



Annual Report 2023

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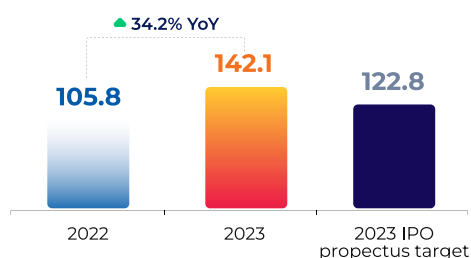
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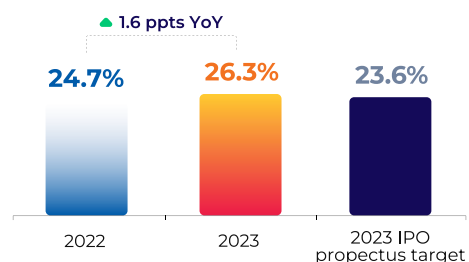
Key Financial Result

Net profit (after tax)

MNT billions

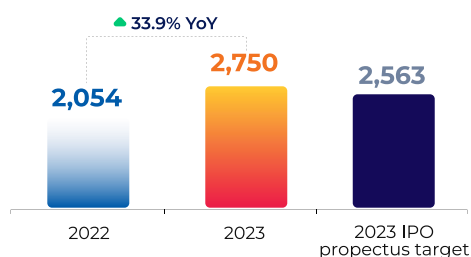


aROE*



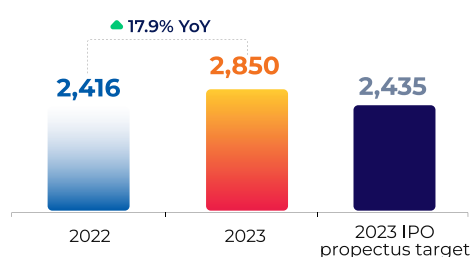
Lending

MNT billions

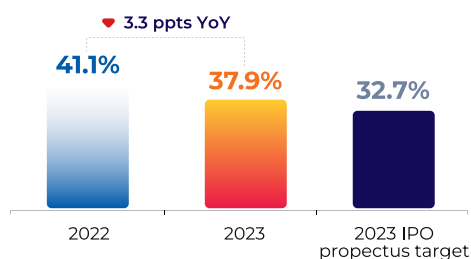


CASA & deposits

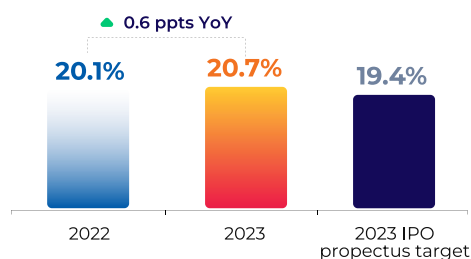
MNT billions



Liquidity ratio



Tier 1 CAR



P/E **4.57** EPS **138.1**
MNT

YoY Year-on-year.

* Based on monthly average equity.

Message from Chairman

2023 was a landmark year in our Bank's history as we successfully transitioned to an open joint stock company. Close to 10,000 individuals and entities chose to acquire our shares and place their trust in us. This is a big responsibility, and all of us will work hard to fulfil it.

The strategy we put in place in 2019 and the disciplined execution of that strategy has helped the Bank achieve record results year after year. 2023 was the fourth successive year of record profits. In the last five years, we have significantly improved all the key ratios for the Bank, and our net profit has grown at an impressive compound annual growth rate (CAGR) of more than 47%.

For 2023, our net profit was MNT 142 billion, a 34.2% increase over the previous year and one year ahead of the projections we had provided in our IPO prospectus. Sustained profitable growth is only possible when the foundational pillars of the Bank, like capital, liquidity, credit quality, provisions, operational controls, etc., are maintained at very robust levels. Our Tier 1 Capital ratio is 20.7%, one of the best in the industry. Despite such a strong capital position, our ROE was impressive at 26.3%. Our liquidity ratio was 37.9%. Our NPL ratio is 2.9%, the lowest in the industry. Our NPLs regulatory provisions ratio is 131.3%, and the combined (NPLs and OREOs) regulatory provisions ratio is 124.0%. We maintain tight control over expenses with a cost-to-income ratio of 40.1%.

In 2023, we paid an interim dividend for the first time. The dividend was paid from the profits in the first half of 2023 and was paid in full to all the shareholders, including the IPO investors who had become shareholders of the Bank only in June 2023.

XacBank already has a unique position in the Mongolian Banking industry with no shareholder controlling more than 20% of its equity on a UBO basis. TFG, which used to own 100% of the Bank before the IPO, now owns just under 95% of the Bank. As reported earlier, in 2024, subject to the approval of the shareholders and the regulators, we hope to comply with the Banking Law provision 36.1. by bringing the TFG shareholders directly to the level of XacBank through the merger of TFG with XacBank. To pave the way for this merger, TFG had divested all of its assets other than the shares of XacBank and some cash for its operations.

I would like to thank our CEO, Tsevegjav and all of our employees, whose dedication and commitment have helped us navigate intricate challenges to deliver an excellent performance. I would also like to take this opportunity to thank our Directors and Shareholders for their steadfast support and guidance.

We have done very well in the last five years but, even more importantly, we have positioned the Bank extremely well for the future. Our best is yet to come.

SANJAY GUPTA
Chairman





Statement by CEO

➤ Executing on High Impact Strategic Initiatives to Drive Shareholders' Value

Like in previous years, I would like to start this letter with a sense of gratitude for the dedicated and unconditional support from the Employees, the Board of Directors, and the Shareholders. We continued the strong momentum from previous years and over-delivered on strategic objectives again in 2023.

I am delighted and proud to report that XacBank delivered a strong performance in 2023, executing the strategic initiatives we set out last year well.

The ultimate highlight of the year was undoubtedly our successful IPO, over-achievement of profitability, and loan portfolio targets set in the IPO Prospectus.

XacBank closed the year with MNT 142.1 billion in net income (34.2 percent growth from 2022) with an ROE of 26.3 percent and an ROA of 3.3 percent. To put the 2023 results in perspective, we forecasted a net income of MNT 122.8 billion for 2023 and MNT 141.9 billion for 2024 in the IPO prospectus. As a result of collective hard work, excellent trust in teamwork, and dedication, XacBank's profitability is one year ahead of the IPO prospectus projections. This also marks the fourth consecutive year of delivering record profits.

Despite record cash dividends in the last three years, loan portfolio growth, and good NPL and OREO coverage, the Bank's capital position remains strong. Our Tier 1 capital ratio is 20.7 percent, 820 bps above the regulatory capital requirement.

➤ Continued Financial Momentum

Delivering great financial results is one thing, but it is equally important to elaborate on how we're able to deliver these results. The key highlights are we did well across all business lines.

The overall loan portfolio grew by 33.9 percent due to year-round growth in targeted customer segments: retail, corporate, and leasing within the set strategic segment mix. The retail segment, consisting of consumers and MSMEs, has seen impressive growth of 37 percent, primarily fueled by increased loans to women-owned businesses and innovative "Tablet Banking" services. Consumer loans increased as a result of the digitalization and automation of consumer loans.

The leasing business had another strong growth, 54.1 percent growth in 2023, behind increased demand for passenger vehicles and heavy equipment.

The new products we introduced to the market were electric vehicle leasing, a one-stop shop at dealerships, and opening two new leasing centers.

Statement by CEO

With improvements in the overall operating environment, corporate banking grew 13.1 percent within the risk parameters set by the Board. This growth reflects a broader trend of economic recovery and expansion.

