cyclicality whilst keeping its mission on providing the best in class customer centered service, firmly anchored.

The growth projections were revised and directions were refined by implementing targeted initiatives that concentrated on long term economic value add to the business instead of short term bottom line profit maximization.

Robust performance:

The Bank reported MNT 8.7 billion in net profit with return on equity of 3.6% for the fiscal year which are significant drops compared to 2018 performance of MNT 20.4 billion and 9.4% respectively due to exceptional provisions created to strengthen the asset quality of the Bank. However operating revenue before credit loss and income tax rose by MNT 27 billion to MNT 112 billion, essentially reflective of improved core earnings in net interest.

Net interest income increased by MNT 23 billion or 36% primarily through combination of lower interest costs from improved funding structure and higher interests earned from lending portfolio growth in the first half of the year as well as portfolio optimization into higher margin segments in the latter half. Other revenue streams contributed the remaining MNT 4 billion including fees, commissions, trading and ancillary services each exceeding its target growing as a result of higher transaction volume and from cost effective new technology digital processes.

There were exceptionally high credit loss expenses incurred during the year whereby the mitigating factors were regulatory revision of existing provisions and impact of IFRS application. Overall credit loss and provisioning expenses increased by MNT 38 billion year on year including MNT 25bn write-off. Two third of this increase is attributable to loan portfolio with the remainder relate to provisioning for repossessed assets and losses from their sales or valuations. As a result the non-performing loan weight relative to Bank’s total portfolio dropped from 5.0% to 4.6%, lowest in the past 2 years whilst risk coverage of non-performing portfolio improved from 85.5% to 89.1%, the highest ever.

In 2019, the Bank made concerted effort in reducing its operating expenditure base across all cost centers achieving overall 6% reduction. This cost discipline coupled with increase in operating revenue have significantly enhanced the cost-to-income ratio of the Bank for operating self-sufficiency from 83.9% to 59.9%.

Resilient balance sheet:

In 2019, the Bank has grown its total assets by 12% to MNT 3,453 billion, solidifying its place as the fourth systematically important bank in the market and the expansion was fueled by deposit growth and cheaper funds raised. Gross loan portfolio (GLP) had grown in the first half of the year in line with economic upturn reaching all-time-high of MNT 2,075 in May however contracted year on year by 6% to MNT 1,828 billion. In terms of business line, the GLP splits as approximately 70% of retail and 30% of business while product lines with combined value of MNT 34 billion including mortgage, deposit backed, women and green lending portfolios have actually increased contrary to GLP reduction.

Public deposits including accrued interest have increased by 15% to MNT 1,830 billion, underlying the depositors’ confidence on XacBank with majority of the growth being on term deposits. Project and local funds are down by MNT 51 billion due to decrease in state programs and interbank accounts.

Foreign funds account for 29% of total liabilities and include senior and subordinated debts sourced from international financial institutions and banks. During the year, the Bank has concluded on 6 deals with combined value of USD 244 million in senior debt under cost effective terms such as low interest rate in line with basis trend and for the purpose of refinancing high costs debt and enhancing liquidity. Three of the deals totaled to USD 195 million in syndicated facility agreements, one of which was agreed for USD 100 million and remained as the only undrawn commitment at period end.

Strong capital and sound liquidity:

The Bank is in compliance with the new prudential requirements without exception. During the year, core capital adequacy ratio has improved by 2.0% to 11.9%, total capital ratio increased by 0.1% to 15.8% in spite of partial repayment of subordinated debt. Capital improvements were achieved through portfolio optimization and de-risking.

In light of market volatility settling further, the Bank maintained its funding base diversification and continued optimizing for cost efficiency achieving liquidity ratio of 37.4% improvement of 7.8% and well above regulatory requirement of 25%.

Risk management

Risk Management

The Bank has maintained a conservative and consistent approach to risk throughout its history, helping protect customers’ funds, lending responsibly and supporting economies. By carefully aligning the Bank’s risk appetite to the Bank’s business strategy, Risk Management aims to deliver sustainable long-term shareholder returns.

The Bank has a strong risk culture, which is embedded through clear and consistent communication and appropriate training for all employees.

