Table of Contents

2017 at a glance 4
Financial Performance 6
Shareholding Structure 8
Board of Directors 9
Message from the Chairman 10

PEOPLE
CEO Statement 14
Senior Management Team 17

RETAIL BANKING 18
2017 Highlights 19
Retail Banking Segment 20
Branch Network 21
Retail Banking Products 22
Customer Protection Principles 24

BUSINESS BANKING 25
Business Banking Segment 26
Corporate Client: Suu JSC 27
SME Client: Ochirdaginas 28
SME Client: Yoson Od 29
SME Client: Monfoodland 30
Funders and Partners 30

HUMAN RESOURCES 32
Our Employees 33
Human Resources Policy 34
Diversity at XacBank: Greg Zegas 35
Training and Development 36
Employee Story: Baatarbold Jukov 38
Employee Story: Bulgamaa Adilbish 39

CORPORATE SOCIAL RESPONSIBILITY 41
Kathmandu Pledge 42
Initiatives through X.A.C NGO 44
Aflatoun Stories 45
2017 Highlights 46
Stakeholder Engagement 50

PLANET
Environmental Responsibility 54
Eco Banking 55
Eco Client: Nakhia Impex 57
Eco Business Story 59

PROSPERITY
Operating Environment 62
Banking Sector 64
2017 Financial Results 66
Risk Management 68
Information Technology 72
Internal Audit 74
Ratings 75

CORPORATE GOVERNANCE 81

AWARDS AND RECOGNITIONS 86

INDEPENDENT AUDITOR'S REPORT 88
2017 at a glance

In 2017, XacBank has supported SME business owners and entities to produce, supply and install renewable energy and energy efficient products and technologies after receiving USD 20 million financing from Green Climate Fund.

XacBank received USD 169 million financing from IFC and OPIC to support women-owned businesses in Mongolia.

XacBank organized the first Annual Green Financing Forum in Mongolia “Turning Opportunities into Reality” in collaboration with Green Climate Fund, Ministry of Environment and Tourism and Environment and Climate Fund of Mongolia.

The annual interest rate on the business loans was lowered by 4.2% only for women entrepreneurs in order to support the business and livelihood of women.

“Supporting the Credit Guarantee System for Economic Diversification and Employment Project” was signed with the Asian Development Bank to help small and medium enterprises who wish to increase working capital or to purchase fixed assets, but lack the necessary collateral to obtain the bank loans.

Fitch Ratings Agency revised from Stable to Positive the outlook on XacBank’s Long-Term Issuer Default Rating (IDR) and Moody’s Investor Service upgraded Xacbank’s issuer rating from Caa1 to B3 with a stable outlook.

A USD 40 million syndicated loan was received from EBRD to support micro, small and medium sized enterprises.

May

June

September

October

November

December

In May, XacBank became the first Mongolian commercial bank to finance a renewable energy project - the construction of a Solar Power Plant in Govisumber Province.

In June, XacBank organized the first Annual Green Financing Forum in Mongolia “Turning Opportunities into Reality” in collaboration with Green Climate Fund, Ministry of Environment and Tourism and Environment and Climate Fund of Mongolia.

In September, XacBank received USD 169 million financing from IFC and OPIC to support women-owned businesses in Mongolia.

In October, “Supporting the Credit Guarantee System for Economic Diversification and Employment Project” was signed with the Asian Development Bank to help small and medium enterprises who wish to increase working capital or to purchase fixed assets, but lack the necessary collateral to obtain the bank loans.

In November, Fitch Ratings Agency revised from Stable to Positive the outlook on XacBank’s Long-Term Issuer Default Rating (IDR) and Moody’s Investor Service upgraded Xacbank’s issuer rating from Caa1 to B3 with a stable outlook.

In December, A USD 40 million syndicated loan was received from EBRD to support micro, small and medium sized enterprises.
Financial Performance

Loan portfolio +14.0% YoY

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>MNT billion</td>
<td>1,042</td>
<td>1,352</td>
<td>1,222</td>
<td>1,231</td>
<td>1,403</td>
</tr>
</tbody>
</table>

Public deposits +31.3% YoY

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>MNT billion</td>
<td>635</td>
<td>788</td>
<td>880</td>
<td>978</td>
<td>1,285</td>
</tr>
</tbody>
</table>

Net profit -6.3% YoY

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>MNT billion</td>
<td>24.4</td>
<td>11.6</td>
<td>21.5</td>
<td>20.1</td>
<td>22.4</td>
</tr>
</tbody>
</table>

Return on equity (%) 10.8%

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>1,055</td>
<td>858</td>
<td>1,111</td>
<td>1,017</td>
<td>1,505</td>
</tr>
</tbody>
</table>

Public deposits +31.3% YoY

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>MNT billion</td>
<td>1,811</td>
<td>2,073</td>
<td>1,936</td>
<td>2,257</td>
<td>3,042</td>
</tr>
</tbody>
</table>

Loan portfolio +14.0% YoY

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>MNT billion</td>
<td>1,017</td>
<td>1,111</td>
<td>858</td>
<td>1,055</td>
<td>1,505</td>
</tr>
</tbody>
</table>

Borrowed funds +42.7% YoY

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>MNT billion</td>
<td>43.8</td>
<td>37.2</td>
<td>38.7</td>
<td>42.5</td>
<td>43.9</td>
</tr>
</tbody>
</table>

Liquidity (%) 43.9%

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>16.2</td>
<td>17.0</td>
<td>20.6</td>
<td>19.2</td>
<td>16.8</td>
</tr>
</tbody>
</table>

Capital adequacy (%) 16.8%
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 majority-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.

**Shareholding Structure**

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAK LLC</td>
<td>20.00%</td>
</tr>
<tr>
<td>IFC</td>
<td>17.17%</td>
</tr>
<tr>
<td>ORIX Corporation</td>
<td>16.81%</td>
</tr>
<tr>
<td>EBRD</td>
<td>12.91%</td>
</tr>
<tr>
<td>National Bank of Canada</td>
<td>10.52%</td>
</tr>
<tr>
<td>RONOC Partners S.A.R.L.</td>
<td>10.15%</td>
</tr>
<tr>
<td>Mongolia Opportunities Fund</td>
<td>6.63%</td>
</tr>
<tr>
<td>Triodos Fair Share Fund</td>
<td>3.73%</td>
</tr>
<tr>
<td>Open Society Forum</td>
<td>1.59%</td>
</tr>
<tr>
<td>UB Rotary Club</td>
<td>0.30%</td>
</tr>
<tr>
<td>Bold Magvan</td>
<td>0.10%</td>
</tr>
<tr>
<td>Ganbold Chuluun</td>
<td>0.09%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

**Board of Directors**

(As of 31 December 2017)

**CHAIRMAN**

Mr. Ganbold Chuluun
Non-Executive Director
Re-elected 30 March 2017

**DIRECTORS**

Mr. Julian Healy
Non-Executive Director
Elected 31 March 2016

Mr. Michael Madden
Non-Executive Director
Re-elected 30 March 2017

Mr. Sanjay Gupta
Non-Executive Director
Elected 30 March 2017

Mr. Bold Magvan
Executive Director
Re-elected 30 March 2017

Mr. Yves Jacquot
Non-Executive Director
Elected 31 March 2016

Mr. James Stent
Independent Non-Executive Director
Re-elected 24 May 2016

Mr. Mathew Welch
Independent Non-Executive Director
Elected 30 March 2017

Mr. Yoshiaki Matsuoka
Non-Executive Director
Elected 31 March 2016

Mr. Ulambayar Bayansan
Independent Non-Executive Director
Appointed 14 June 2017

*Interim appointment subject to approval at the Annual General Meeting on 29 March 2018.
Message from the Chairman

On behalf of the Board of Directors and personally, I congratulate and thank our management team and all our staff for their hard work in 2017.

I would like to thank all our customers and stakeholders who are the reason of our existence. Achieving our strategic goals and aspirations will be a concerted effort of all of us.

I wish you success in 2018 and look forward to Accelerating Transformation!

Truly yours,

Ganbold Chuluun
Chairman of the Board

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the 2017 Annual Report of XacBank and wish to extend my sincere gratitude for your continuous support and cooperation.

We left behind a year with much more economic visibility and predictability. Business confidence started to restore. A robust expectation shift happened. The outlook is now stable and positive. The management performed well and delivered on its promises. The profit, RoE and asset growth targets have all been achieved and even more exceeded.

I am proud to state that we successfully passed the Asset Quality Review of IMF and the Bank of Mongolia and were diagnosed as a healthy bank. The AQR confirmed our prudent portfolio management and credit practices. It was not only an examination of the Bank’s asset quality and credit risk management, but it was also an investment into our credit staff helping to foster good practices.

2017 was a crucial point of our multi-year transformation and strategy remained the main focus of the Board throughout the year.

Over the last five years of our rebranding and transformation, there has been an extraordinary change and improvement in every dimension in the quality of our operation. XacBank is now a fast growing and resilient bank recognized by the community as a high quality financial institution. We have successfully changed our public brand by tying it closely to our values. We have refocused the main businesses on two markets: consumer finance and business banking. Further, we invested into information technology backbone. And, we started a new business line that is called green finance.

In 2017, we have been refocusing on a new banking strategy that builds on two fundamental objectives to take the Bank forward in a profitable and sustainable manner for the next 3 years. These objectives are to sustainably expand our market position to 20% while generating return on equity above 20% by 2020. Thus, we are calling the new strategy 20/20/20. I believe that the Bank is strongly positioned and has substantial growth opportunities in the coming years ahead.

We aim to ensure that every business line is among top-performers financially, but more importantly, customer satisfaction and customer experience should be at the center of our operations. In order to capture this growth, our business leaders identified 3 key strategic transformation themes to enhance customer experience. These transformation themes include investment and process re-engineering at branch network, digitalizing the whole organization and shift in HR policy.

As part of branch transformation, we will reposition our branch network to sales driven touch-point by increasing customer service standards and offering standardized products and automated credit decision, and improve efficiency of branch employees. Digital transformation will incorporate investments in internet and mobile banking platforms to allow much greater control by our customers. We are making investments that will simplify customer access to our Cash Deposit Machines and our Automated Teller Machines by increasing their presence across Mongolia.

In 2017, we reviewed, updated and strengthened the Bank’s risk management and compliance framework. We used this opportunity to simplify the policy framework and to foster a comprehensive Three Lines of Defense approach, which allows the Bank to pursue sustainable growth. Further advances in our risk measurement, credit decision making and compliance risk assessments through machine learning are planned for the year ahead.

Ultimately, our people are the most important assets of our Bank. Their knowledge, expertise and commitment will drive our branch and digital transformations. We value our employees at XacBank and are fully committed in helping them succeed. We will continue investing in employee career development and training programs so that they have an opportunity to increase their skills and advance their careers.

I am delighted to state that we are entering the next year of our operation with a renewed Strategy 20/20/20 and with a plan for its implementation already under way.

On behalf of the Board of Directors and personally, I Congratulate and thank our management team and all our staff for their hard work in 2017.

I would like to thank all our customers and stakeholders who are the reason of our existence. Achieving our strategic goals and aspirations will be a concerted effort of all of us.

I wish you success in 2018 and look forward to Accelerating Transformation!

Truly yours,

Ganbold Chuluun
Chairman of the Board

Mr. Ganbold Chuluun
Chairman of the Board of Directors
In 2017, XacBank has significantly strengthened its reputation of a responsible bank adhering to highest standards of corporate governance backed by its diverse local and international shareholders, board of directors and talented, loyal employees committed to our Vision and Mission.

The Asset Quality Review confirmed our adherence to international standards, prudent portfolios management and credit practices. The immediate upgrades by rating agencies and report by the external auditor all confirm the prudent status of the Bank.

XacBank is now one of nearly 100 financial institutions, collectively serving more than 41 million people, which has been certified by Smart Campaign for compliance with industry-accepted consumer protection standards. We have been awarded the Best Bank of Mongolia in 2017 by The Banker Magazine and Global Finance Magazine for the third time. In addition, we received a new recognition from Global Finance as the Best Foreign Exchange Bank. These are a solid indication that our values on transparency, disclosure, governance standards adhered by stakeholders for years have been materializing.

XacBank is now a fast growing and systemically important bank with a robust, resilient and sustainable business model. The Bank’s total assets crossed the MNT 3.0 trillion level thanks to 31.3% public deposits growth. Non-performing loans (NPLs) ratio decreased to 9.9% down by 104 bps YoY. Net profit increased to MNT 20.1 billion, 116% of profit target, resulting in a return of equity of 10.8%. Our net worth grew, remaining well above the regulatory minimum levels, resulting in a capital adequacy ratio of 16.8%.