As we continued to work to prove that we are the safest bank in Mongolia, our depositors continued to show their loyalty and trust in XacBank. Customer deposits grew 17.9 percent, the highest growth since 2018.

We have delivered strong results in other key financial objectives. The liquidity ratio is 37.9 percent from a well-balanced mix of local deposits and foreign funding.

Our strategy of continued cost discipline and focus on variable expenses has provided us with an operating leverage over the last few years. The cost-to-income ratio was 40.1 percent.

We continued with our prudent credit policy and tight credit controls, which is reflected in our credit quality. The NPL ratio was 2.9 percent, **again the best in the Mongolian Banking sector.**

As part of the strategic objectives to make XacBank more digital, we have heavily invested in IT and digital projects over the last few years. It is great to see the outcome of our IT investments: the number of digital users and digital transactions increased by 31.3 percent and 11.4 percent, respectively. Furthermore, we have seen an increase in digital loans and loans from collaboration with e-commerce partners.

The sustainability agenda continues to gather pace as Mongolia continues to face significant climate and environmental challenges.

XacBank continues to lead the banking sector in green finance to support the Mongolian government's carbon emission reduction targets.

In 2023, we developed a Paris Agreement transition roadmap for our bank, our blueprint moving forward.

➤ Start of a New Era: IPO and Banking Reform

Another historic milestone XacBank achieved in 2023 was successfully executing the IPO in June 2023, although our IPO was right after two of the biggest IPOs. Khan Bank and TDB IPOs had sucked up close to MNT 300 billion of liquidity from the stock market. It is also worth noting that XacBank was the last systemic bank to go for IPO, which made XacBank IPO more challenging. Nonetheless, we completed the IPO with a 117% subscription, and at the end of 2023, over 10,000 investors became XacBank shareholders. I want to thank all our shareholders for trusting in XacBank (MSE: XAC).

As part of the banking sector reform, we still have to bring the TFG shareholders from the TFG level to the XacBank level. Hopefully, in 3rd quarter of 2024, we should be able to complete the merger of TFG with XacBank so that our TFG shareholders can have a direct shareholding in XacBank.

➤ Outlook for 2024

Looking forward into 2024, macroeconomic risks remain, such as the demand for Mongolian mining commodities, global commodity prices, and the impact of geopolitical issues.

Judging from the 2023 year-end macroeconomic indicators and the first two months of 2024, coal exports are strong, inflation is in single digits, and FX reserves have built up to adequate levels; our outlook for the operating environment is optimistic.

The impact of the COVID-19 pandemic is now finally narrowed down to insignificant levels, and economic sanctions as a result of the Russia-Ukraine conflict are at manageable levels.

We closely monitor policy rates from the Central Bank of Mongolia and the US Fed Reserve as they will impact our funding structure, net interest margins, and credit demand. However, reflecting our work over several years to reshape our asset-liability management, we believe our balance sheet is resilient to these changes.

Finally, reflecting our optimism and significant momentum heading into 2024, we are targeting an ROE of above 20%, loan growth above 20%, and maintaining sustainable dividend payments, which align with the IPO prospectus.

➤ In Conclusion

Behind every success is a great team. I want to say a special thank you to Board Chairman Sanjay Gupta, all the Board of Directors, and the Shareholders for their continuous support.

I want to highlight the remarkable efforts of our more than 1,200 colleagues. Their committed work ethic combined with resilience in some challenging circumstances has delivered outstanding service to our customers and communities that we serve, and living by XacBank brand promise.

Our strategy is clear: we will continue our profitable growth in a controlled manner and remain committed to delivering shareholder value in the coming years.

Chief Executive Officer



..... **TSEVEGJAV (TJ) GUMENJAV**

Bank Performance

Risk Management

Human Capital Management

Digitalization

Highlights / Social Responsibility

Corporate Governance

Key financial results

Net profit (after tax)

142.1 MNT billions

2022: 105.8 MNT billions ▲ +34.2%

Total assets

5,119.4 MNT billions

2022: 3,930.8 MNT billions ▲ +30.2%

CASA and deposits

2,850.1 MNT billions

2022: 2,416.4 MNT billions ▲ +17.9%

Loan and lease portfolio

2,749.8 MNT billions

2022: 2,054.1 MNT billions ▲ +33.9%

Owner's equity

622.1 MNT billions

2022: 475.7 MNT billions ▲ +30.8%

aROA

3.3%

2022: 3% ▲ +0.3 ppts

aROE

26.3%

2022: 24.7% ▲ +1.6 ppts

Tier 1 capital ration

20.7%

2022: 20.1% ▲ +0.6 ppts

Non-performing loan ratio

2.9%

2022: 4.0% ▼ -1.1 ppts

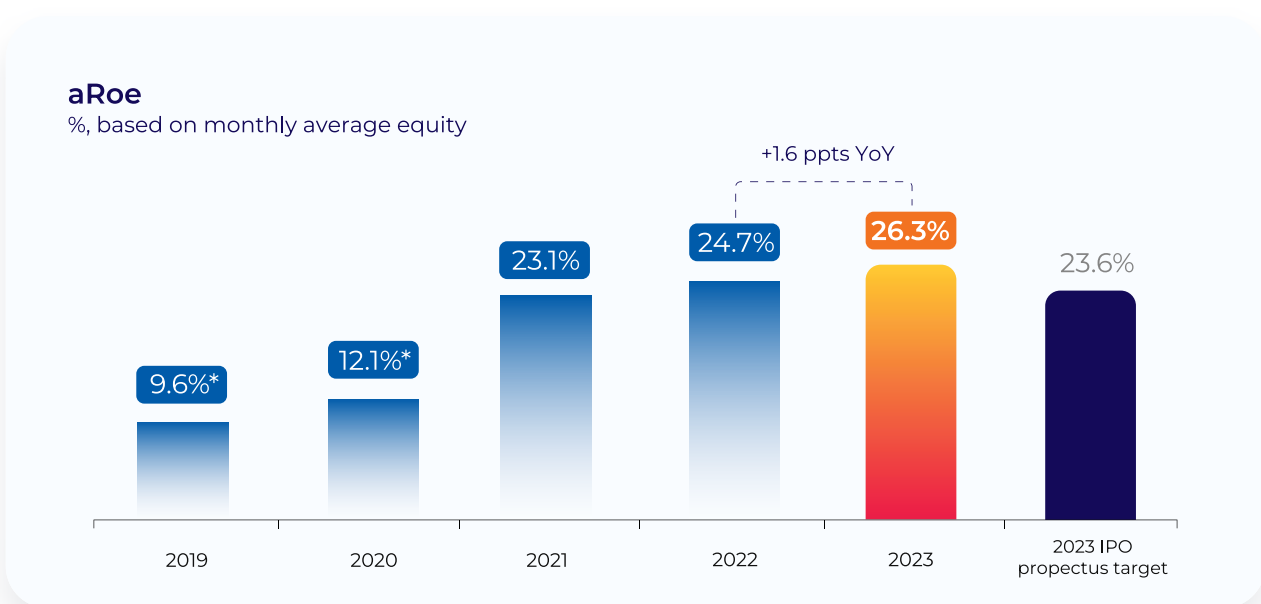
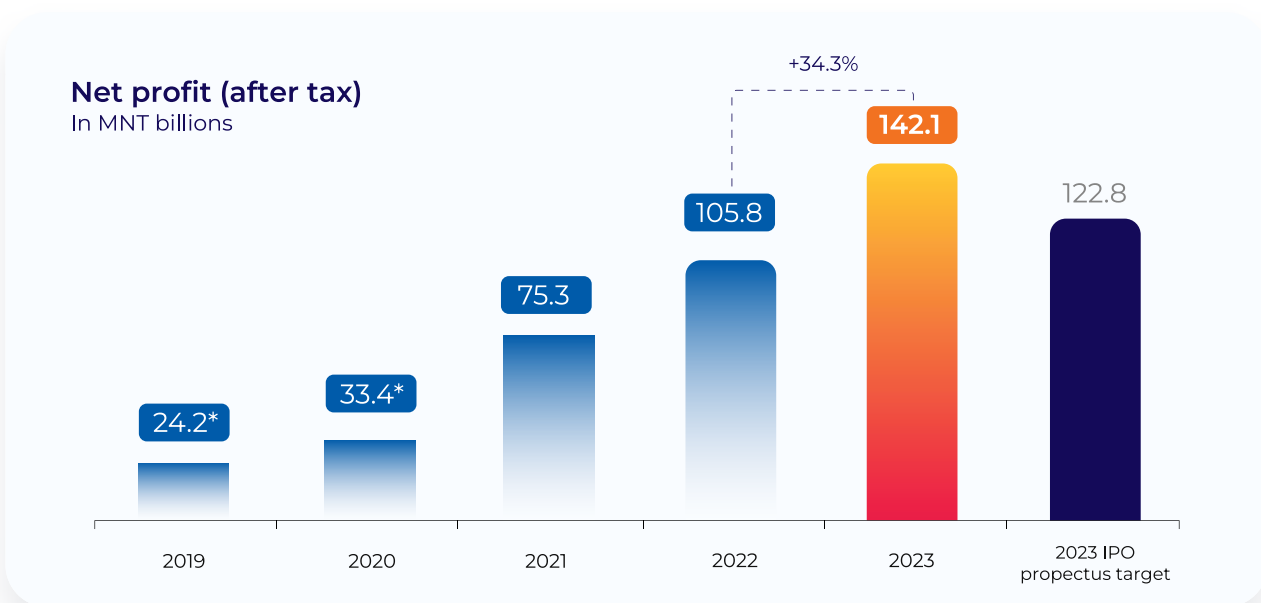
liquidity ratio