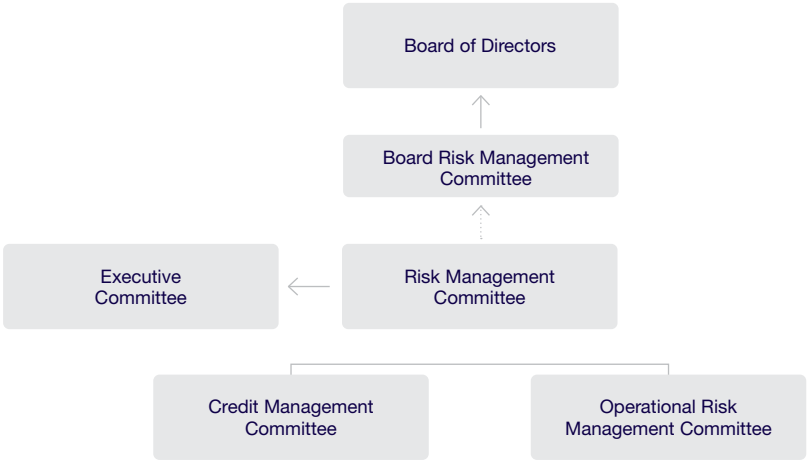
Risk Management Approach

The Bank’s Risk Management Framework defines the Three Lines of Defense approach to prescribe roles and responsibilities for risk management and control.

- The First Line of Defense owns and manages risk. It has ownership of risk, and responsibility and accountability for directly assessing, controlling and mitigating risk within its sight of control;
- The Second Line of Defense oversees risk. It sets the risk management framework, policies and procedures, challenges risk limits and sets risk appetite, and monitors risk exposure. As such, the Second Line of Defense monitors the design and operation of the First Line of Defense’s controls, as well as provides advice and guidance on an ongoing basis; and
- The Third Line of Defense 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.

The Bank’s risk management function is to prudently manage and advance the Bank’s risk and control framework and to establish the risk function as a business enabler while simultaneously fostering the Three Lines of Defense.

Risk Committees



Risk Governance

The ultimate responsibility for setting the Bank’s risk appetite and effectively managing risks rests with the Board. Acting under the authority delegated by the Bank’s Board, the Board Risk Management Committee is responsible for undertaking risk oversight and review, challenging the Bank’s overall risk appetite, and making recommendations thereon to the Board of Directors. Its responsibilities also include reviewing the appropriateness and effectiveness of the Bank’s risk management approach and risk controlling, including the approval of material credit exposures.

The Board Risk Management Committee approves the Bank’s Risk Management Framework, receives regular reports on risk management, the risk profile, portfolio developments, stress testing and scenario analysis, and receives specific risk analyses on the Bank’s business plan and environment.

Executive responsibility for the risk management is delegated to the Bank’s Risk Management Committee and the Bank’s Chief Risk Officer. The Bank’s committee governance structure ensures that risk-taking authority and risk management policies cascade down from the Board to the appropriate functional management committees.

Compliance and Financial Crime

As a result of advancing the Bank’s Compliance Framework during the previous years and supporting its group companies within the Tenger Financial Group, the Bank has been weaving global standards and requirements into the fabric of the Bank and the Group.

The investments that the Bank has made towards refining its capabilities in managing financial fraud and compliance risks have considerably strengthened the Bank’s ability to protect the integrity of the financial system.

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

For the last two years, the Bank has successfully completed the introduction of major compliance IT systems and placed regulatory compliant Anti-Money Laundering / Counter Terrorist Financing and sanction policy frameworks. Furthermore, the Bank has assessed its current financial fraud risk management capabilities to thoroughly identify and remedy any gaps and to enable a smooth integration into the Bank’s day-to-day operations.

Machine Learning based models and approaches have been deployed to further advance identification, reporting and control processes. This allows the Bank to draw compliance resources to high risk and critical products and clients, which enhances both efficiency and effectiveness of the Bank’s financial crime risk and compliance management.

Credit Risk Management

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.

Risk Management drove various initiatives to advance the Bank’s ability to identify and to measure credit risk. These included refined credit scoring, collection models and Machine Learning based Early Warning signals.