In 2017, net operating revenue amounted to MNT 82.4 billion, bolstered by MNT 82.7 billion of net interest income and MNT 19.2 billion of fees, commission and trading income. Total operating revenue was 22.2% below the previous year level, a consequence of delayed growth in new loan disbursements, higher interest expenses, due to higher growth in deposit balances compared to loan portfolio growth, decrease in investment yields of securities held with BoM and Government, and increased swap costs.

Uncertainty of International Monetary Fund bailout prevailed weak market sentiment in the first half of 2017. In addition to subdued loan market demand, the Bank selectively lent to quality borrowers and held a higher liquidity position. Starting second quarter assets began to return across the bank books at a moderate rate and lending volumes began to pick up. Gross loan portfolio posted a healthy double digit growth of 14.0% YoY to MNT 1,402.5 billion, after below 1% growth in 2016. The outstanding balance of lending provided to retail clients is up 19.1% YoY and corporate and business clients is up 9.4% YoY.

The Retail Banking strategy has been the development and management of standard, understandable and affordable products provided to our customers through digital and branch channels. Across Mongolia, XacBank continues to support the growth of micro and small businesses. Within this segment, which represents approximately 22% of our retail banking loan portfolio. During 2017, the sales of consumer loans increased remarkably, reflecting 70% growth on the prior year, caused by a strong growth in deposit-backed and salary loans.
CEO Statement

children’s savings account to help children to build savings for the future, but most importantly learn about banking, importance of money and savings. This encouraged over 200,000 children to bank with XacBank, which comprises almost 40% of our total depositors. We strongly believe that financial inclusion plays a key role in development of Mongolian economic growth. We continue to deliver financial services to remote rural areas in Mongolia through our rural branch and ATM network along with the latest mobile banking technologies. About 45% of our customers live outside the capital city.

XacBank team comprised of employees with diverse backgrounds strengthens the competitiveness of the Bank, enabling to stay attuned to the diverse financial needs of our customers. As of the end of 2017, our team is made of 1,322 (1,304 in 2016 and 1,429 in 2016) full time employees. The average age of staff is 31.1 years and the average length of service in the organization is 6.1 years. Females accounted for 64.3% and men 35.7%. Women made up 36 percent in senior management, 48 percent in middle management roles. As required by labor law, almost 200 employees retained on a maternity leave.

Arvind Joshi, a seasoned professional with more than 35 years of experience in IT and Digital Banking gained across banking, financial services and IT and was appointed as our new Chief Information Officer and Head of Digital Banking, succeeding Sandeep Khera. I thank Sandeep Khera for his important role in bringing new vibrant dimensions for IT functions of XacBank and wishing him new milestones in his international career.

Frans Kootte joined the team in capacity of Deputy of Chief Retail Banker, whose rich experience in South-East Asia financial sector will give boost to our retail banking services. With a stable senior management team in place, we focused attention on strengthening our mid-level management. This was done through capacity building and hiring talents. I am positive that we have now a strong management team that is customer focused, business aligned, multi-disciplined, co-located and goal shared to propel in the process of further transformation and digitalization.

In 2017, we successfully advanced our green finance business and strengthened our position as an environmentally responsible financial services provider. As an Accredited Entity of the Green Climate Fund (GCF), we are the only entity in Mongolia with access to funding from this multi billion USD fund at favorable terms. In 2017, our two funding proposals were approved by GCF: (i) a USD 20 million business loan program aimed at supporting women-led MSMEs, and (ii) USD 8.65 million solar power plant project. Reduction of 306,750 tons of carbon emissions and savings of 4,276,250 liters of water are expected over the 25-year lifetime of a 10 MW utility-scale solar power plant to be co-financed by XacBank. This is in addition to 282,318 tons per year estimated average carbon emission reduction over 7 years of the Energy Efficient Product Distribution Program started since 2009. XacBank organized first Annual Green Financing Forum in Mongolia under theme of Turn opportunities into reality, partnering with Green Climate Fund, Ministry of Nature, Environment and Tourism and Environment and Climate Fund of Mongolia.

We re-affirmed our commitment to the People, Planet and Prosperity principles of values-based banking by endorsing and joining in 2017 the Kathmandu Pledge adopted by the GABV. Through our Golden Fund for Development Association, an NGO created by XacBank and its employees, we continued to conduct regular financial literacy programs for children across the country. The highlight was inclusion of the part of the financial education program sponsored by XacBank for last 7 years in the academic curricula of secondary and high schools making it possible for every child in Mongolia to receive basic financial knowledge.

Impact delivered is a result of a strong partnership with all our stakeholders, including shareholders, investors, board, employees, lenders, IFIs, local and international NGOs, customers, civil society, regulators, law makers and government for their support, cooperation and contributions in 2017. Yet, we have an ambitious Strategy 2020/2025 ahead of us setting the path for our growth in the next years and requiring harder work and sincerer dedication.

With warm regards,

Bold Magvan
Chief Executive Officer

Senior Management Team
(as of 31 December 2017)

Mr. Bold Magvan
Chief Executive Director
Appointed 10 July 2014

Mr. Amartuvshin Hanibal
President
Appointed 10 July 2014

Mr. Tsevegjav Gumenjav
Chief Retail Banking Officer
Appointed 23 September 2015

Mr. Torsten Kleine Buening
Chief Risk Officer
Appointed 1 January 2017

Mr. Arvind Joshi
Chief Information Officer
Appointed 1 August 2014

Mr. Tsevegjav Gumenjav
Chief Retail Banking Officer
Appointed 1 January 2017

Mr. Arvind Joshi
Chief Information Officer
Appointed 19 April 2017

Mr. Tsevegjav Gumenjav
Chief Retail Banking Officer
Appointed 10 July 2014

Mr. Taishir Tumurbaatar
Chief Economist
Appointed 1 August 2014

Mr. Erdenebayar Ganzorig
Chief Financial Officer
Appointed 7 January 2013

Ms. Ulambayar Enebish
Chief Operations Officer
Appointed 1 August 2014

Mr. Zul Ganzorig
Chief Human Resources Officer
Appointed 1 August 2014

Ms. Undarmaa Enkhbayar
Chief Auditor
Appointed 5 May 2016

Ms. Ashidmaa Dashnyam
Chief Corporate Affairs Officer
Appointed 1 August 2014

Mr. Bold Sandagdorj
Chief Economist
Appointed 12 September 2016

Ms. Gerelmaa Yunden
Chief Credit Officer
Appointed 18 January 2006

Ms. Gerelmaa Yunden
Chief Corporate Affairs Officer
Appointed 1 August 2014
2017 Highlights

- **Smart Campaign**: Protect from overindebtedness
  - Debt-to-Income at no more than 60%

- **ATM**: Free of charge for XacBank card holders
  - Max interest of 2% pm on all loans

- **NO LOAN APPLICATION FEE**

- **Focus on women-led businesses**

- **20 deposit taking ATMs** introduced in 17 locations

- **Introduction of cashback service** at Petrovis gas stations

- **New branches opened in upscale locations**: Zaisan, eMart, Misheel Expo, Morris Tower, River Garden, ICC Tower, Peace Bridge, Shangri-La Hotel (opening)

- **Security and access to the internet banking application on mobile phones strengthened**

- **Strategic partnership with MIAT**: Introducing MIAT Credit Card

- **QPay service introduced**

- **Card delivery service introduced for the first time in Mongolia**

- **Introduction of mobile banking service** “Anytime, Anywhere, Offline”

- **Max interest of 2% pm on all loans**

- **NO LOAN APPLICATION FEE**

- **Commitment to values-based banking re-affirmed**
Our Retail Banking main strategy is the development and management of products and channels providing service excellence to our customers. It is our goal to create standard, understandable and affordable products and services based on the requirements of the different customer segments. Moreover these should be easy accessible across various channels, giving our customers the opportunity to bank with us wherever and whenever they want to and allowing our customers to choose the style of account that suits them best.

While we offer this selection today, our challenge remains educating our customers to select the product suite that offers them the optimum choice of delivery channels and fee types. Currently, too many customers still choose our branches as their service channel. By shifting more volume to other channels, better outcomes will occur which will help both our retail customers and the Bank.

In whatever we decide or do, the understanding of our customers is key. Like in previous years, we continued in 2017 with mystery shopping and working with independent institutions to analyze the quality of our services and improve our understanding of customers’ financial needs.

We will constantly strive to improve our customer service. To further enhance our customers’ experience, we plan to set up in 2018 a special Client Care Unit.

**Strengthening digital channels**

As technology continues to further integrate with everyday lifestyle, our customers are rapidly and continuously developing a digital first mindset. To keep up with this paradigm shift, we established a dedicated team to drive digital sales channels paving the foundation for a tailored digital customer experience. According to the statistics of the Communications Regulatory Commission of Mongolia, the number of people who own smart phones increased by 21% and internet usage through mobile phones increased by 52.2% compared to the previous year. This growing trend in data usage will allow our customers to enjoy internet services even without a smartphone.

In 2017, through continued investment in digital technologies and strategic partnerships, we started new and innovative products and services e.g. QPay, a payment system that allows our customers to transfer money with ease and our mobile banking 2.0 which enables our customers to access non-basic banking services even without a smartphone.

Throughout 2017 we continued investing in increasing our number of ATMs. We introduced Cash Recycling Machines (CRM’s) which like ATMs are accessible 24/7, so customers are no longer required to deposit cash at branches. We continued and will continue rolling out large numbers of EFTPOS devices in a genuine effort to reduce cash usage in the country and to improve security and convenience for our personal and business customers. Though since cash will always be required, EFTPOS devices are not just being used for payments. In order to increase our outreach in providing our clients with access to small cash, we added on the EFTPOS a cash-out functionality which we offer e.g. in collaboration with Petrolis gas stations.

**Enhancing the branch channel**

Despite the latest digital banking trends, we are convinced that physical branches will remain playing an important role, especially in offering investment and financing products.

Based on our retail banking consumer surveys, we know that customers in Mongolia prefer branches in order to build a strong relationship with the bank and expect to receive sound financial advice from our employees. As a result, we relocated certain branches closer to the targeted segments and invested in hiring, retaining and training qualified employees.

We will continue investing in our branches by transforming them into efficient, modern, friendly and technology savvy branches of the future. Customers must feel welcome from the moment they walk through the door.

However, profitability and operational sustainability of our branches plays a very important role and, if no future improvement is expected, we may have to decide to close or relocate branches as we did in the past. By the end of 2017, our network counted 96 branches compared with 86 in 2016.
Retail Banking

Retail Banking Products

Cards
As part of our strategy, we will continue stimulating the usage of debit cards through our EFTPOS and ATM networks so that people can use debit cards to pay for goods and services instead of cash. The use of the cards will not only lead to improvements in security and awareness about the value of money as well as increased savings, but will also help reducing some of the operational costs of our branches. Next to debit cards, we started issuing credit cards in 2017. We will further enhance our card products in 2018 and focus on setting up collaborations with corporates e.g. by issuing co-branded cards like our national airline carrier MIAT credit card which rewards customers while they travel and purchase.

Retail Deposits
Like in 2016, Retail Banking posted strong deposit growth results in 2017 with 33% growth compared to the last year. We continued to satisfy a significant portion of lending growth from customer deposits. As a result, the loan-to-deposit ratio in the retail business segment was 82 percent and 85 percent of public deposits were comprised of term deposits.

Retail Lending
During 2017, the sales of consumer loans dramatically increased, reflecting 75% growth on the prior year, caused by a strong growth in deposit-backed and salary loans as a result of our strategic focus which we started in 2016. Consumer lending contributes 53% of the total retail loan book. The mortgage business, which provides loans for home purchase, declined with 9% compared to last year due to lack of sufficient funding from the government subsidized 8% interest program. Across Mongolia, XacBank continues to support the growth of micro and small businesses. Within this segment, which represents approximately 22% of our retail banking loan portfolio, we keep our highest attention on raw and enhanced products and services to be rolled out in 2018.

Sustainably expand our market position
Our objective is to become a lifelong partner for our customers in providing value added financial solutions embracing the highest standards of a triple bottom line mission: People, Planet, and Prosperity. We aim to deliver our purpose by offering clear and easy products and services with transparent terms and conditions.

Our Future Millionaires have grown up

Elbegjargal Elbegdorj
Future Millionaire

In 2003, my mother took me and my younger sister to XacBank and opened for us a Future Millionaire savings account in the XacBank branch behind the bus station near Sapporo in Songinokhairhan District. That was my very first bank experience. I got my own bank account. A certain amount of money was placed automatically into my account from my parents’ income and, when I turned 18, the amount on my account had grown considerably.

While my sister and I had the Future Millionaire accounts, we used to receive from XacBank’s mascot – XacBoy - a gift every year on the Children’s Day and this left us with very nice childhood memories. I still remember how my sister and I used to play with the toys from XacBoy.