37.9%

2022: 41.1% ▼ -3.2 ppts

➤ Profitability

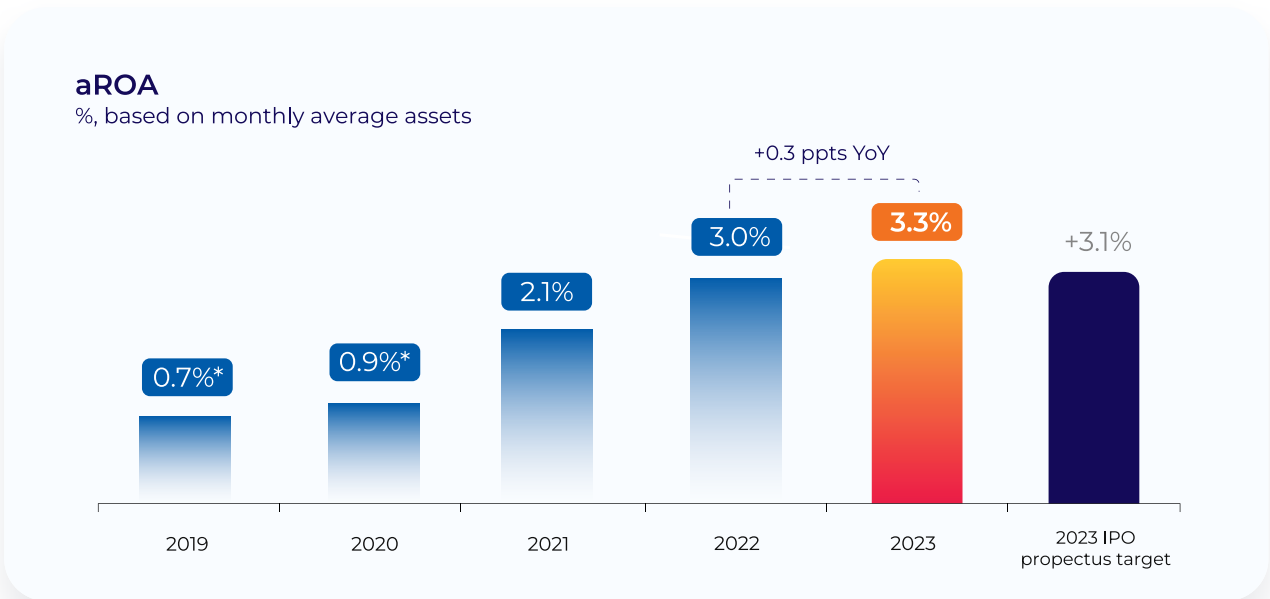
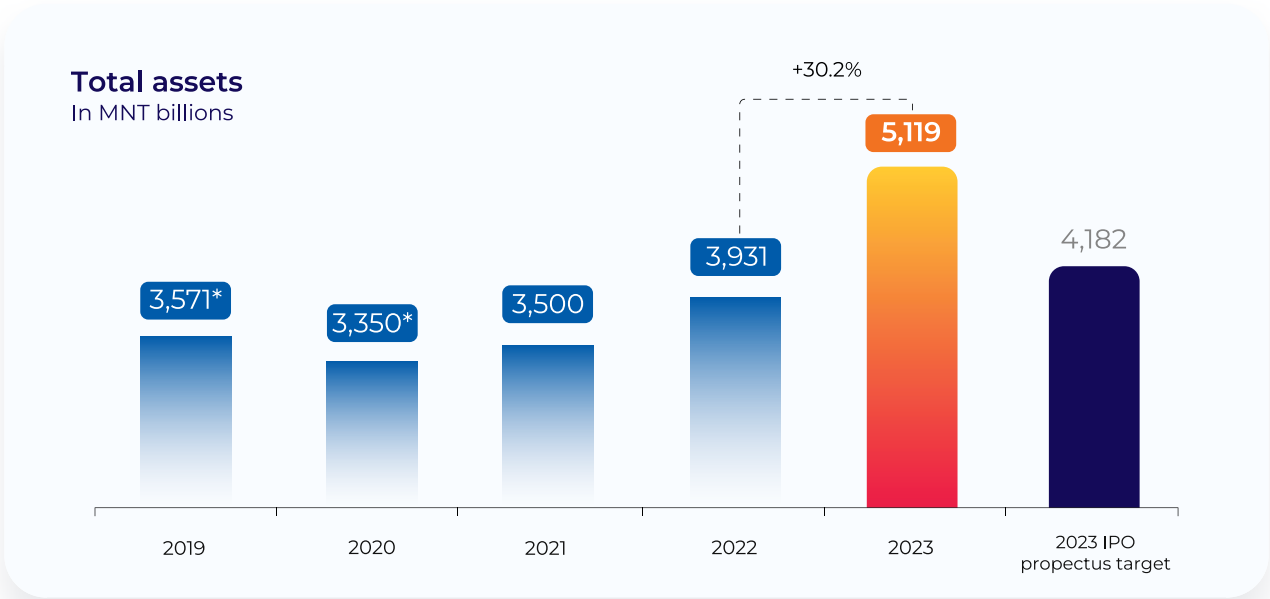
Profitability of the Bank continued to improve following the measures taken by the management in recent years. Despite facing various external pressures on profitability due to elevated central bank rates in both domestic and international markets raising funding cost for the Bank, the Bank maintained its profitability thanks to growth in revenue generating assets (GLP up 33.9% YoY) and improvements in the asset quality through diligent recovery process. As a result, net profit after tax of the Bank reached MNT 142.1 billion, up by 34.2%, in 2023. ROE reached 26.3%, up by 1.6 pts, meanwhile EPS reached 138.1.