Market and Liquidity Risk Management

The Bank has managed the market and liquidity risk well within the risk appetite in 2019.

Local currency depreciated against the USD by 3.4% throughout 2019 due to deteriorating terms of trade and strengthening dollar in external market. During this period, the Bank mainly held the daily FX net open positions at stable daily average VaR.

The high liquidity position of the Bank remains unchanged in 2019 due to the Bank’s strong deposit bases. The public deposits growth hovered driven by the stable time deposits amid a decreasing deposit rate.

Operational Risk Management

The Bank’s operational risk management framework governed by Three Lines of Defense principle has been carried out successfully throughout 2019 ensuring the First Line of Defense to take full accountability of its assigned processes and manage its operational risks effectively under review and challenge by the Second Line of Defense. In 2019, annual bank wide operational risk self-assessment has been conducted under oversight of Operational Risk Team ensuring that the Bank’s material risks are identified, assessed and remediated by respective owners. Operational Risk Team has effectively processed reports on operational risk incidents and risk appetite statements reporting outcome to Operational Risk Committee in timely manner.

To foster risk culture and risk awareness in the bank, on-going and ad hoc trainings have been provided throughout the bank. In 2019, for the first time, a bank wide training session was conducted using e-learning format which addressed general knowledge of Operational Risk, Security and Compliance.

Human resources

PEOPLE MANAGEMENT

Our human resources policy aims to provide our employees a diverse professional culture, safe and inclusive workplace, competitive remuneration and fair employment practice and opportunities for training and development. We are committed improving our people’s quality of life and work life balance through various welfare programs.

As of the end of 2019, our team is made of 1.195 (1270 in 2018 and 1.304 in 2017) full time employees. The average age of staff is 32.8 years and the average length of service in the organization is 6.8 years. As required by labor law, 214 employees retained on a maternity leave throughout 2019, 86 returned to work.



Employee statistics:

Total number of employees	1409
Number of FTE	1195
Number of long term maternity leave	214
Number of HQ employees	397
Number of UB branch employees	412
Number of Rural branch employees	386
Number of SMT and MMT	8+124
Number of male staff	471
Number of female staff	724
Number of disabilities	8
Number of trained employees	1567
Total training person/hours	26,840
Investment in training	407,600,000
Number of new hires	126
Number of job applications	748
Average age of staff	32.8
Average length of service	6.8

Highlights

In 2019, the bank focused on further strengthening the capabilities of our staff to provide high level of quality service and solutions to our valued customers.

International best practices and standardized trainings were provided to the front and middle line employees who related to credit operations of the bank. Particularly, how to evaluate mineral and mining project economic evaluations, credit risk management and non-performing loans structure.

Diversifications of middle level managers and critical positions have been of utmost importance, and we focused on strengthening our young talents trough succession programs.

Optimal organizational structure

Due to increase of positive effect of digital banking service and automation, the Bank has planned to improve employee productivity, optimize daily operation and decrease total administrative cost, and provided re-structuring on its head office and branch level as well.

As a result, some units, functions and positions were re-organized and total headcount reduced by 6%. We are strongly believe, that this kind of arrangements will help us to reach targeted increase of total productivity and cost efficiency process.

Compensation and benefits

In January 2018, base salaries was increased by 10 percent in average, through the new job grading system as well as revised salary ranges that was re-designed last year, and in 2019 some of the position grades were revised continuously.

Highly skilled individuals who work in high rated job positions can earn equally to supervisors and middle managers in real.

Human resources



EMPLOYEE BENEFITS AND WELL-BEING

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

The bank provides additional health and accident insurances to support employees’ social issues and health security, and organizes employee health related events such as meetings with doctors and nutritionists in propose of preventing and providing scientifically proven knowledge.

The bank also provides discounts on banking products and services such as mortgage financing, consumer loans and credit cards, and revised products and services policy and procedures in 2019.

The Phantom Stock Plan policy was revised with the purposed of aiming to maintain key managers and officers and providing incentives for the attainment of longer-term goals, enhancement of profitability and value creation.