In 2013, I finished high school and started to study economics at the National University of Mongolia. When I turned 18, the saved amount became available from my Future Millionaire account. With that money, I was able to pay my tuition, books and stationaries.

The benefit of the Future Millionaire savings account was huge for my parents who had to take care of school tuition fees and needs for four kids. I also understood very well the value of having your own savings and the importance of what my mother did for me. I am grateful also that XacBank offered this type of product.

Last year, I successfully graduated from the National University of Mongolia, applied for a job at XacBank and got accepted. I am glad to be working at XacBank – My First Bank.
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 reaffirmed 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.

2. 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.

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.

4. 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.

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.

6. 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.

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.
Business Banking

The Business Banking segment meets the needs of approximately 16,000 businesses across Mongolia. These clients entrust XacBank to safeguard their assets and finance their projects. In the Business Banking segment, our full-line of services spans across credit, deposit, international trade, foreign exchange transactions, payroll, cash management and other complementary financial services. We take the time to understand our clients’ business and their specific needs, and in doing so, we are able to provide tailor-made financial solutions to help our clients reach their financial goals. Our financial services are not limited to corporate entities and small- to medium-sized enterprises (SMEs) only, as we serve stakeholders, management and employees with our full range of financial solutions.

At XacBank, we are proud to be a financial partner to SMEs and corporate entities and strive to work with our clients to create end-to-end financial services. We believe our efforts to simplify our product terms and loan decision processes will benefit our customers and enable us to provide integrated financial solutions to SMEs. For our corporate clients, we combine the best elements of traditional service in a highly customized package consisting of a standard package, additional package and employee package.

Trade Finance

- Having supported more than 1,900 transactions worth more than MNT 100 billion in 2017, XacBank remains a key player in the local trade finance business. Our unique shareholding structure and unparalleled transparency help us secure trade finance lines from various international financial institutions to support trade activities.
- Receivables financing is available to suppliers of Oyu Tolgoi LLC. Our clients can receive financing against their receivables from Oyu Tolgoi with minimum paperwork. Financing requests are processed immediately while financing costs are lowest in the market. In 2017, we financed more than MNT 120 billion to 30 suppliers.

SME Business Loan

- In 2016-2017, XacBank successfully signed a loan agreement with international financial organizations and investors to support SMEs access to finance especially for women-owned businesses.
- As a result, we financed in 2017 approximately MNT 44.8 billion for small women-owned SMEs at the lowest interest rates in the market.

Our corporate customer

SUU JSC
Milk and dairy products

Suu (MNI) JSC began operations in 1958 as the nation’s first milk factory to provide Ulaanbaatar with dairy products. Today, Suu JSC has the largest share of the consumer market supplying fresh milk and a large assortment of dairy products under their motto “From the herder’s farm to your home” using their extensive supply chain including over 2,500 herders and dairy farms. Suu is also the largest producer with a daily production capacity of 200 tons of milk.

In the past five years, Suu JSC has fully automated some of their production lines, introduced new aseptic packaging and Tetra Pak and Eaclester technology and opened a new processing center in Orkhon Province. The most important investment was a fully automated dairy farm.

XacBank has provided Suu JSC investment financing, working capital financing and trade financing solutions since 2013. In 2017, Tenger Capital, a business advisory subsidiary of TenGer Financial Group, worked as a syndicate underwriter for the issuance of Suu JSC’s “Suu Bond”.

We support our national food producers at every stage of their growth. We are proud to see them succeed and reach global food safety and quality standards.
Completion of a new modern production facility

Construction of a new 5-story building for workspaces

Successful implementation of Rich Mongolia Project

...growth and financed their major projects including:... and services in 2013 which led to further business expansion and creation of new job workplaces.

XacBank has been with Ochirdaginas at every stage of growth and financed their major projects including:

- Extension of the factory building to a two-story building completed for the fifth anniversary of the company in 2010.
- Successful implementation of Rich Mongolia Project launching the production of canned products in 2012.
- Construction of a new 5-story building for production and services in 2013 which led to further business expansion and creation of new job workplaces.
- Completion of a new modern production facility with a total area of 3,657 sq.m, including a 500-ton capacity warehouse, in 2017.

quality are synonymous today in the consumer mind. The company introduced the quality and taste of Mongolian-made sausages and processed meat products to the international platform by successfully participating in IFFA 2016 – the meat industry’s leading international trade fair for meat processing, packaging, and sales and in the International Meat and Meat Products Exhibition in Frankfurt, where five Ochirdaginas products received awards.

We support our national food producers at every stage of their growth. We are proud to see them succeed and reach global food safety and quality standards.

Our SME stories

**OCHIRDAGINAS**

Sausages and processed meat products

Beginning with working capital financing in 2009, our cooperation with Ochirdaginas extended to bigger projects ranging from expansion and modernization of production facilities to further development and diversification of product assortment. In total, we financed 20 business loans.

Khargain Togmid, CEO of Ochirdaginas LLC, says: “All of our significant achievements can be traced back to XacBank. XacBank is convenient. Loan processing is fast. The staff listens and understands our needs. We see their clear commitment to help us and serve us in a professional manner.”

After successfully completing the 2017 expansion project, Ochirdaginas became one of the companies in Mongolia to meet and qualify with the international standards of ISO 22000 Food Safety Management System. Ochirdaginas LLC began the production of sausages and processed meat products in October 2005. By constantly introducing high-capacity equipment and new advanced technological solutions, maintaining consistent focus on improving the quality, taste and packaging of products and abiding by strict compliance with the food industry’s hygiene and safety standards, Ochirdaginas has grown as to become one of the largest national producers of eco meat products. Ochirdaginas and its consumer market and started exports to Japan. The Company has optimistic plans for the future to go global and make the Mongolian products known to the consumers worldwide.

Unlike the first cooperatives of the early nineties, most of which vanished, Yoson Od made it work. It is a success story and an inspiring example of dedication and perseverance showing how a short-term opportunity can be turned into a reality.

Founded as a cooperative, Yoson Od was engaged in trading, importing and selling on the domestic market food products and construction materials. In 1998, the company shifted its focus and specialization to imports from Western Europe of various chocolate brands as Côte d’Or, Mars, Snickers, Twix, M&M, Bounty and Cadbury. In 2003, the company made a strategic decision to start chocolate production in Mongolia. Partnering with its Belgian supplier, Yoson Od bought know-how and equipment from Belgium and opened in 2004 a chocolate factory, operating as a joint venture company – Yoson Od Food International – with investments from Belgium.

By broadening the chocolate assortment and improving the packaging, Yoson Od Food International expanded its consumer market and started exports to Japan. The Company has optimistic plans for the future to go global and make the Mongolian products known to the consumers worldwide.

We are proud to see them succeed and reach global food safety and quality standards.

**YOSON OD**

Chocolate and sweets

Golden Gobi - chocolate Proudly Produced in Mongolia...

The company that produces it is Yoson Od LLC, a client of XacBank since 2012 using a range of our banking products and services as the employee payroll service, current accounts and loans.

With a history dating back to 1991, Yoson Od is one of the longstanding companies.

Breakfast cereals

Monfoodland is one of our new customers. We started the payroll service in January 2017 that opens an opportunity for the workers to access our other banking products.

We support our national food producers at every stage of their growth. We are proud to see them succeed and reach global food safety and quality standards.

In 2014, Monfoodland started the production of breakfast cereals and other foods made from organic ingredients as oats and other whole grain, honey, curds and other dairies, fruits and berries that are good for health and tasty. The first Mongolian-produced granola breakfast cereal, branded as MOVYO “Right Breakfast”, became a known and wanted product sold in major food supermarkets. It was an award-winning product at the exhibitions “Creative Mongolia 2014” and “Produced in Ulaanbaatar 2014”.

In 2017, Monfoodland completed its new office and production facility. The company plans to expand production and increase the assortment of products with a vision to produce 100% natural and good quality food products with no chemicals. Plans include also acquiring a farming estate to grow oats.

We believe that Monfoodland has a lot of potentials. We would like to support them and see them grow and succeed.

In 2014, Monfoodland started the production of breakfast cereals and other foods made from organic ingredients as oats and other whole grain, honey, curds and other dairies, fruits and berries that are good for health and tasty. The first Mongolian-produced granola breakfast cereal, branded as MOVYO “Right Breakfast”, became a known and wanted product sold in major food supermarkets. It was an award-winning product at the exhibitions “Creative Mongolia 2014” and “Produced in Ulaanbaatar 2014”.

In 2017, Monfoodland completed its new office and production facility. The company plans to expand production and increase the assortment of products with a vision to produce 100% natural and good quality food products with no chemicals. Plans include also acquiring a farming estate to grow oats.

We believe that Monfoodland has a lot of potentials. We would like to support them and see them grow and succeed.

We support our national food producers at every stage of their growth. We are proud to see them succeed and reach global food safety and quality standards.

In 2014, Monfoodland started the production of breakfast cereals and other foods made from organic ingredients as oats and other whole grain, honey, curds and other dairies, fruits and berries that are good for health and tasty. The first Mongolian-produced granola breakfast cereal, branded as MOVYO “Right Breakfast”, became a known and wanted product sold in major food supermarkets. It was an award-winning product at the exhibitions “Creative Mongolia 2014” and “Produced in Ulaanbaatar 2014”.

In 2017, Monfoodland completed its new office and production facility. The company plans to expand production and increase the assortment of products with a vision to produce 100% natural and good quality food products with no chemicals. Plans include also acquiring a farming estate to grow oats.

We believe that Monfoodland has a lot of potentials. We would like to support them and see them grow and succeed.
Funders and Partners

**IFC**
IFC provides both senior and subordinated debt facility to XacBank and has been lead manager of largest syndicated loan facility to commercial banks in Mongolia. IFC is also a shareholder of XacBank.

**European Bank for Reconstruction and Development (EBRD)**
Through debt and equity financing to XacBank, EBRD aims to support SMEs of Mongolia. In 2017, EBRD has provided syndicated loan facility to XacBank.

**Asian Development Bank (ADB)**
ADB has granted long term senior debt to XacBank in 2014 with the goal of improving financial inclusion for citizens of “Ger” and rural area of Mongolia.

**World Bank Group (IFC)**
IFC is also a manager of largest syndicated loan facility to debt facility to XacBank and has been lead manager of largest syndicated loan facility to XacBank.

**PROPARCO**
PROPARCO has provided long term senior debt to XacBank since 2008. KFW has provided senior and subordinated debt to XacBank in both USD and MNT. Since joining the network of XacBank’s partners of XacBank in the past years. It has provided number of senior loans to XacBank through its various funds under cooperation for more than 10 years.

**Swedfund**
Swedfund has granted parallel senior loan to XacBank in 2016 through IFC’s syndication.

**SIFEM**
SIFEM is one of the parallel lenders to XacBank. XacBank and Triodos has been cooperating since 2014. Triodos also provides long term senior debt to XacBank. By financing local banks, SIFEM aims to create employment and reduce poverty in emerging markets.

**BIB**
BIB has provided senior loan to XacBank with aim of improving financial inclusion for micro entities in Mongolia.

**Finnfund**
Finnfund has granted parallel senior loan to XacBank in 2016 through IFC’s syndication.

**IBEC**
IBEC has renewed its exposure to XacBank in 2017, by becoming parallel lender under the IFC’s syndication.

**Swedfund**
Swedfund has granted parallel senior loan to XacBank in 2016 through IFC’s syndication.

**GCRF**
GCRF has provided long term funding to XacBank in 2017 with the aim of investing in carbon reducing business in Mongolia.

Our unique shareholdership and unparalleled transparency help us secure finance lines from various international financial institutions.
# Human Resources

## Our employees

<table>
<thead>
<tr>
<th>TOTAL NUMBER OF FULL TIME EMPLOYEES</th>
<th>Contractors</th>
<th>Long term maternity leave</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,322</td>
<td>85</td>
<td>199</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TOTAL TRAINING PERSON/HOURS</th>
<th>INVESTMENT IN TRAINING</th>
</tr>
</thead>
<tbody>
<tr>
<td>49,095*</td>
<td>₹ 684 mln</td>
</tr>
</tbody>
</table>

- *PEER-TO-PEER learning sessions not included*

**EMPLOYEES TRAINED:** 3,918

**NEW HIRES:** 289

**FEMALE STAFF PERCENTAGE:** 64.3%

<table>
<thead>
<tr>
<th>HEAD QUARTER</th>
<th>UB BRANCHES</th>
<th>RURAL BRANCHES</th>
<th>SENIOR AND MIDDLE MANAGEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>456</td>
<td>446</td>
<td>420</td>
<td>116</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MALE</th>
<th>FEMALE</th>
</tr>
</thead>
<tbody>
<tr>
<td>472</td>
<td>850</td>
</tr>
</tbody>
</table>

**FEMALE STAFF PERCENTAGE:** 64.3%
Human Resources

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

As of the end of 2017, our team is made of 1,322 (1,304 in 2016 and 1,429 in 2015) full time employees. The average age of staff is 31.1 years and the average length of service in the organization is 6.1 years. As required by labor law, almost 200 employees retained on a maternity leave throughout 2017, 96 returned to work.