* XacLeasing included for comparison purpose. XacLeasing merged in 2021 with XacBank.

› Total assets

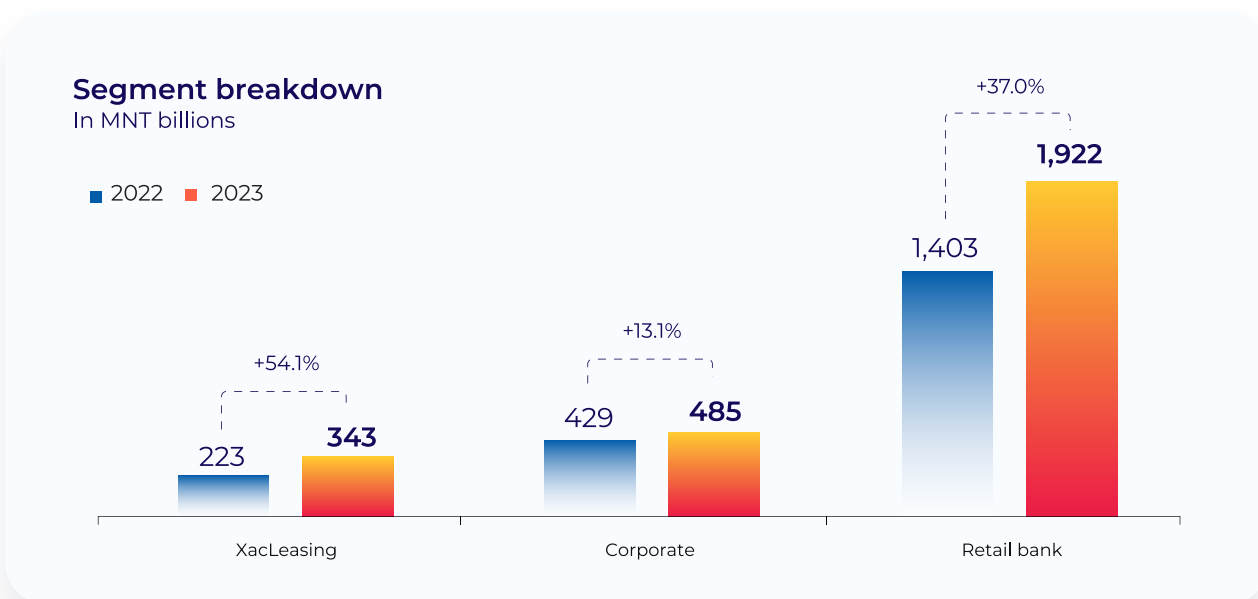
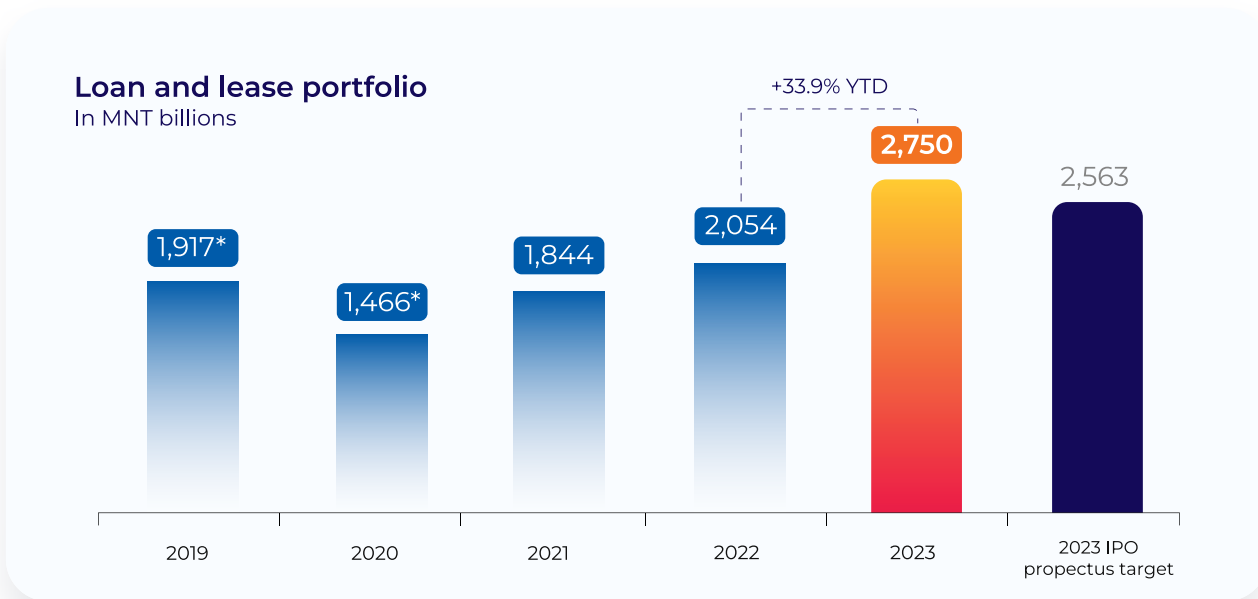
Total assets of the Bank increased 30.2% to MNT 5,119.4 billion, primarily driven by the growth in loan portfolio. During the reporting period, efficiency or return on asset (ROA) of the Bank improved 0.3 pts to 3.3% on the backdrop of higher revenue generating assets which increased inline with better asset quality.



* XacLeasing included for comparison purpose. XacLeasing merged in 2021 with XacBank.

› Loan and lease portfolio

Bank’s lending activities are structured across three segments: retail lending, corporate lending, and XacLeasing (finance leases). In 2023, each segment experienced notable growth, with retail lending expanding by 37.0%, corporate lending by 13.1%, and XacLeasing by 54.1%. The surge in the retail portfolio was primarily fueled by increased loans to women-owned businesses, facilitated by the innovative “Tablet Banking” service provided by the Bank. This service enhanced accessibility and convenience, thereby driving growth in this segment. The growth in the leasing portfolio was supported by the normalization of external trade routes between Mongolia and neighboring countries. The normalization led to a steady inventory of passenger vehicles and machinery at key vendors, which had a positive impact on the leasing business.

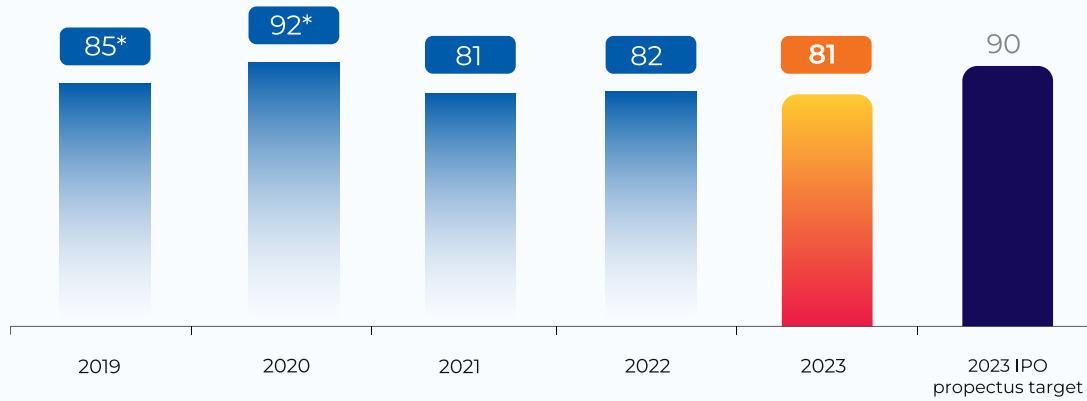


* XacLeasing included for comparison purpose. XacLeasing merged in 2021 with XacBank.