XacBank is also value employee’s work-life balance and organize employee well-being programs that meet employee social needs. In 2019, XacLeague basketball game, Sport hiking, and XacCup friendly sport competition with six types of sport activities were organized under employee well-being program and more than 2000 employees actively participated in the events.

TRAINING AND DEVELOPMENT

Organizations growth is linked to continuous employee training and development programs. Therefore, bank offered variety of programs and initiatives in 2019 mainly focused on international standard training programs, international certification programs, middle level managers and high potential employees training programs as well as all layers of branch staff training. In 2019, 26.840 total person/hours of training was organized (47.324 in 2018 and 53.178 in 2017).

RETAIL BANKING TRAINING:

Strengthening branch staff who related to credit operations of the bank was a top priority in 2019. Cumulatively, 5.620 person/hours of training was provided to more than 260 branch staff.

Including:

- Total 1.940 person/hours of trainings were organized to all branch credit officers and deputy directors focusing on SME growth and financing, credit analysis on business loans, and how to work on non-performing loans.
- Restructuring non-performing loan and controlling loan payment training delivered four times in total 232 person/ hour aiming to predict credit risk. Also knowing the costumers better and dealing with non-performing loans and handling those loans properly trainings were delivered to all branch staff in total of 568 person/hours.
- Trainings and knowledge sharing sessions were delivered to all related staff providing them all the changes in Mongolian banking law and regulations under “Responsible consumer -Responsible bank” campaign held by Bank of Mongolia.

COMPLIANCE, SECURITY AND RISK MANAGEMENT TRAINING:

- Economic appraisals of mining and mineral projects training was organized by German – Mongolian Cooperation Project.
- Credit risk management and structuring non-performing loans training and knowledge sharing session were delivered by Andrzej Witak the board member of TenGer Financial Group.
- To strengthen employees’ cyber security knowledge and practice, online trainings and examinations conducted to all levels of staff and all staff passed the examinations. The staff participation rated at 92%.
- The bank continued offering online compliance course that was launched in 2016 with 47 employees completing in 2019.

MANAGEMENT AND LEADERSHIP TRAINING:

- In 2019, two women managers have participated in Leadership and Diversity for Innovation Program organized by Women’s world banking. XacBank has been actively participating in this Women’s world banking program since 2008, and the program trained more than 1.000 women leaders of financial institutions in more than 80 countries all over the world. The 8-10month training program includes ongoing virtual learning and a week-long in person session to build executive leadership capabilities, knowledge sharing and best practices, and creating the opportunities learn from each other.
- Eight month-long Succession program training for branch managers with internal developed contents in six modules with 215 person/hour trainings were organized successfully with eleven successors. Three of the successors have already promoted and appointed as branch managers.
- Two middle level manager have participated in Leadership and high performing training organized by Luxembourg banking association.

INFORMATION TECHNOLOGY TRAINING:

Cumulatively, 2.320 person/hour of training was delivered to more than 110 IT staff. The bank encourages and supports IT staff to participate variety of international trainings and certification programs.

Some of the specific trainings:

- Our Cyber security officer participated in Young Fellowship program organized by 48th Asia Pacific Network Internet Committee and enhanced IPv6 addressing, RPKI technology, cyber and system security knowledge and experience.
- Eight staff attended COBIT 5 (Control Objective for Information and Related Technologies) Foundation and COBIT 5 Implementation international programs and all of them received COBIT 5 international certificates.
- Two staff participated in Red Hat System Administrator training;
- Nine IT staff attended in Oracle Database 12c Program with PL/ SQL and Oracle 12C Administration training.

Online training on COBIT 5 (Control Objective for Information and Related Technologies) conducted by ICT training center and five IT staff received COBIT 5 international certificates.

Four staff attended Administering System Center Configuration Manager and Intune training locally, and another four staff attended MCTS Windows 10 training obtained from Empasoft Training center.

Two managers attended Dell Technologies World 2018 Conference in Las Vegas, USA.

More than 10 staff attended advanced information security training and 26 staff attended QA and QTP/UFT training for 1.534 person/hours.