HIGHLIGHTS

To grow sustainably we have focused on further strengthening the capabilities of our people to provide quality services and solutions to our customers. Strategic hires at the senior level in IT and retail banking areas, further diversification of middle managers and branch managers have been of utmost importance. Specialized in house training to all personal bankers and credit officers were conducted as well as advanced credit training was provided to Business banking front and middle employees to improve the quality of customer relationship and credit decisions and prepare the staff to handle the growth plans. Online courses on product knowledge were provided to all retail banking staff to develop advisory skills to tailor banking products to the customer needs.

MAINTAINING A RISK-FOCUSED ORGANIZATIONAL STRUCTURE

Following newly adopted risk framework, all functional areas were reorganized according to the three lines of defense.

Ongoing training is an integral part of our efforts to promote risk awareness among our employees. All employees are required to complete e-learning modules annually on the topics such as anti-money laundering, banking secrecy, computer misuse, cybersecurity and customer protection principles. Where applicable, employee’s key performance indicators also include risk control metrics.

CONTINUOUS TIME AWAY

For the last two years the bank continued execution of the policy requiring employees to remain continuously away from job duties for least for 10 consecutive business days annually. Remaining on a block leave away from the job means that employees are not allowed to transact or otherwise carry out, either physically or through electronic means, their regularly assigned duties. Strict adherence to this policy helps ensure that the bank remains in compliance with risk management policies, as well as provides employees a tangible benefit, as regular times for rest and rehersal away from job are crucial for the health, well-being and job performance.

More information on our risk strategy and approach can be found in the Risk management section of this report.

CREATING DIVERSE AND INCLUSIVE WORKPLACE

We believe that team comprised of employees with diverse backgrounds strengthens the competitiveness of the Bank, enabling to stay attuned to the diverse banking needs of our customers.

Ensuring gender diversity. Females accounted for 43.0% and men 57.1%. Woman made up 36% percent in senior management, 48% percent in middle management roles. The bank employs 5 international consultants on a short time basis.

EMPLOYEE BENEFITS AND WELL-BEING

XacBank is committed to employee well-being and continues to provide a variety of benefit programs designed to meet employee needs. The bank offers financial security through additional health insurance and retirement plans besides government required contributions. All employees are enrolled in the bank pension plan, structured as long term savings plans with employer matching contributions. The bank also provides discounts on banking products and services such as mortgage financing, consumer loans and credit cards.

More than 4,270 employees on cumulative basis took part in the employee well-being events organized throughout the year. Establishing a sports committee, comprising of volunteers helped to intensify employee sports activities throughout the year.

HUMAN RESOURCES

Our Employees

Human Resources Policy

Diversity at XacBank: Greg Zegas

Greg Zegas

Princeton in Asia Program Fellow

Sonin yu baina? My name is Greg. I work as a Project Development Officer in XacBank’s Eco Banking Department. Originally I’m from Boston, USA, where I studied Environmental Analysis & Policy and Economics at Boston University before working as an energy consultant for two years. In 2017 I decided to come to Mongolia via the “Princeton in Asia” fellowship program, which has been placing fellows to XacBank for nine years. On the Eco Banking team I help secure international climate finance funding to stimulate energy efficiency and renewable energy uptake in Mongolia, at the commercial scale and the small businesses & consumer scale. This role has been a perfect fit for me because of the cutting edge climate finance work and the cold, expansive landscape ripe for adventures. Best of all, my colleagues at XacBank have welcomed me with open arms.
Human Resources

Continuous employee training and development is a strategic priority for the bank. The bank offered a variety of programs and initiatives in 2017 that focused on helping employees develop the key skills, abilities and knowledge required to succeed. In 2017, cumulatively, a total of 49,095 person/hours of training were organized (47,644 in 2016 and 42,357 in 2015 respectively).

Retail Banking Training
Building skills of retail banking employees was a top priority in 2017. Cumulatively, 26,800 person/hours of training were provided to more than 800 retail banking employees. Peer-based learning sessions organized at the branches were intensified and organized on a more regular basis, with total 11,000 person/hours reported. Product knowledge testing followed by instructor led two-month on-line courses were attended by all retail banking employees. Credit training program was redesigned into job specific 3 distinctive levels. Newly developed classroom credit training is being delivered during the low season through October-March to all credit officers and personal bankers. Altogether over 250 employees will graduate this credit course as well as relationship management training to serve the customers. Next level credit training was outsourced from the Mongolian Banking and Finance Academy specifically designed for business bankers and was combined with on the job training delivered via one on one coaching sessions led by experienced internal employees. Newly adopted loan origination module introduction training was delivered to 88 Ulaanbaatar based credit related staff. Ongoing training to branch tellers and accountants were provided.

Branch Management Training
Cumulatively, 5,300 person/hours of training were provided to all branch managers. Branch managers training was contracted and delivered by Korean Banking Institute with a program specifically tailored to our needs. Select managers were trained as internal trainers and extended the program content to the rest of their colleagues. Several branch managers also participated in the branch management simulation training was organized by the local university professor as well as the program conducted by the Belgium banking academy here in Ulaanbaatar. All branch managers participated in the retail banking workshop organized annually.

Compliance and Risk Management Training
The bank continued offering on-line compliance course that was launched in 2016 with more than 1,000 employees completing in 2016 and 142 employees in 2017. In addition approximately 80 middle managers participated in the newly launched advanced on-line compliance training in 2017. Introduction training sessions on risk management framework were conducted to all middle and senior managers to strengthen the risk culture and increase awareness of the particular roles within the three lines of defense.
Promoting and strengthening mid level managers

Baatarbald Jukov
Head of Branch Management Department

I was a graduate student in banking and finance at the University of Finance and Economics when the XacBank management came to our school to introduce the bank and even offer scholarships. I immediately applied as my gut feeling told me that this was something for me. I was one of the fortunate students who were granted a scholarship. I joined XacBank right after my graduation in February 2004. I started working as a SME credit officer in the Bayangol branch where I acquired the fundamental and practical knowledge of banking, financial analytical skills and the right attitude that shaped my further career development.

Then, I worked at the head office as a regional manager. I realized that, in order to successfully manage branches, I firstly needed work experience as a branch manager. Therefore, I accepted the offer to lead the branch in Kharkhorin, Uvurkhangai Province where a challenging work environment provided me a chance to gain the experience to lead a team, learn effective communication, build relationship with clients, promote sales and handle difficulties.

Once my rural journey was completed, I returned in October 2008 to the head office and was appointed as the Director of the western and UB regions. In March 2013, I was promoted to my current position as the Head of Branch Management Department.

In 2014, after three years in a row attempts, I was finally granted a scholarship from the government of Luxembourg. I graduated from the University of Luxembourg with the Master of Science in banking and finance in April 2016.

Looking back, I still appreciate that I got the opportunity to join our bank and that I was able to grow with its developments through good and bad times. I receive excellent leadership and guidance from our senior executive team that is helping me to grow professionally as an experienced and competent banker. I believe that our bank has a unique organizational culture built by incredible people and based on the mission which is about taking care of People, Planet and Prosperity. I have dynamic cooperation with my peers and a solid team work. And, most fulfilling is to have the trust from thousands of our clients.

Supporting new talents

Bulgamaa Adilbish
Financial Analyst

“First, I was just a receiver of XacBank's action. But now, I am one of the producers of these amazing actions.”

My name is Bulgamaa Adilbish. I am somewhat a new employee of XacBank. I was born in Arkhangai Province in the central part of Mongolia. I could realize my high school’s dream and was able to enroll in the National University of Mongolia. The girl who imagined a small range of future choices has changed while studying in the university. When I was a senior, I applied to “Peter Morrow Scholarship Program” announced by XacBank and I became one of the winners of the scholarship and received also an invitation to do an internship in the Bank’s department of my choice. That was the most powerful support in my life from someone who was not a member of my family. I did my internship in the financial management department for 2 months. I found XacBank’s organizational behavior and the whole atmosphere very encouraging for the beginning of my career plan. After my good graduate performance, XacBank recruited me as a financial analyst and becoming a financial analyst just after fulfilling my academic degree and without having any professional experience was a huge honor.

Now, I am one of the members of this big proud family of People, Planet and Prosperity. I have dynamic cooperation with my peers and a solid team work. And, most fulfilling is to have the trust from thousands of our clients. I appreciate and recognize the trust of XacBankers and I do not want to discourage them. I want to be part of the developing process. Everyone should realize that the key multiplier of this fascinating headway are the people who create and build a new society. Our bank suggests a variety of products which can support the consumer’s business and life and, especially, the investments for the green development for our next generation.

Looking back, I still appreciate that I got the opportunity to join our bank and that I was able to grow with its developments through good and bad times. I receive excellent leadership and guidance from our senior executive team that is helping me to grow professionally as an experienced and competent banker. I believe that our bank has a unique organizational culture built by incredible people and
Corporate social responsibility
Corporate Social Responsibility

KATHMANDU PLEDGE

Corporate social responsibility is an integral part of our strategy and operations. It is part of our culture and values embracing the global standards of the triple bottom line mission of People, Planet and Prosperity. Our commitment goes beyond compliance, legal and regulatory requirements. Being a good corporate citizen is key to our long-term sustainable growth. We believe that, without stakeholders who are motivated and invested in our mid- and long-term objectives, we cannot realize our strategic goals and aspirations.

Through our sponsorship to CSR and philanthropic projects, various education programs and support to sports, arts and culture, we aim to make a positive contribution to the society and the communities where we operate. We strive to be at the forefront supporting a good cause in the society.

We have injected a new life into our corporate social responsibility by endorsing and joining in 2017 the Kathmandu Pledge adopted by the GABV2 countries. These commitments are not new to us. They are already embedded in what we do and are fully aligned with mission and our core values. The Kathmandu Pledge re-affirms our commitment to the 5 principles of values-based banking outlining what we do, why we do and how we do.

HIGH ETHICAL STANDARDS IN THE TREATMENT OF CUSTOMERS

Our customers, retail and corporate, are at the core of strategy and operation.

In 2015, Planet Rating granted us the Smart Campaign Certification with our outstanding achievement and implementation of globally endorsed Client Protection Principles standards into our operations. In 2017, our Board formally re-affirmed its commitment to the Client Protection Principles. XacBank is one of 39 organizations worldwide that have implemented the Client Protection Principles, comprising 7 principles and 99 indicators, into the entire operation of the organization.

Preamble

It is urgent that we address environmental and social challenges while building positive human relationships based on respect and trust.

Transformation of the economy to address these challenges, including technological innovation, will be led by individuals and enterprises around the world with support from finance.

Finance is expected to deliver impact on people’s lives by building a resilient financial system that serves the needs of the real economy.

Creating value in meeting society’s social, environmental and economic needs must be the centre of banking with money as a transformative agent rather than an objective in itself.

Our Pledge

We commit to:

1) Fostering long term and integrated social, environmental and economic development in the communities and wider societies that we serve

2) Providing banking services to individuals and enterprises based on the Principles of Values-based Banking

3) Serving a vibrant and diverse mix of individuals and enterprises and being socially, environmentally and culturally conscious to contribute to the development, happiness and well-being of our stakeholders

4) Being local, regional and global leaders providing progressive and visionary models for the renewal of the banking system through our actions

5) Supporting innovative and continuous renewal and development in the real economy consistent with what our planet can support whilst placing people and human-based relationships at the core.
Corporate Social Responsibility

CONTRIBUTING TO THE FINANCIAL FUTURE OF OUR CHILDREN AND YOUTH

We believe that, in today’s complex and innovative world, acquiring basic financial skills at the early age is becoming equally important as learning how to read and write. Financial literacy is and will increasingly be an essential life skill of our children and youth who will be deal with more sophisticated financial products, services and markets and will have to bear more financial risks in adulthood.

We were the forerunner in the banking sector starting to provide in 2009 social and financial education programs designed for children. Based on our 8 years extensive experience in financial education for children, financial education classes were included in the academic curriculum of high schools making it possible for every child in Mongolia to receive basic financial knowledge.

“Aspire” is a program and savings product. Initially introduced with technical assistance from Women’s World Banking as a financial education program for girls, Aspire extended further to include all teenagers, including children in secondary schools, dormitories and detention centers, throughout the country. Since its launch in 2009, the program has involved 26,000 teenagers. The program is now complemented with social content and encourages young people improve their life skills by engaging in entrepreneurship and environmental volunteering activities across the country. In 2016, our NGO - XAC Golden Fund for Development Association - participated in the working group to develop the national curriculum of financial education for the youth of Mongolia and successfully integrated the financial education program in the national curriculum for 10th grade of high schools. In 2017, Aspire program’s financial education content was included in the student textbooks and teachers manuals.