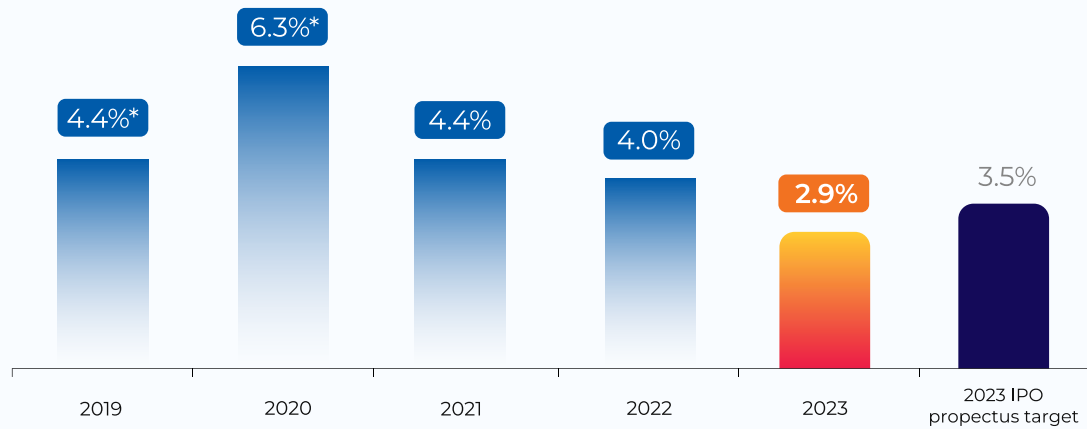
› Asset quality

Despite a robust growth of 33.9% in Gross Loan and Lease Portfolio, the Bank effectively enhanced its asset quality by minimizing non-performing loans (NPL). By the end of 2023, NPL ratio stood at 2.9% or down by 1.1 percentage points compared to 2022 year-end.

Non-performing loans
In MNT billions



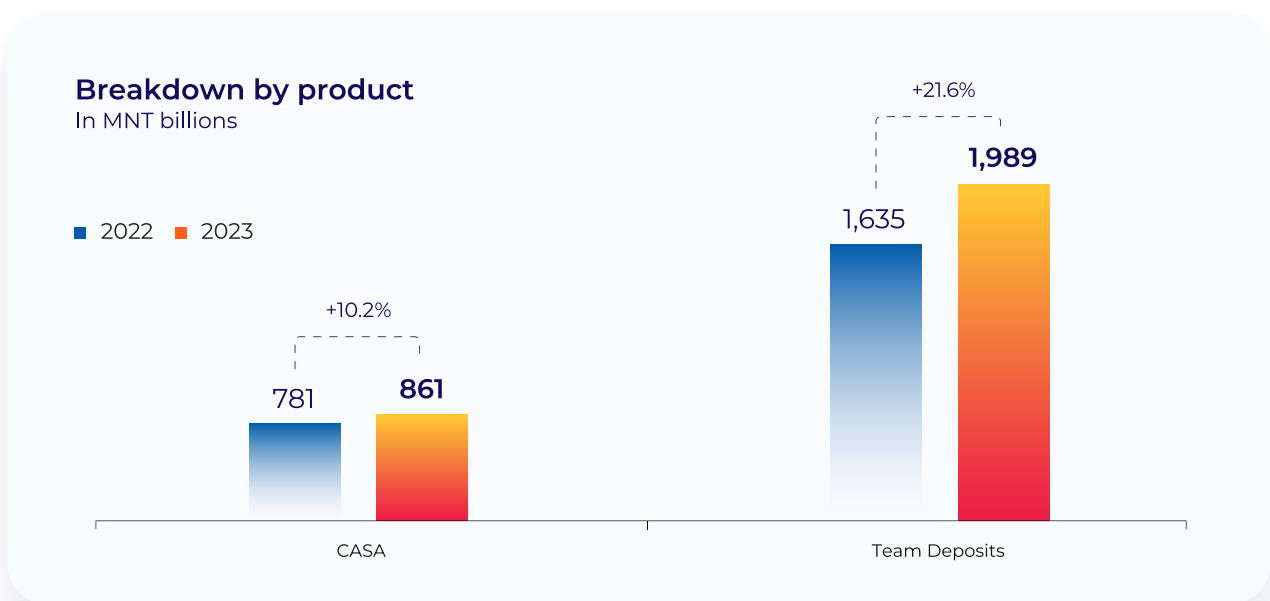
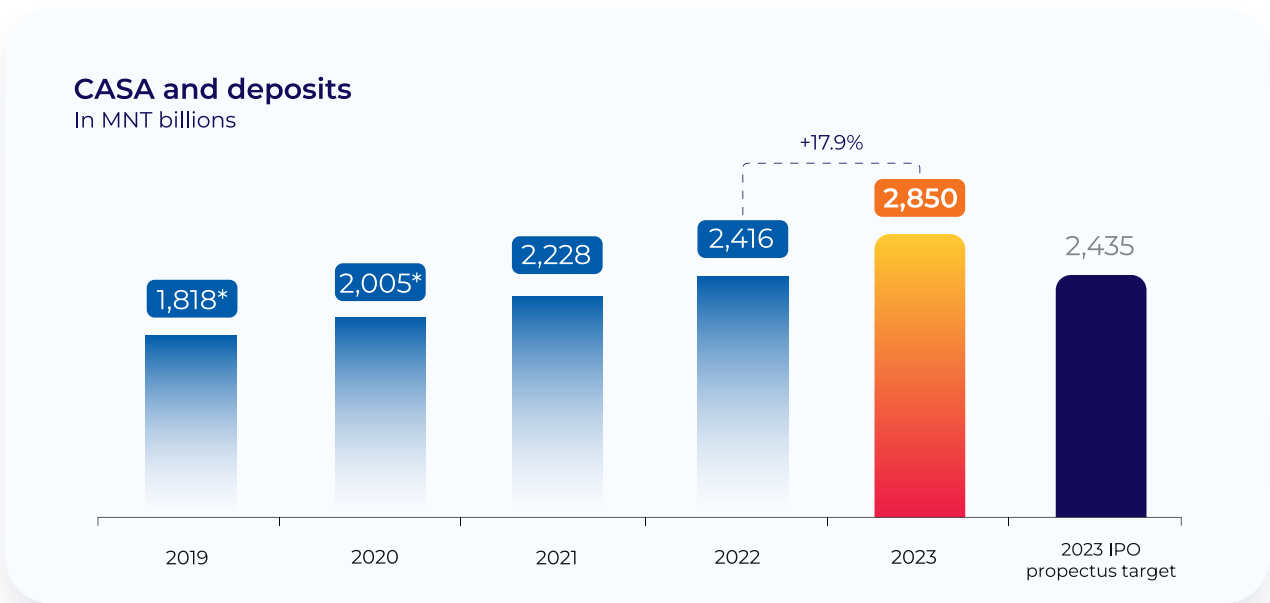
Non-performing loan ratio
%



* XacLeasing included for comparison purpose. XacLeasing merged in 2021 with XacBank.