PROFESSIONAL PMO

In July 2017, Project Management Office was established under Information Technology and Digital banking team with a mission aiming at creating and adapting processes complying with international project management standards and methodologies within the bank. Under this purpose, “Project management policy” and “Project change management policy” based on PMBOK standard have been introduced in 2018.

As the famous Mongolian saying quotes “Mature yourself first, your home then your country”, our team has set a goal to be a 100% PMP® certified PMO in 2018 which has been fully achieved. This in turn happens to be the first instance of a fully certified PMO operating in Mongolia.

In addition, we are working diligently with internationally recognized Project Management Institute (PMI) Mongolia branch - “PMI Mongolia Chapter” NGO, head of PMO P.Batmunkh attended the “Shifting towards future excellence” international Summit held in Ulaanbaatar, 2018 as an honored guest speaker, moreover, spoke about project management awareness on FM 98.9 podcast in 2019.

In addition, PMO has successfully implemented eGateway and Merchant Loan projects using Agile-Scrum project management practice that harmonically suits with IT projects. In 2019, we have set a goal to learn more and implement Agile Project Management tools and to get certified at least two members of PMO by PMI-Agile Certified Practitioner.



Human resources

STAFF SATISFACTION

We run employee satisfaction survey annually throughout the Group in order to identify areas for further improvement to be the choice of employee.

We have been using internationally well-known Gallup's Q12 employee engagement questionnaire since 2016, and in 2019 the bank has co-operated with independent research company by consuming Qualtrics platform.

DIVERSITY AT XACBANK



This year, XacBank is hosting three foreign employees: Eric, MacKensey, and Felix. Eric and MacKensey are working with XacBank through the Princeton in Asia fellowship program. Princeton in Asia has partnered with XacBank for more than 10 years to cultivate knowledge sharing and cross-cultural exchange. Princeton in Asia places fellows in institutions that best match their skills and interests, providing a mutually beneficial experience for both the host organization and the fellows.

Felix joined XacBank to complete an internship as part of his Master's studies. He chose XacBank because of its commitment to social responsibility and development climate finance, both excellent complements to his education. Eric and Felix both work as Project Development Officers in Eco Banking team, responsible for collaborating with local and international stakeholders to implement climate finance projects.

MacKensey works as an Officer in Product Development Team, researching and developing financial instruments to further the banking sector in Mongolia.

Experiences with the Eco Banking and Product Development Teams have proven beneficial for all of our foreign employees and the bank as a whole. In Eco Banking Team, Eric and Felix have been able to implement climate finance initiatives that enable Mongolian citizens to adopt sustainable practices. This behavior helps to reduce air pollution, greenhouse gas emissions, and climate change.

EMPLOYEE ENGAGEMENT

Employee engagement is one of the top priorities at XacBank as well as in our Group. Annual town hall meeting, annual management meeting, employee internal intranet, online session, annual senior management visits to all Ulaanbaatar and rural branches, retreats and company conferences are our communication channels that we communicate on matters of group-wide importance such as strategic priorities, goals and performance, as well as organizational changes and new policies and directions.

Working in Product Development department, MacKensey has been immersed in Mongolian banking sector, learning about the strengths and weaknesses of the industry. She has been able to provide insights on international banking standards, blending best practices to inform the development of new, innovative financial products offered by XacBank.

Eric is from California, USA, and studied at Georgetown University. Before coming to Mongolia, he worked at a financial technology company in San Francisco and taught English in Taiwan. Eric has had a great time in Mongolia so far, and enjoys hiking and exploring in the countryside. MacKensey is originally from Arizona, USA. Before joining XacBank, she was finishing up her Bachelor's degree at Princeton University where she studied Economics. She loves exploring Mongolia and learning the local language and culture.

Felix, 26, was born and raised in Frankfurt, Germany. Prior to working at XacBank, he spent five years studying in the Netherlands, first receiving a Bachelor's degree in European studies at the University of Maastricht and beginning a Master's programme in International Development at Wageningen University with a focus on politics and governance of development. He is returning to Mongolia after seven years, then interning for the German Konrad-Adenauer-Foundation in Ulaanbaatar in 2013 and 2014. He chose Mongolia due to his deep passion and fascination of the country's people, society and culture.