The Aspire Debit Card was introduced in 2016 and has now 3,500 cardholders who are teenagers in the 14-18 age group. The Aspire Debit Card gives them a possibility to practice their academic financial education in real life.

“Asflatoun” is another successfully growing program which provides social and financial education in Mongolia to young children in the 8-13 age range. As of 2017, the program covered 2,700 children. Combined, these programs involve 65,500 participants across the country including children, teachers and volunteers and enhance financial literacy that will complement the marketing of XacBank’s products and services.

In 2017, 120 children with disabilities and those living in dormitories successfully received the financial education program.

WHAT OUR AFLATOUN TEACHERS AND STUDENTS SAY

Oyuntsetseg Janchiv
Elementary school teacher, Ulaanbaatar School No. 120

In 2012, I became an instructor of the Aflatoun Program and started to teach Aflatoun classes for my students in the elementary grades. These children have now become high school students and I am happy to see that the financial education program had positively shaped their personal formation and behavior. They not only study very successfully, but have also a correct and proper attitude to money, plan and budget all the activities and clearly support each other. For example, we noticed that students from 4th and 5th grades of elementary school, who had been enrolled in the Aflatoun Program, do not purchase sweets from the school cafeteria while those from other grades buy a lot of sweets and desserts.

We, teachers, had also insufficient financial knowledge at that time. Therefore, we also gained financial education simultaneously during our teaching to students. This experience had a very positive influence on our own financial attitudes and habits in real life. Teachers of our school involved in the teaching of the financial educational program started to ask themselves before making a purchase whether this is a real demand or not. In addition, we started to accumulate and everybody now has savings.

Enkhriimaa Altan-Ai
10 years old, 4th grade Aflatoun student

I have had a savings book since last October. I keep my savings box in a secret place. When I accumulate enough money, I give it to my mom to transfer into my savings account. I will keep accumulating and saving money until I am a grownup and I will build a big house for my mom in the countryside to breathe fresh air.

Elbegsaikhan Ariunbayar
10 years old, 4th grade Aflatoun student

After Aflatoun classes, I started to save money. I opened a savings account together with my parents. When I have sufficient money, I will buy a car. Money stories of Aflatoun are very interesting and helpful. I have recently made a money box for my mom where I accumulate money to buy a gift for my mom on the International Women’s Day.
Corporate Social Responsibility

2017 highlights
- Aspire Savings Account and Aspire Debit Card endorsed by Child and Youth Finance International as a Child and Youth Friendly Banking Product
- Finance lectures delivered to 1,520 high school students during the Global Money Week and World Saving Day and other events organized to engage young people in learning about financial education and financial inclusion
- 30-hour financial education program delivered to 2,700 children in primary grades at 9 secondary education schools throughout the 2017 academic year
- 3-hour financial education program delivered to 1,200 teenagers and study tours to banks and financial organizations organized to 320 students from secondary and high schools in UB (9) and Baganuur
- Financial enterprise trade fair organized at 5 secondary schools involving 2,500 students and 1,000 parents
- 2-day “Train the Trainer” Aflatoun Program delivered to 132 primary grade teachers from 9 secondary education schools
- Trainer upgrading training provided to 35 senior grade teachers of laboratory schools of 21 provinces

CONTRIBUTING TO GREATER FINANCIAL LITERACY OF THE PEOPLE IN WIDER COMMUNITIES

We have always recognized as our corporate social responsibility the enhancement of financial awareness and financial literacy of our customers and the people in wider communities. We understand our mission of becoming a lifelong financial partner for our customers as being also a dedicated educator disseminating financial knowledge and skills. We believe that improved financial literacy will have a deep impact on the people’s financial wellbeing and their ability to use the opportunities offered by the banking products and services and lead to their greater inclusion in the financial system.

Through our Golden Fund for Development Association, an NGO created by XacBank and its employees, we conduct regular financial literacy programs across the country.

2017 highlights
- Weekly radio show “Money Tree” with live Q&A broadcast nationwide, in collaboration with Mongolian National Radio, for a half a year
- 2-hour basic financial knowledge training under the general theme “Savings” delivered to 100 teachers and employees of Trade and Industry University and Secondary School #120
- 4-hour 2 training sessions on financial education delivered to 44 XacBank employees
- 1-day refresher training provided to 23 sales staff of XacBank’s UB branches to upgrade their skills to communicate financial information to the customers

CHILDREN’S DEVELOPMENT

In 2017, around 1,000 children received direct support for their development from XAC Golden Fund for Development Association.
- 7 long and short-term projects and activities organized for children of Special School #29 with hearing impairment
- 23 activities on child’s talent development, enrolling 1100 children, organized countrywide in collaboration with regional and provincial secondary schools
- Our board members visited School #29 for children with hearing impairment. For years, XacBank has been supporting the school by helping furnish dorms and outdoor playground and providing children with necessary stationery.
We love our motherland and we sponsor various initiatives to promote the historical and cultural heritage of Mongolia.

In 2017, we sponsored the publication of “Camel Cow Bellows Behind the Hills”, a collection of the most known short stories by Lkhagva Jagdal, a renowned teller of Mongolian traditional short stories.

We sponsored, through XAC Golden Fund for Development, the 13th annual futsal competition, # 29 a socializing day with “XAC Steeds”, one of the National Super League basketball teams, sponsored by XacBank for the 13th year.

We sponsor for the 2nd year “XAC Cycling Club” which has been successfully participating in various competitions, both in-country and abroad. A cycling competition “Tour de Mongolia” was organized by XacBank in collaboration with the Mongolian Cycling Federation.

XacBank and Golden Fund for Development Association continue to sponsor “BOOM 2020”, an annual futsal competition, first initiated and sponsored by XacBank in 2006. We sponsored in 2017 the participation of young teams from 6 schools in UB’s outskirts districts.

We sponsored for the 3rd year, through XAC Golden Fund for Development Association, the youth’s volleyball competition named “XAC Association”. In 2017, 320 youth people in 39 teams participated in the activity and competition organized in Khuvsgul Province.

We continued our initiatives through the Xac Meadow Project. Since 2005, we have created 29 meadows covering 137,600 trees. The survival rate of our trees is 75%.

We continue our initiatives through XAC Meadow Project. Since 2005, we have created 29 meadows with 37,600 trees. The survival rate of our trees is 75%.

In 2017, we focused on maintenance activities under the year’s motto “Taking Care of Our Meadows”. We continued our initiatives through the Xac Meadow Project. Since 2005, we have created 29 meadows with 37,600 trees. The survival rate of our trees is 75%.

We continued our initiatives through XAC Meadow Project. Since 2005, we have created 29 meadows with 37,600 trees. The survival rate of our trees is 75%.

In 2017, we focused on maintenance activities under the year’s motto “Taking Care of Our Meadows”. We collaborated with the local governments in 5 southern provinces to do fence restoration and soil fertilization. Irrigation system was installed at 2 sites. 600 new seedlings were planted.

We signed a cooperation agreement and became the strategic partner of “New Age Banker”, a training program organized by the Banking and Finance Academy.

We supported the contest Model United Nations (MUN), an internationally organized educational simulation and academic activity, held for the 3rd time in Mongolia.

We love our motherland and we sponsor various initiatives to promote the historical and cultural heritage of Mongolia.

In 2017, we sponsored the publication of “Camel Cow Bellows Behind the Hills”, a collection of the most known short stories by Lkhagva Jagdal, a renowned teller of Mongolian traditional short stories.

We sponsored, through XAC Golden Fund for Development, the 13th annual futsal competition, # 29 a socializing day with “XAC Steeds”, one of the National Super League basketball teams, sponsored by XacBank for the 13th year.

We sponsor for the 2nd year “XAC Cycling Club” which has been successfully participating in various competitions, both in-country and abroad. A cycling competition “Tour de Mongolia” was organized by XacBank in collaboration with the Mongolian Cycling Federation.

XacBank and Golden Fund for Development Association continue to sponsor “BOOM 2020”, an annual futsal competition, first initiated and sponsored by XacBank in 2006. We sponsored in 2017 the participation of young teams from 6 schools in UB’s outskirts districts.

We sponsored for the 3rd year, through XAC Golden Fund for Development Association, the youth’s volleyball competition named “XAC Association”. In 2017, 320 youth people in 39 teams participated in the activity and competition organized in Khuvsgul Province.

We continued our initiatives through the Xac Meadow Project. Since 2005, we have created 29 meadows with 37,600 trees. The survival rate of our trees is 75%.

In 2017, we focused on maintenance activities under the year’s motto “Taking Care of Our Meadows”. We collaborated with the local governments in 5 southern provinces to do fence restoration and soil fertilization. Irrigation system was installed at 2 sites. 600 new seedlings were planted.

We signed a cooperation agreement and became the strategic partner of “New Age Banker”, a training program organized by the Banking and Finance Academy.

We supported the contest Model United Nations (MUN), an internationally organized educational simulation and academic activity, held for the 3rd time in Mongolia.
Corporate Social Responsibility

STAKEHOLDER ENGAGEMENT

Since its establishment, XacBank has been listening to various stakeholders and engaging them in collaboration, cooperation and consultative meetings to address their concerns on the social and environmental issues as well as on the issues of access and quality of its financial services in order to achieve the triple bottom line and, most importantly, improve its performance. We have also been engaging stakeholders within our sustainability reporting framework under the Global Report Initiative and the UN Global Compact.

In 2015, we consolidated our stakeholder engagement efforts under a formal Stakeholder Engagement Plan to take a structured approach to stakeholder relations and develop targeted systematic and effective engagement processes with the objective to unite our key stakeholders under our renewed strategic vision, keep them motivated and invested in our mid- and long-term objectives. The Stakeholder Engagement Plan identifies our key stakeholders, our key message to meet their expectations, channels, methods of interaction and responsible executives.

Constructive dialogue and close relationship with stakeholders, their engagement and feedback has always been a key part of our corporate social responsibility.
Environmental Responsibility

It’s the only Earth we have

We are taking measurable and real actions on reducing carbon emissions.

- 173,852 energy-efficient products distributed to 150,489 households in UB’s ger districts or 80% of UB’s ger district residents
- 282,318 tons per year estimated average carbon emission reduction over 7 years of the Energy Efficient Product Distribution Program
- 803+ loans for hybrid cars

We became the first Mongolian bank to finance renewable energy.

Reduction of 306,750 tons of carbon emissions and savings of 4,276,250 liters of water are expected over the 25-year lifetime of a 10 MW utility-scale solar power plant to be co-financed by XacBank.

Our social and environmental policy is guided by the principles of Corporate Social Responsibility as a means of managing our business responsibly and sustainably for long-term success. We are committed to complying with national and international environmental regulations applicable to our operations and business services.

Our social and environmental management system is implemented under the SEMS Policy, last revised in 2014, and includes:

- regular monitoring and reporting, including environmental performance of borrowers
- discussion/appraisal of issues related to the environmental impact of the client’s business
- compliance with the exclusion list at the initial loan application stage
- advice and remedial actions where applicable
- due diligence during regular or random audits
- intelligence through third parties

The SEMS Policy guidelines are made program-specific and are incorporated in our project-related activities.

We engage in public commitment, education and awareness-raising initiatives year round. In 2017, we sponsored and participated in the following multi-stakeholder meetings and conferences:

- The first Green Financing Forum “Turning Opportunities into Reality” in September 2017 which served as a multi-stakeholder platform, attended by about 350 participants, including MISME business owners, increasing market awareness of XacBank’s overall MISME program and eco banking products by introducing new opportunities within GCF/ XacBank and providing information on XacBank’s progress to date in eco financing
- The 8th Annual Renewable Energy Forum in May 2017 where XacBank’s eco banking products and initiatives and new opportunities under GCF were presented
- The 5th Sustainable Finance (TsC) Forum in September 2017 where XacBank’s eco banking products and initiatives and new opportunities under GCF were presented
- Greening Business DNA Forum, organized by MMCG and attended by about 200 participants (presentation on XacBank green products made)
- 2017 round table discussion on decreasing the Mongolian construction sector’s carbon emissions organized by Ministry of Construction, Global Environmental Fund, UNDP (presentation on XacBank’s eco banking products made)

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

Eco Banking Initiatives
Established in 2009, the Eco Banking Department is the sole banking unit in the entire banking system of Mongolia specializing in providing sustainable financial solutions, measuring energy efficiency and identifying emission baselines for different project cases in Mongolia. The Eco Banking Department operates on three main business lines: sustainable energy finance, carbon finance, implementing projects and programs.