➤ Current accounts and deposits

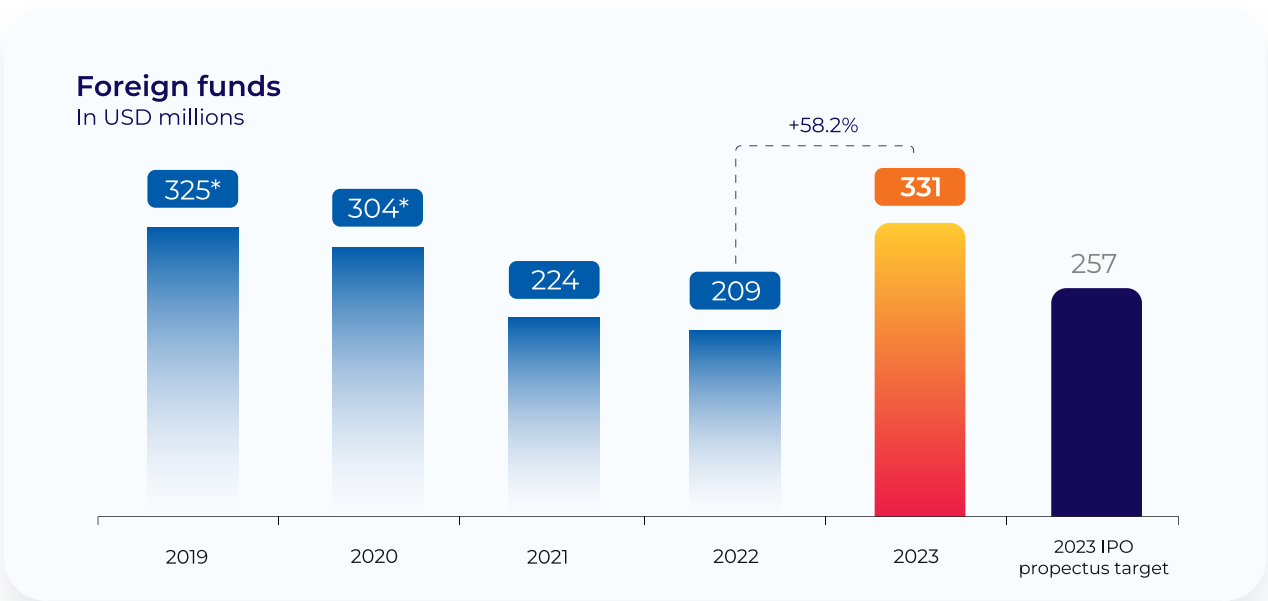
Customers can conveniently manage their current accounts through both branch and digital channels, ensuring a reliable and user-friendly experience. The Bank's deposit services encompass demand deposits, term deposits with monthly withdrawals, and long-term child deposits. Through continuous enhancements in digital accessibility and the user-friendliness of its products and services, the Bank achieved 17.9% growth in CASA and term deposits, balance reaching MNT 2,850.1 billion.



* XacLeasing included for comparison purpose. XacLeasing merged in 2021 with XacBank.

Foreign funds

To fulfill the long-term financing requirements of its customers, XacBank proactively collaborates with foreign funds and international financial institutions (IFIs). In 2023, a total of USD 205.5 million in new debt was raised including USD 130 million sourced from a long-term senior debt agreement signed with the International Finance Corporation (IFC) and the Netherlands Development Finance Company (FMO) in 2022. Remaining USD 75.5 million was sourced from new funding deals initiated in 2023.



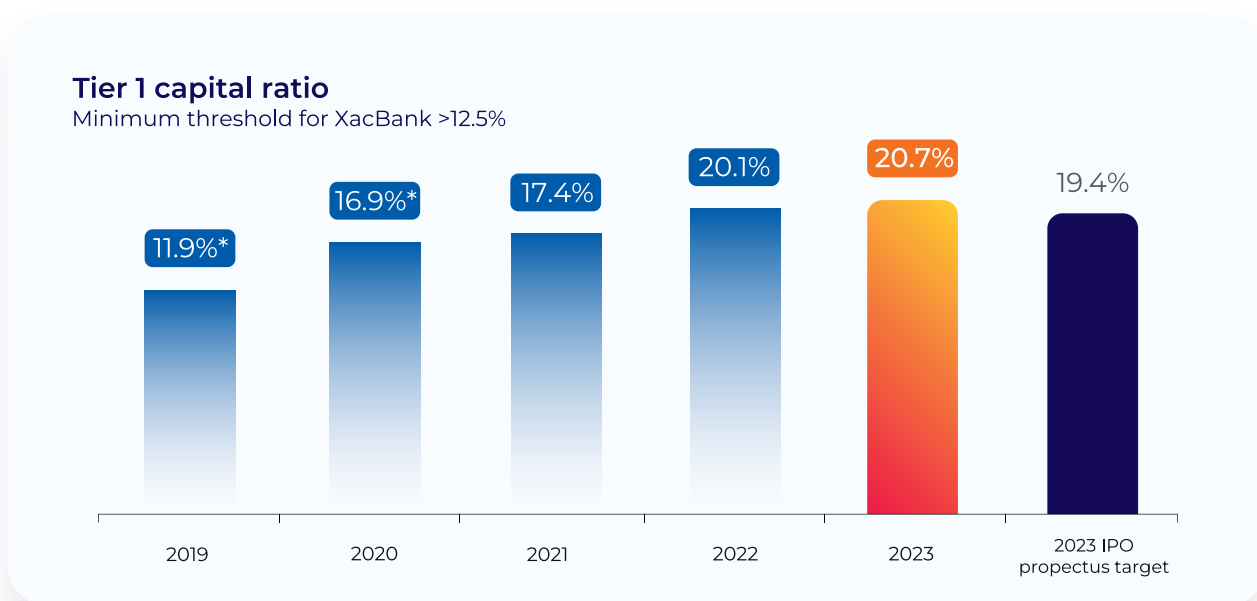
* XacLeasing included for comparison purpose. XacLeasing merged in 2021 with XacBank.