The internship in the Eco Banking department of XacBank and the involvement in three GCF-projects enable him to gain experience in project development and to gain profound knowledge about climate banking of companies.

All three have greatly enjoyed working at XacBank. The intersection between innovative banking services, engaging project work, and the warm hospitality of our coworkers has made this an unforgettable experience.



EMPLOYEE'S PROFESSIONAL GROWTH IS OUR DEVELOPMENT

Every successful work comes with effort
DAVAAKHUU Byambasuren
Branch Management Department,
Regional manager

It has been already 13 years since I started working for Xacbank. In 2006, after I graduated from National University Mongolia, I decided to work in countryside. This decision would not been made without my parents who lived in Ulaanbaatar city, aunts who allowed me to stay at their place and friends who strongly convinced me to come back to a place where I was born. At the time Xacbank job announcement took my interest more than the initial job as a teacher that I was going to take in Zavkhan province. The fact that my parents were Xacbank clients was the major reason why I was so much interested in it. Xacbank loan service has brought a huge contribution for me and for my siblings' education. Even my family members used to receive their student money through Xacbank only. Back then, we did not know any other banks beside Xacbank, and the people who worked there have secretly inspired me to work for Xacbank. Therefore, I decided to fill up the application form and take the interview. Perhaps one of the reasons why Xacbank hired me as a Rural loan officer was because I had experience and knew rural life more than anyone else.

Our bank was the only bank that used to go from the aimag (province) center to the soums in order to disburse loan and collect repayment. At the time, I was an essential part of the team. In addition, we supported the Credit and savings unions by providing franchising service and many other fundamental works that we worked together. All of those things have enabled me to work harder, stable and with purpose towards my career.

I was a rural loan officer, franchise manager, customer specialist and business sales manager in a rural branch. In 2010, I had an opportunity to start my career as a branch manager, which requires diverse skills and responsibility. It was a challenging time for me. I was able to go through the challenges with the help of other branch managers, and support from colleagues and directors.

Most importantly, we were able to reach our goal and work effectively with clients' partnership. Until 2018, I worked both in rural and Ulaanbaatar branches as a branch manager, trying not to lose trust of my colleagues. In the meantime, my wife was the one who always took care of everything and let me to concentrate for my work only. Working in headquarter of Xacbank was another chance for me to develop my skills and challenge myself for something new.

Not long after I started working, I received a disciplinary punishment from the head office because of not knowing the bank policy and procedure completely. Being warned is not rewarding when you did not have anything accomplished as a staff. I just wanted to leave everything and wanted to go home. However, I decided to continue working and pushed myself even harder. My colleagues who always show support, clients who trust us, and the companies all had entirely become an essential part of me. A year later, I received "The best franchise manager" award with the CEO and president signature on it and I proved to myself that it was the right decision to stay with the company. In 2018, I became the "The best employee of the year" which reminds me to work harder. I learned that there is no work done by single person, but done by group of people within the bank.

It is a great honor for me to work with Xacbank team under the same roof. We did a lot in the past but there are even more to do in the future. We have a promise to fulfill in front of our thousands of clients not to step back.



SUPPORTING NEW TALENTS IS A PART OF OUR CORPORATE CULTURE

Challenge comes with opportunities
KHUNSHAGAI Batbold
River Street Branch,
Branch manager

Hello, my name is Khunshagai. I graduated from Business School of National University of Mongolia majoring in banking and management. I have been working in bank sector since 2012 and joined XacBank in Sep 2016.

In my viewpoint, constant success of person and organization's main key indicators are the first, "Accept change positively", the second, "Leave your comfort zone", Try something you cannot lastly, the third "Meet with successful people to have an attitude to pull together".

Starting to work as a senior credit risk analyst at XacBank was a big shift and opportunity for me. In the first 3 months, it was difficult to get accustomed to new organization, new colleague and different culture because I had worked in only one company before joining to XacBank for four years.

The very first shock was a feeling the same as starting to work right after graduating my university. It feels like to become a new employee again, such as no one knows me. However, my new colleague was very polite and I got accustomed quickly.