Implementing Projects and Programs
Between 2010 and 2015, XacBank implemented the Energy Efficient Product Distribution Program, allowing nearly 85% of the 185,000 households in the ger area to purchase one or more of the energy efficient products through XacBank product centers, which helps reduce the pollution produced from burning low quality coal in old, inefficient stoves. In 2017, XacBank applied for Readiness Support to the Green Climate Fund on behalf of the Focal Point (FP) of Mongolia, which is the Environment and Climate Fund (ECF) of the Ministry of Environment and Tourism, to establish and strengthen the National Designated Authority (NDA) and FP operations. Applied fund was received in November 2017 and Eco Banking Department started to implement NDA Readiness Support program. The Readiness Support program is intended to strengthen the NDA and FP strategic frameworks for engagement with the GCF, including the preparation of country programs, with the ultimate goal to enhance country ownership or projects and access to funds and its ability to allocate the GCF’s funds effectively and efficiently.

Furthermore, the Bank facilitated capacity building training sessions for its MSEME clients, in order to improve their ability to keep financial records, as well as in identifying and implementing sustainable projects at their companies. Finally, the Bank held its inaugural annual Green Financing Forum on September 6th, 2017, which was attended by more than 360 SMEs and relevant stakeholders. The Forum aimed to raise public awareness regarding energy efficiency opportunities while giving potential clients hands-on knowledge on the Bank’s sustainable financing activities as well as experience sharing from clients that have implemented such projects with the Bank.

Carbon Finance
XacBank monitors the eco products used in the Eco Product Distribution Program, and works with our partner organization, MicroEnergy Credits, to issue carbon credits on both the voluntary market and through the UN’s Clean Development Mechanism (CDM). These carbon credits can be sold to organizations for CSR purposes or to meet carbon caps, which would allow XacBank to fund its Eco Product Distribution Program in the future. The major carbon credit purchasers of carbon credits produced by the Eco Product Distribution Program include the Eco Climate Care Sales, Government of Sweden, and Microsoft Corporation.

Sustainable Finance
In 2013, XacBank received its first sustainable financing facility from the Global Climate Partnership Fund (GCPF), followed up by the European Bank for Reconstruction and Development’s MonSEFF in 2014, Developing World Market Securitization in 2016, and finally, the Green Climate Fund in 2017. These four co-financiers together constitute XacBank’s Business Loan Program for GHG Emissions Reduction, which allows producers, traders, installation service providers, and end users of energy efficient and renewable energy products to receive concessional financing.

Since its launch, the Business Loan Program for GHG Emissions Reduction, offering an estimate amount of $54,000 tons equivalent of CO2 emissions. In 2015, Eco Banking Department collaborated with ResponsAbility (the asset managing company of GCPF) and launched the Eco Car Loan Program. The program allows customers to gain access to better energy efficient and renewable energy projects and products, offsetting an estimate amount of $84,000 tons equivalent of CO2 emissions.

In 2017, XacBank issued a loan to Nakhia Impex for the factory improvement project through its Business Loan Program for Emission Reduction to support women-led MSEMEs. The project resulted in energy savings of 370 MWh, which represents an energy saving ratio of 54.2%. Additionally, the project is expected to create MNT 52 million in annual cost savings and reductions of nearly 6,000 tons of carbon emissions over its lifetime compared to the baseline scenario.

Collaboration with Green Climate Fund opened us access to funding at favorable terms for financing climate change projects.
Green Climate Fund

The Eco Banking Department is the only entity in Mongolia to be accredited by the Green Climate Fund (GCF), which was established under the United Nations Framework Convention on Climate Change (UNFCCC). The GCF aims to promote a paradigm shift towards low-emission and climate resilient development pathways. The fund will do so by providing support to developing nations to mitigate the impacts of climate change through its Accredited Entities.

In a continued effort to further enable sustainable financing in the Mongolian environment, XacBank submitted and received approval of its second funding proposal in September, 2017. This proposal entails the financing and construction of the first ever domestically financed utility-scale solar power plant. Located in the southern region of Mongolia, the 10 MW solar power plant will reduce greenhouse gas emissions by 12,270 tons annually, supply 15,396 MWh of electricity annually (providing about 20,000 households with electricity), and save 171,050 liters of water annually over the project lifetime of 25 years. Additionally, XacBank is expanding its cooperation with the GCF by implementing several other projects and are currently developing multiple funding proposals to bring even more concessional sustainable development pathways. The fund will do so by shifting towards low-emission and climate resilient development pathways. The (GCF) aims to promote a paradigm shift towards low-emission and climate resilient development pathways. The fund will do so by providing support to developing nations to mitigate the impacts of climate change through its Accredited Entities.

Collaboration with Green Climate Fund opened us access to funding at favorable terms for financing climate change projects.
Mongolia’s economic cycle has shifted upward from 1-2% of low growth in the past 2 years to 5-6% of moderate growth environment. Accordingly, the operating environment improved, specifically since the second half of 2017. In real terms, the economy expanded by 5.1% in 2017, mainly contributed by wholesale and retail trade, net taxes on products, manufacturing, services, and transportation sectors. There had been robust positive swings in the growth contributions of trade by 2.0pps, net taxes on products by 1.6pps, manufacturing industry by 1.4pps, and services sector by 0.8pps compared to the year of 2016.

Terms of trade condition improved throughout the year of 2017 by 13% attributable to 16% increase in export price index. Exports gained by 26% mainly due to historically high level of coal exports of 33 million tons. This unprecedented positive development has affected 20% growth of foreign trade surplus. External current account deficit increased by 63% to USD 1.1 billion, which was equivalent to 10.2% of nominal GDP, due to 29% increase in imports of goods and 74% growth of primary and secondary income account deficits, respectively. However, 3.2-times increase in financial account surplus on year-on-year basis, which was explained by recovered foreign direct investments and larger than expected foreign borrowings through the IMF program and newly issued sovereign bond proceeds for the purpose of refinancing matured bonds, helpedfully financing the external current account deficit, and resulted in the overall balance of payments surplus of USD 1.4 billion. Official foreign exchange reserves were more than doubled to USD 3.0 billion by year end.

These substantial improvements in the macroeconomic external balance and enhanced foreign exchange reserve position, successful refinancing of sovereign and sovereign-guaranteed bonds of nearly USD 1.1 billion in total, and a significant decline in government budget deficit had brought combined positive impacts on restoring economic confidence, improving medium-term market expectation, stabilizing foreign exchange market, enabling broad money supply to increase by 30.5%, enabling to cautiously ease tight monetary policy stance, and growing aggregate demand gradually towards the level of year 2014. Although, inflation increased from 1.1% to 6.4% throughout the year, it still been robust and stable as the overall confidence in Chinese economy is heightened and baseline outlook for regional and global economy is strengthening. This positive external outlook will continuously support Mongolia’s terms of trade condition, stability of capital flows, overall economic confidence, and a new growth cycle in the medium-term. Apparently, the consensus view is that the economy already rebounded in 2017 and a full economic recovery is expected in 2018. In conjunction to this realistic expectation, housing market may signal a slight recovery in 2018 after 3 years of continued contractions and stagnations since 2015.

In 2018-2019, global economic growth is projected to improve by 0.2pps to 3.9%, which is 0.7pps higher than the growth in 2016. Fundamental demand for mineral commodities, especially coking coal and base metals, has still been robust and stable as the overall confidence in Chinese economy is heightened and baseline outlook for regional and global economy is strengthening. This positive external outlook will continuously support Mongolia’s terms of trade condition, stability of capital flows, overall economic confidence, and a new growth cycle in the medium-term. Apparently, the consensus view is that the economy already rebounded in 2017 and a full economic recovery is expected in 2018. In conjunction to this realistic expectation, housing market may signal a slight recovery in 2018 after 3 years of continued contractions and stagnations since 2015.

The key macroeconomic risk theme for 2018 is a rising inflation. Higher inflationary pressure is expected due to supply shocks and cost-push factors such as elevated gasoline, fuel, food prices, and increased transportation costs. If inflation accelerates faster than projected, it may affect household’s real income and purchasing power, retail loan repayments, and reducing trend of domestic market interest rates, negatively. Rigorous macroeconomic policy reforms aimed at improving exports competitiveness, expanding economic absorption capacity, promoting the real sector activities, reforming the labor market, strengthening the middle class, and establishing a long-term savings and investments structure have still been a missing link and policy challenge for the macro puzzle.
Banking Sector

Confidence shocks, negative expectations and economic uncertainties, which were inherited from the previous year, and external financing needs all together imposed some strains on the domestic financial sector in the first half of the year; thus, demand for credits and financial intermediation basically delayed until the second half. However, economic risks significantly mitigated and its outlook became more visible and predictable because of several key factors including continued improvement of external market condition, its positive impacts on the domestic economy, rebounding of commodity prices in the global and regional markets, significant increase in coal exports, successful refinancing of the sovereign-guaranteed bond in March, and approval of the Extended Fund Facility (EFF) by the IMF Executive Board in May.

As a result, economic expectation shifted to a positive direction, business confidence started recovering and demand for private credits gradually increased in the second half of the year. The Bank of Mongolia eased its extremely tight monetary policy stance in June and December, cut the policy interest rate by 3 percentage points in total to 11%. The banking sector total assets, current accounts and deposits, and outstanding loans grew by 14%, 23%, and 10%, respectively by year end.

Although, operating environment was far better in the second half than the first one, banks have made significant efforts and dedicated substantial resources to the Asset Quality Review (AQR), conducted by external auditing firms. The AQR was one of the conditions that the regulator agreed with the IMF and is understood as a first step activity by the authorities, aimed at strengthening the banking industry. As a result of the AQR, the regulatory authority reported that the banking sector remained stable and there is no systemic instability risk.

Risks of asset quality deterioration in the banking industry significantly declined and systemic NPL ratio fully stabilized. At the end of 2017, NPL ratio remained stable at 8.5% whilst past-due loan ratio declined to 6.0%. The banking sector equity capital, excluding subordinated debt, and systemic net profits increased by 14.9% to MNT 2709 billion and by 40.7% to MNT 249 billion, respectively.

We kept our balance sheet flexible during 2017 in order to facilitate future growth for our customers. While we keep developing new services that meet customers’ needs, we need to do so without putting pressure on our balance sheet.

2017 Financial Results

2017 was an arduous year for XacBank in financial terms. Although, we reduced our lending rates, thanks to a good operational result, our net profit amounted to MNT 20.1 billion. As the economy picked up, the Bank saw good progress in loan origination volume, attracted new deposit and succeeded to bring down non-performing loans.

Financial Highlights

<table>
<thead>
<tr>
<th>Financial Highlights</th>
<th>2017</th>
<th>2016</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Results</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net operating revenue</td>
<td>82.4</td>
<td>77.1</td>
<td>6.9%</td>
</tr>
<tr>
<td>Operating expenses*</td>
<td>62.1</td>
<td>53.9</td>
<td>15.3%</td>
</tr>
<tr>
<td>Provision expenses</td>
<td>(0.7)</td>
<td>31.1</td>
<td>-102.3%</td>
</tr>
<tr>
<td>Net profit</td>
<td>20.1</td>
<td>21.5</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Balance Sheet</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>3,042.5</td>
<td>2,257.3</td>
<td>34.8%</td>
</tr>
<tr>
<td>Net Loans</td>
<td>1,322.1</td>
<td>1,139.9</td>
<td>16.0%</td>
</tr>
<tr>
<td>Gross loans</td>
<td>1,402.5</td>
<td>1,230.7</td>
<td>14.0%</td>
</tr>
<tr>
<td>Regulatory loan loss reserve</td>
<td>(88.9)</td>
<td>(98.9)</td>
<td>-10.1%</td>
</tr>
<tr>
<td>Public deposits</td>
<td>1,284.9</td>
<td>978.3</td>
<td>31.3%</td>
</tr>
<tr>
<td>Borrowed funds</td>
<td>1,504.8</td>
<td>1,054.8</td>
<td>42.7%</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>199.4</td>
<td>179.0</td>
<td>11.4%</td>
</tr>
<tr>
<td>Selected ratios and metrics (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk coverage</td>
<td>80.9</td>
<td>88.6</td>
<td></td>
</tr>
<tr>
<td>Liquidity ratio &gt;25%</td>
<td>43.9</td>
<td>42.5</td>
<td></td>
</tr>
<tr>
<td>Return on equity</td>
<td>10.8</td>
<td>13.5</td>
<td></td>
</tr>
<tr>
<td>Core capital ratio &gt;9%</td>
<td>11.2</td>
<td>12.7</td>
<td></td>
</tr>
<tr>
<td>Capital adequacy ratio &gt;14%</td>
<td>16.8</td>
<td>19.2</td>
<td></td>
</tr>
</tbody>
</table>

*Adjusted by self-funded costs

Data sources: Bank of Mongolia


2017 Financial Results

Flexible balance sheet

The balance sheet rose 34.8 percent compared with the prior year. Major growth that bolstered asset base to reach MNT 3,042.5 billion from 2,357.3 billion in 2016 year-end was sourced from public deposits, borrowed funds and gross loans. The Bank saw strong growth in public deposit portfolio reaching 1,284.9 billion, a 31.3 percent increase compared with the prior year, which was the result of joint augmented mobilization of current accounts and several efforts of deposit cross sales with sister companies and business lines. Time deposit balances posted a strong growth in 2017, too. Gross loan portfolio increased 14.0 percent to MNT 1,403.5 billion from previous year close. Within loan segments, retail loans increased 19.1 percent from the prior year led by good progress in salary loans and deposit backed loans.