Lenders

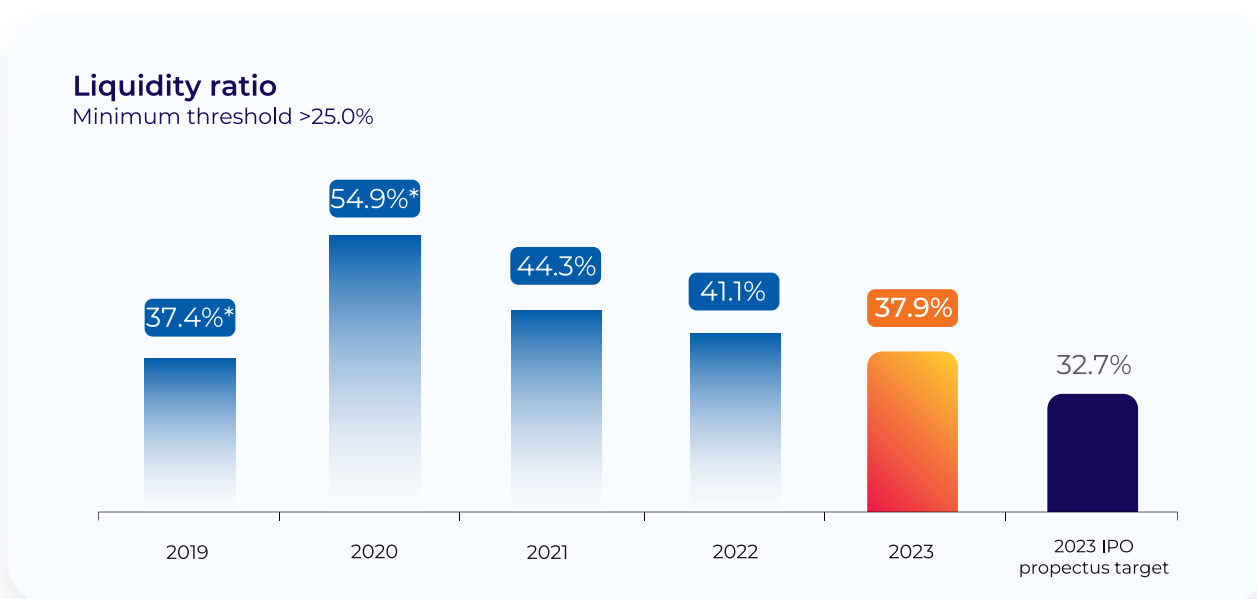


Prudential ratios

The Bank has consistently complied with the regulatory prudential ratios set by BOM. Capital and liquidity ratio increased steadily in recent years due to balance sheet measures implemented by the Bank to improve profitability. According to the regulations set by the Bank of Mongolia, the Tier 1 Capital ratio must meet a minimum threshold of 9%. Systemic banks are required to maintain a buffer on top of this minimum requirement, up to 3%-4%. As of year-end 2023, XacBank's Tier 1 Capital Ratio stands at 20.7%, exceeding the prudential requirement of the Bank of Mongolia by a margin of 8.2%. The excess buffer increases the Bank's capacity to absorb both internal and external risks at the same time allows the Bank to pursue its growth target or distribute dividends.



* XacLeasing included for comparison purpose. XacLeasing merged in 2021 with XacBank.



* In 2020 liquidity ratio was maintained at elevated level in order to mitigate potential impact from COVID-19 by reducing the gross loan portfolio and increasing cash or cash equivalent assets.

Prudential ratios

Another imperative prudential ratio for a commercial bank is its concentration ratios. As of December 31st, 2023, XacBank's credit concentration ratio (maximum threshold is 300%) is 38.6%, meanwhile deposit concentration ratio (maximum threshold is 25%) is 7.8%, indicating the Bank's reliance on single borrower or depositor is at minimum level.

	2020	2021	2022	2023
Core capital ratio > 12.5%	16.9%	17.4%	20.1%	20.7%
Foreign currency exposure ratio (single currency) +/- 15%	-1.8%	-1.1%	6.2%	-1.3%
Foreign currency exposure ratio (total) +/- 30%	-4.2%	-2.2%	6.9%	-1.4%
Credit concentration ratio <300%	77.2%	72.8%	66.6%	38.6%
Fixed asset to total assets ratio <8%	2.5%	1.7%	1.7%	1.3%
Deposit concentration ratio <25%	7.0%	7.1%	7.7%	7.8%

	2020	2021	2022	2023
Loans to bank's related party and employees and other assets equivalent to the loan (less than 5% of capital)				
Bank shareholders	0.0%	0.0%	0.0%	0.8%
Key management personnel	0.2%	0.1%	0.1%	0.1%
Other related parties	1.8%	1.8%	1.6%	3.2%

Total loans to bank's related parties and employees and other assets equivalent to the loan (less than 20% of capital)

Bank shareholders	0.0%	0.0%	0.0%	0.8%
Key management personnel	0.5%	0.4%	0.3%	0.3%
Other related parties	3.6%	4.5%	3.8%	3.2%

Ratings

In 2023, the Bank’s rating agencies, Moody’s Investors Service and Fitch Ratings, undertook their regular review and affirmed the external ratings of XacBank as a result of their reviews. The Bank maintained its active engagement and constructive dialogue with rating agencies throughout the year, collaborating to provide information about macroeconomic and banking sector, as well as promptly sharing updates on amendments to the Banking Law and other necessary information. The credit rating of XacBank is at the same level as the credit rating of Mongolia.

› Latest updates issued

- On July 7, 2023, Fitch announced the affirmation of XacBank’s Long-Term Issuer Default ratings (IDRs) at ‘B’, Viability Rating at ‘b’, with a stable outlook.
- On December 1, 2023, Moody’s Investor Service affirmed XacBanj JSC’s credit rating at ‘B3’ with a ‘stable’ outlook.

MOODY’S

	XacBank	Mongolian Government
Counterparty Risk Rating – foreign currency	B3/NP	B3/NP
Counterparty Risk Rating – domestic currency	B2/NP	B3/NP
Bank Deposits	B3/NP	
Baseline Credit Assessment	B3	B3
Issuer Rating	B3	B3
Outlook	Stable	Stable

FitchRatings

	XacBank	Mongolian Government
Long term foreign currency Issuer Default Rating	B/Stable	B/Stable
Short term foreign currency Issuer Default Rating	B	B
Long term local currency Issuer Default Rating	B/Stable	B/Stable