In 2017, I worked as a member of Asset quality project team of XacBank. In the end of 2017, Xacbank was evaluated as the bank with minimum risk compared to other commercial banks, when assessment of asset quality review was finished. So I understood that prosperity written in mission of XacBank, was too important and I am proud of XacBank for its employee.

In Dec of 2017, I started to work as a branch manager and that was big chance to develop my knowledge and skill. In fact when

I was a staff, I used to think that the role of manager or director is easy (just revising and teaching to his or her staff) but my thought was very wrong. Manager job is the toughest one that requires high ethic and leadership skills as well as communication skills. Not just telling don't be late to others, but push yourself not be to late, other than let yourself do your best sales, not only work but cheerfulness, to say inspiration words for your employee, I understood that it's a right key to being a successful branch manager.

In my opinion, our customer evaluate us as service quality and communication skills of branch staff. For 2018, my colleague worked hardly because our management team believed us. Therefore, our both performances of loan portfolio and deposit were increased by 375.6% and 254.2%. Then our colleague was awarded as the best branch of XacBank.

But we told each other that this award is just beginning. We don't want to satisfy our success. We can thrive like a champagne but we don't want to disappear suddenly. In 2019, we worked hardly in order to solve our customers' problems and fulfill customers' needs and demands. As a consequence, our colleague was re-awarded as the best branch of XacBank in 2019.

It is the best feeling to provide value added financial solutions embracing the highest standards of triple bottom line: People, Planet, and Prosperity. For instance, Eco business loan for GHG emission reduction, Business loan for women as well as future millionaire savings/children savings/.

In the conclusion, I have been learning a lot of knowledge and skill as well as growing professionally since joined XacBank. I highly appreciate our colleague of River street branch (Personal banker Solongo.L, Munkh-Orchlon.B, Oyuntulga.P, Zolboo.E, Oyun-Ukhaan.E, Accountant Delger.V, Altantsetseg.G, Customer service officer Munkhtuul.T, Amarjargal.T, Bolor-Erdene.Ch), management team and all employees and customers of XacBank.

Internal Audit



Internal Audit Division (IAD) functions in accordance with leading international practice by providing independent and objective assurance as the third line of defense in the Group's internal control framework. IAD has been implementing risk-based approach where audit plan is determined based-on assessment of current and emerging risks covering each aspect of XacBank's business operations.

IAD is continuously improving its audit methodology. In order to expand our capacities, IAD has extensively invested in data automation to implement continuous and remote audit methodologies within previous years. These innovations has led to efficient use of resources, enhancing corrective and preventive audit efforts in managing risks. IAD performs remote monitoring to detect any non-compliance or fraudulent transactions through data analysis. From 2019 IAD had started to submit automatic push reports to branches containing errors and information related to branch operations on monthly basis to further strengthen internal control of branches.

In 2019, IAD covered audits including 8 branches of 2 HUBs, 18 rural branches with objective to provide an overall assessment of branch performance. In order to be aware and respond efficiently to possible emerging risks, IAD performed 1 topic audit which was application control in product and services. Within the scope of risk-based audit plan, 3 process audits were performed. Furthermore, IT audit has been conducted in major risk areas such as change management, continuity management, IT risk and monitoring. IT audit plan and capacity aligns with organizational strategy and requirements set out by Bank of Mongolia.

Augmenting traditional assurance services, Internal Audit ensures to provide recommendations on its findings which increase value of bank activities. Corrective actions include recommendations to improve governance, risk management and control processes which contribute to achievement of business objectives. Audit recommendations follow ups are monitored monthly.

IAD has been practicing quality assurance and improvement program for 4 consecutive years. The program covers all aspects of internal audit activity to establish conformance with mandatory guidance of Institute of Internal Auditors. Audit quality assessments are conducted post each engagement and IAD activity self-assessments are performed annually. The program ensures quality of audit engagements and overall performance of IAD activity.

Furthermore, auditors are actively encouraged to pursue certification of certified international auditor. The effort has resulted in CIA and CISA certified auditors. In addition, auditors have regularly enrolled in internal and overseas trainings to gain and improve necessary skills and knowledge to fulfil audit plan requirements.