The balance sheet rose 34.8 percent compared with the prior year. Major growth that bolstered asset base to reach MNT 3,042.5 billion from 2,357.3 billion in 2016 year-end was sourced from public deposits, borrowed funds and gross loans. The Bank saw strong growth in public deposit portfolio reaching 1,284.9 billion, a 31.3 percent increase compared with the prior year, which was the result of joint augmented mobilization of current accounts and several efforts of deposit cross sales with sister companies and business lines. Time deposit balances posted a strong growth in 2017, too. Gross loan portfolio increased 14.0 percent to MNT 1,403.5 billion from previous year close. Within loan segments, retail loans increased 19.1 percent from the prior year led by good progress in salary loans and deposit backed loans.

The Bank believes that asset quality deterioration risk has gradually stabilized; non-performing loan balances remained flat under diligent management during the year and totaled MNT 109.9 billion, a decrease from the prior-year level of MNT 111.8 billion. Since the start of the year, non-performing loans ratio (including off-balance mortgages sold to Mongolian Mortgage Corporation) improved to 6.9 percent, particularly, supported by decrease in non-performing loans in business loans. The regulatory loan loss reserve was MNT 88.9 billion with a loan loss coverage ratio above 80 percent. The Bank has set aside sufficient provisions to cover loan losses.

Foreign funds, which are sourced from international financial institutions and banks, increased 6.0 percent compared with the prior year; it accounts more than half of borrowed funds of the Bank.

In 2017, the Bank was able to successfully raise approximately USD 140 million debt from various international lenders including USD 49 million from the Overseas Private Investment Corporation to support access to finance for women-owned small and medium sized businesses in Mongolia.

Additionally, the Bank closed a USD 40 million syndicated loan facility with the European Bank for Reconstruction and Development (EBRD) for financing private micro, small and medium-sized enterprises; it is the second syndicated loan facility from EBRD.

Solid capital ratios

The Bank manages its own capital within the context of the approved annual business plan, which determines level of risk-weighted assets (RWAs) growth as well as the optimal amount and components of capital required to support the optimal mix of businesses. During the year, The Bank’s core capital and capital adequacy ratio remained solid well above the minimum regulatory requirements. Accordingly, the Bank’s core capital was 11.2 percent and capital adequacy ratio was 16.8 percent. Capital ratios declined compared to previous year due to increase in RWAs.

We delivered MNT 1,696.5 billion of RWAs in 2017 through a combination of targeted initiatives and selective origination. RWAs rose 27.3 percent reflecting an impact of increased balance sheet parameters. Total liquidity on balance sheet measured the strength of the Bank’s funding base and ability to meet financial commitments. Amid reduced market volatility, the Bank maintained a stable and diversified funding base of core retail and corporate customers and foreign funding sources. As a result, Liquidity ratio increased 140 basis point to 43.9 percent from previous year close.

In 2017, net profit was impacted by several exceptional items which increased the operating expense. Operating expense was MNT 62.1 billion, up 15.3 percent compared with the prior year, driven by higher personnel expense and professional service and consultancy fees; the latter is mainly related to increase in regulatory and compliance cost. Excluding this, our core operating expense was consistently flat throughout a year.

Diligent supervision and management of asset quality resulted in a fairly flat non-performing loan balance. A positive provision for loan losses was MNT 0.7 billion, reflecting decrease in non-performing loans in both business and retail segments.

In 2017, net profit was impacted by several exceptional items which increased the operating expense. Operating expense was MNT 62.1 billion, up 15.3 percent compared with the prior year, driven by higher personnel expense and professional service and consultancy fees; the latter is mainly related to increase in regulatory and compliance cost. Excluding this, our core operating expense was consistently flat throughout a year.

Diligent supervision and management of asset quality resulted in a fairly flat non-performing loan balance. A positive provision for loan losses was MNT 0.7 billion, reflecting decrease in non-performing loans in both business and retail segments.

In 2017, net profit was impacted by several exceptional items which increased the operating expense. Operating expense was MNT 62.1 billion, up 15.3 percent compared with the prior year, driven by higher personnel expense and professional service and consultancy fees; the latter is mainly related to increase in regulatory and compliance cost. Excluding this, our core operating expense was consistently flat throughout a year.

Diligent supervision and management of asset quality resulted in a fairly flat non-performing loan balance. A positive provision for loan losses was MNT 0.7 billion, reflecting decrease in non-performing loans in both business and retail segments.
Risk Management

Risk Management Approach
In 2017, we conducted a comprehensive review and revision of our risk and compliance management approach. Under the revised risk management approach, the roles and responsibilities for risk management are defined using a “Three Lines of Defense” model. Each line of defense describes a specific set of 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.
- 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 primary function of the Bank’s risk management was clarified in 2017 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 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. 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 and ratification of write-off decisions. 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 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.

Risk Appetite, Stress Testing and Scenario Analysis
In 2017, the Bank updated its risk universe and risk appetite. The Bank differentiates:

- Risk Appetite, which defines the amount of risk that the Bank is willing to take in pursuit of the Bank’s business model;
- Risk and Exposure Limits, which implement the Bank’s Risk Appetite, for example through credit exposure limits or credit concentration limits;
- Risk Capacity, which defines the amount of risk that the Bank is able to take within its regulatory constraints; and
- Stress Performance, which defines the acceptable financial performance under predefined levels of stress.

The Bank advanced its risk reporting and periodically monitors compliance against its risk appetite. Bespoke scenarios are applied to assess the Bank’s financial performance under a mild recession scenario and severe recession scenario. In addition, the Bank reviews alternative scenarios to assess the resilience of its business model. The alternative scenarios are complemented through a comprehensive contingent risk analysis.

Risk Universe
As a provider of banking and financial services, the Bank assumes risk commensurate with its risk appetite. The Bank differentiates the risks it is exposed to as follows:

- Liquidity Risk - potential inability to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses;
- Operational Risk (including fraud) - potential for loss resulting from inadequate or failed internal processes, people, and systems or from the impact of external events, including legal risks;
- Information Security Risk - potential for harm or loss resulting from breaches of, or attacks on information systems, or loss of information;
- Conduct Risk - potential for loss resulting from delivery of unfair customer outcomes and/or breach of the Bank’s code of conduct;
- Compliance Risk - potential for loss resulting from failed compliance;
- Reputational Risk - potential for damage to the Bank’s brand and reputation, resulting in loss of earnings; and
- Strategic Risk - potential for opportunity loss from failure to optimize the earnings potential of the Bank’s business model.
Risk Management

Credit Risk Management
During 2017, the Bank reviewed and advanced its policies, procedures, reports and models for the management of credit and credit concentration risk, and managed to achieve a positive portfolio quality. The Bank managed its credit and credit concentration risk through sound credit policies for underwriting new business. The existing portfolio was intensively monitored and its performance reviewed. Various credit risk management activities were employed to mitigate credit risks.

Furthermore, the Bank conducted intensive portfolio and collateral management activities and initiated individual strategies for distressed assets. As a result, the Bank’s non-performing loan ratio improved by 100 basis points from the previous year and reached 8.9% at the year-end 2017. The 2017 Asset Quality Review was not only an examination of the Bank’s asset quality and credit risk management, but also an investment into the Bank’s credit staff. The exercise confirmed the Bank’s prudent portfolio management and credit practices and helped foster good procedures.

Market and Liquidity Risk Management
In 2017, the Bank reviewed and revised its financial risk policy to ensure market, liquidity, and capital risks are adequately managed and the Bank’s capital and liquidity resources are deployed as efficiently and effectively as possible.

During 2017, the FX and interest rate market was relatively stable. The Tugrik (MNT) showed slow appreciation due to an improved balance of payment and gross national foreign reserves. Furthermore, the Bank of Mongolia cut its policy rate two times – from 14% to 12% in June and again to 11% in December – to support economic recovery under the IMF program going forward.

The Bank managed its FX position well in light of FX market movement. The Bank’s liquidity position remained strong throughout 2017. The loan-to-deposit ratio showed a downward trend thanks to the sustained growth of the Bank’s deposit portfolio. The cumulative net gaps of assets and liabilities were positive in all time buckets.

Information Security Risk Management
The year of 2017 featured initiation of the Bank’s Cyber security framework as stage one of the cyber security maturity plan. The cyber security team has developed a robust fundamental framework and defined processes for cyber security management and incident response.

The cyber security team has conducted penetration tests and vulnerability assessments in order to detect and identify vulnerabilities, which had never been performed previously with in-house resources. As a result of such actions, the Bank has defined and initiated remedial actions where necessary.

The cybersecurity team has conducted penetration tests and vulnerability assessments in order to detect and identify vulnerabilities, which had never been performed previously with in-house resources. As a result of such actions, the Bank has defined and initiated remedial actions where necessary.

Operational Risk Management
Under the oversight of the Operational Risk Committee, the Bank initiated the roll-out of a revised approach to operational risk, which shifts the focus from incident reporting to establishing a sound control framework.

The Bank’s operational risk function guides process owners on the definition and implementation of effective and efficient controls aimed at prevention, detection, and mitigation of operational risks. Process reviews and control readings define operational risk ratings which guide the operational risk acceptance. Rigorous review and challenge of controls through the Bank’s operational risk function is critical and supplemented with incident reporting and analysis.

To improve awareness and accelerate implementation of the operational risk management framework, the Bank provided both in-house and remote trainings for employees, which is expected to continue in the future.

Compliance
The Bank aims to comply with all applicable laws and regulations. During 2017, the compliance function was reviewed and strengthened through the implementation of screening, monitoring, and reporting applications and the introduction of a risk assessment matrix to identify high-risk clients, among other measures.

The Bank’s compliance function strengthened the Bank’s First Line of Defense through training and case study analysis, and assisted in the implementation of enhanced due diligence, suspicious transaction identification, and smart Know Your Customer activities.

Fraud and Financial Crime
In 2017, the Bank restructured its fraud and financial crime function. The Bank recognizes the need to implement strong on- and off-site investigation and analysis capabilities, the latter involving data analytics.

To prevent exposure to fraud and financial crime, the Bank has conducted several rounds of intensive training including, but not limited to, sharing case studies. The Bank’s fraud and financial crime function received intensive training in auditing techniques. Emphasis has been given to the implementation and execution of preventive and detective fraud and financial crime controls as part of the roll-out of the revised operational risk approach.

The primary function of the Bank’s risk management was clarified 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.
Key accomplishments:

- We launched the XacBank Credit Card in April with a focus on salary loan borrowers. This was a new launch of a new capability. In addition to the launch of the Credit Card, we worked with branch personnel to establish criteria for offering credit cards to customers and on ensuring that customers understood the difference between debit and credit cards in this nascent credit card environment.

- We launched Unstructured Supplementary Service Data (USSD) mobile banking format in June. This format allows mobile phone owners to use banking services without the traditional constraints of location or type of phone. Three network providers - Mobicom, Unitel, and Skytel have partnered with XacBank to deliver this unique service. By end of year, the total number of registered customers was 25,000 and growing steadily.

- We extended our Digital Payments reach in May. We introduced QR-code based payments to our merchants through our mobile applications. QR code scanning simplifies payments considerably as it eliminates most of the manual data entry for payments through the phone.

- In July, XacBank contracted with and connected a 3rd party service provider to extend the reach of transaction acquisition. This was the first such partnership in Mongolia – which allowed us to capture all POS transactions for the largest fuel distributor in the country. This connectivity has also enabled cash withdrawal service for XacBank cardholders at 300 petrol stations across Mongolia.

- We launched the first airline co-branded credit card in this market in October. We established a partnership with MIAT which allows customers to collect miles for card usage and redeem them for products and services of MIAT LLC.

- Our Internet Banking platform was enhanced to improve security and ease of use. Fingerprint authentication was introduced to assist customers. We also added two-factor authentication for improved security. These enhancements were delivered in May and October respectively.
Internal Audit

Internal audit is an independent activity functioning as the third line of defense in our risk management and internal control framework. The ultimate objective of our internal audit is to add value and improve the Bank’s operation by bringing a systematic and disciplined approach to evaluate the reliability, adequacy and effectiveness of internal controls, risk management and governance processes.

Our internal audit function is organized into an Internal Audit Department (Internal Audit) headed by Chief Auditor who directly reports to the Board Audit Committee. Every year, the Board Audit Committee reviews and approves the internal risk-based audit plan that identifies priorities and scopes based on the assessment of the current and emerging risks and controls over the risk types.

Internal Audit actively pursues continuous improvement in its capabilities in order to fulfill its responsibilities in the changing times. In 2017, the branch audit methodology was enhanced to increased audit scope and efficient use of resources.

To expand the capacity of its assurance activities, Internal Audit has initiated and implemented in stages a distance monitoring project in order to detect any non-compliant or fraudulent transactions remotely through data analysis. Additionally, progress has been made in the automation of implementation status and follow-up on the corrective actions.

Internal Audit has in place a rotation program that involves select employees from various departments in the audit activity as audit team members. Their in-depth understanding of processes brings a fresh perspective to onsite audits and provides learning opportunities for both internal auditors and employees by a mutual exchange of knowledge and expertise.

Anticipating changing business needs and to keep their skills up to date, Internal Audit invests in training programs to ensure that the internal auditors receive adequate and appropriate training each year aligned with the organizational strategy.

To diversify its value adding activities, Internal Audit is expanding its advisory scope to augment the traditional assurance services. Stronger focus and follow up is made on corrective actions and recommendations to improve risk management, control and governance processes, which contributes to the achievement of the Bank’s business objectives.

Given the increasing complexity of cyber risk and digital banking initiatives, Internal Audit places greater emphasis on the review and assessment of the Bank’s capability in IT and cyber security. IT audit plan and capacity are aligned with the organizational strategy.

In accordance with the leading practice, our Internal Audit function is assessed by International Institute of Internal Auditors through ongoing and periodic reviews in the form of the quality assurance and improvement program.

Internal Audit is composed of an experienced and collectively qualified team of 20 internal auditors, including a Financial Investigation Unit.

Internal Audit has an effective collaboration with the external auditors and regulators.

Internal Audit also provides leadership to the other subsidiaries of TenGer Financial Group on various audit aspects and acts as an internal resource and advisor while respecting the specific regulations applicable to the respective subsidiaries.

THE HIGHLIGHTS OF 2017 INCLUDE:

- Onsite audits at 8 UB and 21 rural branches with the main objective to provide the overall assessment of branch performance
- IT audits in the major risk areas, ranging from information security management to software and hardware architecture, which have significantly strengthened control and risk management activities
- Internal appraisal of staff competence level to identify and evaluate any gaps in competence of each auditor

In 2017, 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:

- February 2017: In relation to the IMF program, Moody’s Investor Service put the sovereign rating under review.
- April 2017: Moody’s confirmed Caa1 rating.
- January 2018: Moody’s updated its credit opinion of sovereign rating from Caa1 to B3 stable outlook.
- January 2017: Fitch Rating confirmed the previous rating.
- November 2017: Fitch upgraded the sovereign outlook from stable to positive outlook and accordingly revised XacBank’s outlook from stable to positive.

Moody's

<table>
<thead>
<tr>
<th>Moody’s Investor Service</th>
<th>Latest</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long- and short-term deposit ratings - Foreign currency</td>
<td>Caal/NP</td>
<td>Caal/NP</td>
</tr>
<tr>
<td>Long- and short-term deposit ratings - Local currency</td>
<td>B3/NP</td>
<td>Caal/NP</td>
</tr>
<tr>
<td>Baseline credit assessment</td>
<td>B3</td>
<td>Caa1</td>
</tr>
<tr>
<td>Issuer rating</td>
<td>B3/NP</td>
<td>Caal/NP</td>
</tr>
<tr>
<td>Outlook</td>
<td>Stable</td>
<td>Stable</td>
</tr>
</tbody>
</table>

Fitch Ratings

<table>
<thead>
<tr>
<th>Fitch Ratings</th>
<th>Latest</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term foreign currency Issuer Default Rating</td>
<td>B- / Positive</td>
<td>B- / Stable</td>
</tr>
<tr>
<td>Short term foreign currency Issuer Default Rating</td>
<td>B</td>
<td>B</td>
</tr>
<tr>
<td>Long term local currency Issuer Default Rating</td>
<td>B- / Positive</td>
<td>B- / Stable</td>
</tr>
</tbody>
</table>
Corporate Governance

CORPORATE GOVERNANCE FRAMEWORK

Good corporate governance has always been an important part of our identity at XacBank. It is our fundamental culture ensuring that we grow as a successful and sustainable banking business. The board of directors and the management strive to attain and uphold a high standard of corporate governance and to maintain sound corporate governance practices for the interests of the shareholders and all other stakeholders. 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.

The Bank’s corporate governance practices are based on the principles and certain recommended global best practices. 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” renewed and issued in September 2014.

During the year of 2017, the main focus has remained on maintaining and enhancing our good corporate governance practices.

The Charter of XacBank was amended to include 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.

Our stakeholder engagement efforts were consolidated under a formal Stakeholder Engagement Plan to take a structured approach to stakeholder relations and develop targeted systematic and effective engagement processes with the objective to unite our key stakeholders under our renewed strategic vision.

CORPORATE GOVERNANCE STRUCTURE

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, the holding company and sole shareholder of the Bank, represent the 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 that 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 risk to be assessed and managed.

The Board has standing committees established to help the Board carry out its functions and delegates to these committees certain responsibilities and decisions. 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 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 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 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.

SHAREHOLDER’S MEETINGS

In 2017, the annual general meeting (AGM) of the shareholders was held on 30 March 2017. The main decisions of the AGM were the approval of the annual operational and financial results and the audited financial statements for 2016, election and re-election of the board directors and approval of the board budget. The AGM resolved not to distribute a dividend for 2016 in order to ensure the funding for the future growth of the Bank and to comply with the regulatory recommendation.

Throughout the year, the shareholders had continuous involvement and participation by being informed of the decisions concerning important corporate matters and ensuring at the same time proper exercise of shareholder rights and effective and prompt shareholder decision making.

In addition, a forum for communication between the shareholders, the board and the executive management is provided by means of a conference call or similar communication equipment.

Board Leadership

BOARD SIZE AND COMPOSITION

The Board considers that its size and composition is appropriate and ensures 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 and facilitates effective decision making and substantive discussions by the whole Board in which each director can participate meaningfully. The Board recognizes the importance of having 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 2017, the Board had 11 directors, representing TenGer Financial Group (TFG), the sole shareholder and holding company of XacBank, consisting of one executive director, 7 non-executive shareholder-nominees directors and 3 independent non-executive directors. The board directors have a broad range of experience and industry expertise.

In 2017, Richard Ranken stepped down as a non-executive board director after his retirement from IFC. Sanjay Gupta replaced Richard Ranken as an IFC-nominated non-executive board director.

| # | Title First name Last name Position Nomination Nationality |
|---|-----------------|-----------------|-----------------|-----------------|
| 1 | Mr Ganbold Chuluun | Non-executive director | Minority shareholders | Mongolia |
| 2 | Mr Boldt Magvan | Executive director | | Mongolia |
| 3 | Ms Tsulmun Nyamatsn | Non-executive director | MAK Corporation | Mongolia |
| 4 | Mr Sanjay Gupta | Non-executive director | IFC | India |
| 5 | Mr Yoshiki Matsuoka | Non-executive director | ORIX Corporation | Japan |
| 6 | Mr Julian Healy | Non-executive director | EBRD | UK |
| 7 | Mr Yves Jaquot | Non-executive director | NBC | France |
| 8 | Mr Michael Maddin | Non-executive director | Ronic Partners | Ireland |
| 9 | Mr James Stent | Independent director | | USA |
| 10 | Mr Umbayar Bayansan | Independent director | | Mongolia |
| 11 | Mr Mathew Walsh | Independent director | | UK |

*According to the Charter of XacBank, the CEO shall be a board director with a voting right.*
Corporate Governance

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. The Chairman of the Board is Ganbold Chuluun and the Chief Executive Officer is Bold Magvan. There is a constructive working relationship, appropriate balance of power, accountability and independence in decision-making between the Chairman and the CEO.

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 oversees, guides and advises the CEO and 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 (NGC) Committee is responsible for reviewing the board composition, developing and reviewing criteria and establishing procedures for selecting board directors. The NGC Committee evaluates and makes recommendations to the Board regarding the qualifications of the candidates for election to the Board, including its independent directors.

Non-Executive Director Sanjay Gupta and Independent Non-Executive Director Mathew Welch were elected for a 2-year term at the AGM in 2017. Executive Director Bold Magvan and Non-Executive Directors Ganbold Chuluun, Michael Maddken and Tselmuun Nyamtshir were re-elected for a 2-year term at the same AGM.

Non-Executive Directors Yoshiaki Matsuoka, Julien Healy and Yves Jacquot and Independent Non-Executive Director James Stent were elected for a 2-year term at the AGM in 2016 and will stand for re-election at the AGM in 2018. Independent Non-Executive Director Ulaanbaatar Bayarsan was appointed by the Board as an interim board director in 2017 in connection with the expiry of his 2-year term and will also stand for re-election in 2018.

Board meetings

The Board conducts its business based on the Charter amended and approved on 9 August 2017 and the Internal Rules of Procedure of the Board amended and approved at the regular meeting of the Board on 10 June 2015. 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 and issues decisions acting by written consent without a meeting by way of written resolutions.

In 2017, the board held 3 regular quarterly meetings, 1 extraordinary meeting and 1 unofficial meeting. All board meetings were held in Ulaanbaatar, Mongolia. Attendance at the Board meetings was as follows:

<table>
<thead>
<tr>
<th>#</th>
<th>Date</th>
<th>Type</th>
<th>Attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>29 March 2017</td>
<td>regular</td>
<td>10/11</td>
</tr>
<tr>
<td>2</td>
<td>30 March 2017</td>
<td>extraordinary</td>
<td>10/11</td>
</tr>
<tr>
<td>3</td>
<td>14 June 2017</td>
<td>regular</td>
<td>10/11</td>
</tr>
<tr>
<td>4</td>
<td>13 September 2017</td>
<td>regular</td>
<td>10/11</td>
</tr>
<tr>
<td>5</td>
<td>6 December 2017</td>
<td>unofficial*</td>
<td>6/11</td>
</tr>
</tbody>
</table>

*Quorum was not constituted due to absence of 3 board directors who were unable to attend with a prior excuse.

The Board reserves at least one day per year to discuss the strategic long-term plan of the Bank. In 2017, such retreat was organized on 12 September 2017 between the board of directors and the executive management to discuss the Strategy 2020, including the operating environment, competitive landscape and macroeconomic assumptions, and to define the strategic choices and set priorities.

In 2017, the Board issued 33 resolutions, including 10 resolutions issued by way of written resolutions through online voting without holding a board meeting. The members of the senior executive management team of the Bank attend, as necessary, all regular board meetings and other board and committee meetings to provide information and advice on business developments, financial and accounting matters, regulatory compliance, corporate governance and other major aspects of the Bank.

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

BOARD 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 shall be 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 AND TRAINING

As part of the Bank’s good 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 2017, 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.

In 2017, all new board directors were provided with an induction program, including briefings by the Bank’s management and a series of meetings with other directors and senior executives to help them familiarize themselves further with all aspects of the Bank and remain current on the relevant developments at the Bank and in the financial sector and corporate governance issues of the Bank.

BOARD COMMITTEES

XacBank has three standing committees with certain responsibilities delegated by the Board that are established to help the Board carry out its functions. 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 the 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, the Board Audit Committee was chaired by an independent director in 2017.

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 2017, the standing committees had 4 regular meetings.

82 Annual Report | 2017

83 Annual Report | 2017
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 reviews 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, dividend policy, 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 10 December 2014.

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.

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 disclose 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 as of 31 December 2017.

BOARD SELF-EVALUATION
Continuing its good governance practices 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. The Board of the Bank completed its self-evaluation for 2017.

ACCOUNTABILITY AND AUDIT
The board of directors is responsible for the preparation of financial statements of the Bank with a view to ensuring that the financial statements give a true and fair 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 2017.
Awards and Recognitions

6th place among Top 100 enterprises of Mongolia
Mongolian National Chamber of Commerce and Industry

The Banker
Bank of the Year
The Banker magazine

Global Finance Magazine
Best Bank of Mongolia
Global Finance Magazine

Global Finance Magazine
Best Foreign Exchange Provider of Mongolia
Global Finance Magazine

ASIAMONEY
Best SME Bank in Mongolia
Asia Money awards

Aspire savings and Temuulel debit card named as
Child & Youth Friendly Banking Product
Child & Youth Finance International

Future Millionaire savings account named as
Child & Youth Friendly Banking Product
Child & Youth Finance International