Lending portfolio

> Retail banking

Retail Loan Portfolio

1,921.9

2022: 1,402.9 ▲+37.0%

Digital Loan Portfolio

445.9

2022: 226.4 ▲+97.0%

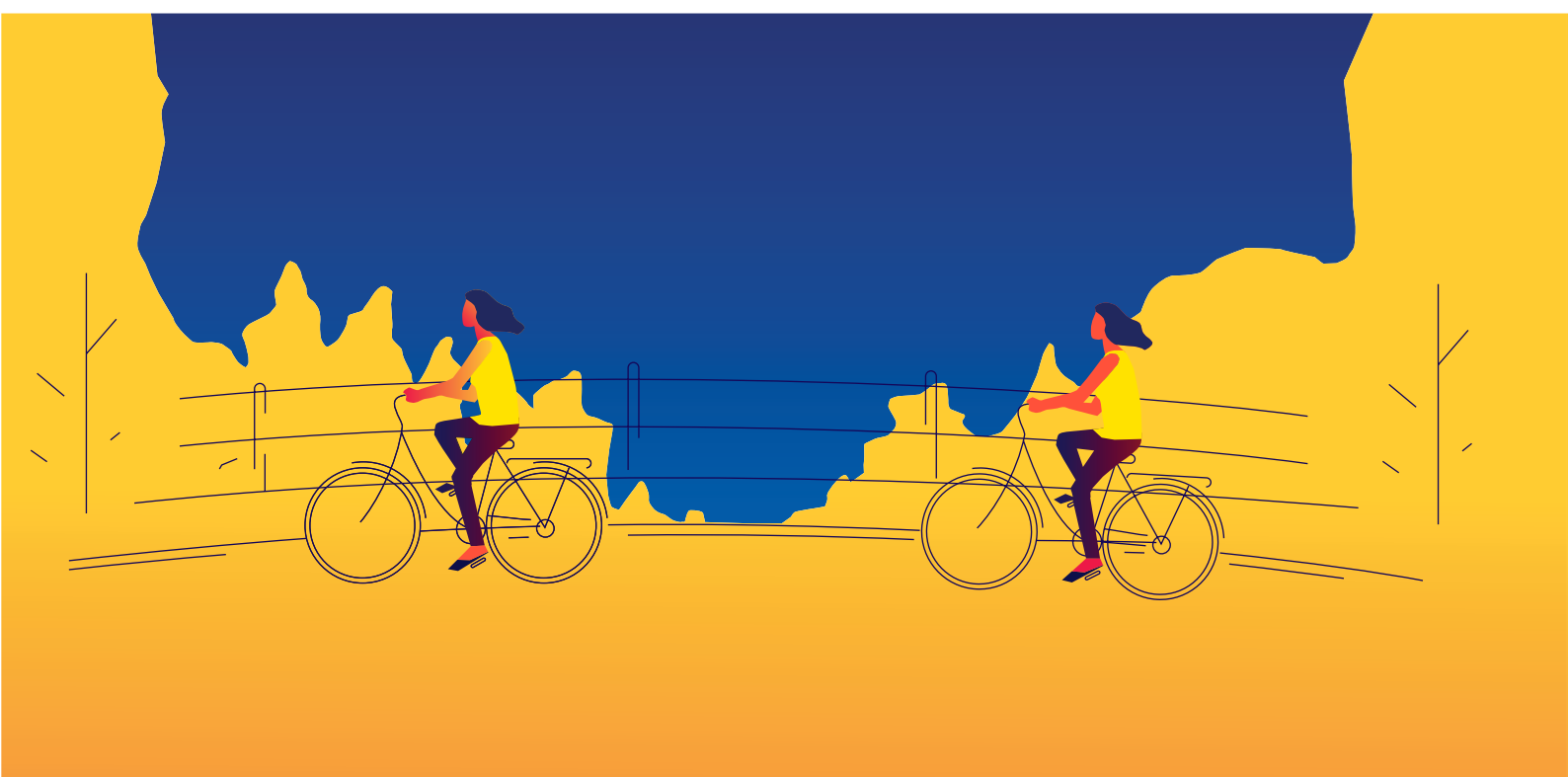
+9,000 Women owned businesses

438.8

MNT billion

The retail-lending portfolio grew by 37% annually and reached MNT 1.9 trillion. In 2023, loan product to support women entrepreneurs was launched successfully in the market with more favorable conditions than other SME loan products. The bank has disbursed MNT 438.8 billion to more than 9,000 women-owned businesses. Besides, the tablet-banking to provide banking services remotely has shortened the loan processing time up to 8 working hours. The consumer lending products such as Salary loan, Amar and Urtaar were successfully introduced on digital banking application as well as on our partner applications. The consumer loan disbursement via digital channels reached 47.1% of total consumer loan disbursement which is an increase of 97% from previous year.

The bank has successfully implemented subsidized lending program to support the food and agricultural sector in cooperation with the Ministry of Agriculture and Rural Affairs and the Bank of Mongolia. Moreover, the cooperation with government continued on lending programs such as fuel stockpiling, cashmere procurement, meat stockpiling and subsidized loans to entrepreneurs who has shifted out to rural areas in line with the government policy to neutralize overpopulation of capital city. By supporting and cooperating with these government initiatives, we enabled our customers to benefit from loans with lower interest rate and better terms than commercial products. The government residential mortgage loan program with 6% interest rate has been carried on continuously.



› Corporate banking

Corporate Banking strives to meet the demands of growing financial needs of its customers and deliver products and services tailored to their needs. As a result of prudent portfolio management with a focus on credit quality, corporate loan portfolio grew by 13% compared to the previous year while non-performing loan balance decreased by 25%. Corporate Banking focused on supporting a variety of green and energy efficiency projects aside from actively participating in government-subsidized loan programs. In 2023, we disbursed a total of MNT 258.6 billion in business loans, of which MNT 80.5 billion were government-program loans and MNT 74.2 billion were energy-efficiency eco loans.

Within the scope of our social responsibility and goal of reducing environmental pollution, we have been financing the ger-district redevelopment project for the 6th consecutive years. Up to date, we financed a total of MNT 58.0 billion for the project which lead to 24,464 sq.m of land being vacated and 912 households moved into their apartment units. It is estimated that reduction of 1,311 tons of carbon dioxide on annual basis.

XacBank increased its trade finance fee income by 39% from the previous year by actively using its wide network of correspondent banks as well as its unfunded guarantee lines established with international financial institutions. Total amount of letters of credit and guarantees issued in 2023 was worth MNT 167 billion, which was an increase of 31% from the previous year.

Corporate Loan Portfolio

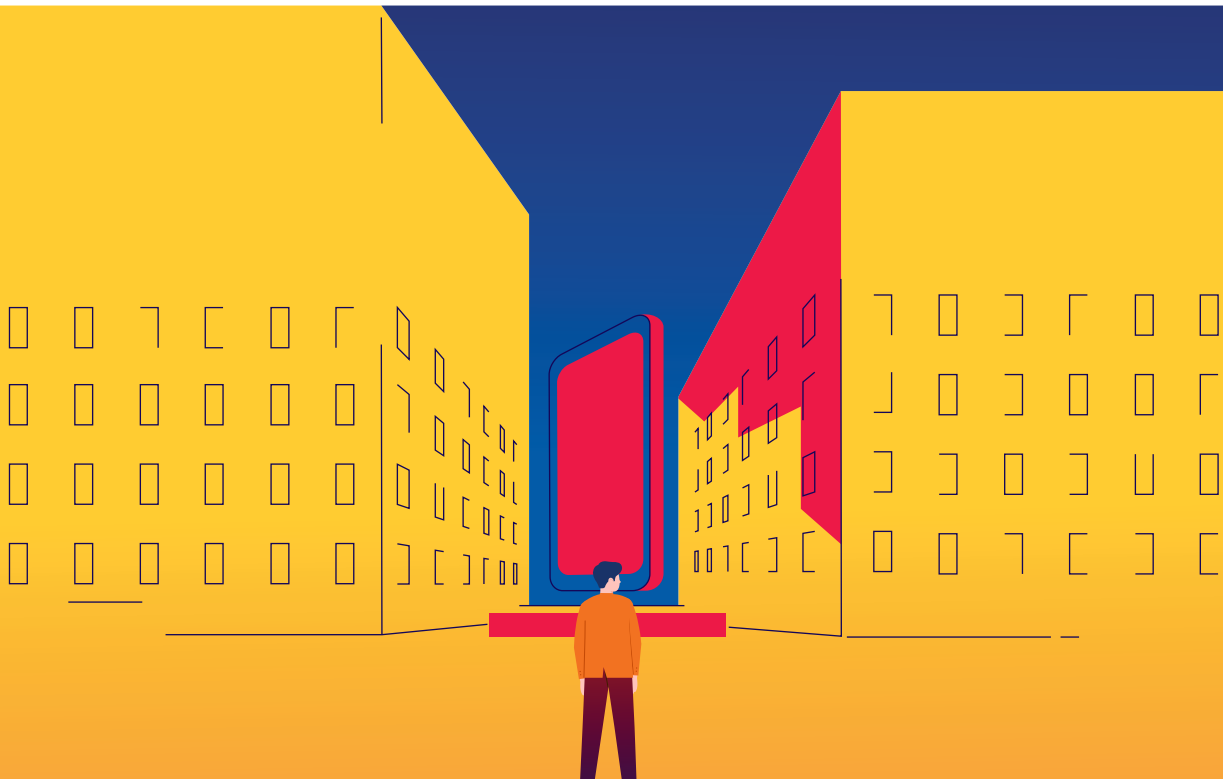
484.9 ▲13.1%
MNT billion

Disbursed loan

258.6
MNT billion

Credit guarantee

167.0 ▲31.0%
MNT billion





National Bank of Canada
Montreal, Canada



ODDO BHF SE
Frankfurt am Main, Germany
Commerzbank AG
Frankfurt am Main, Germany

STATISTICS



+1,000,000
Customers



+10,000
Shareholders



72
Branches

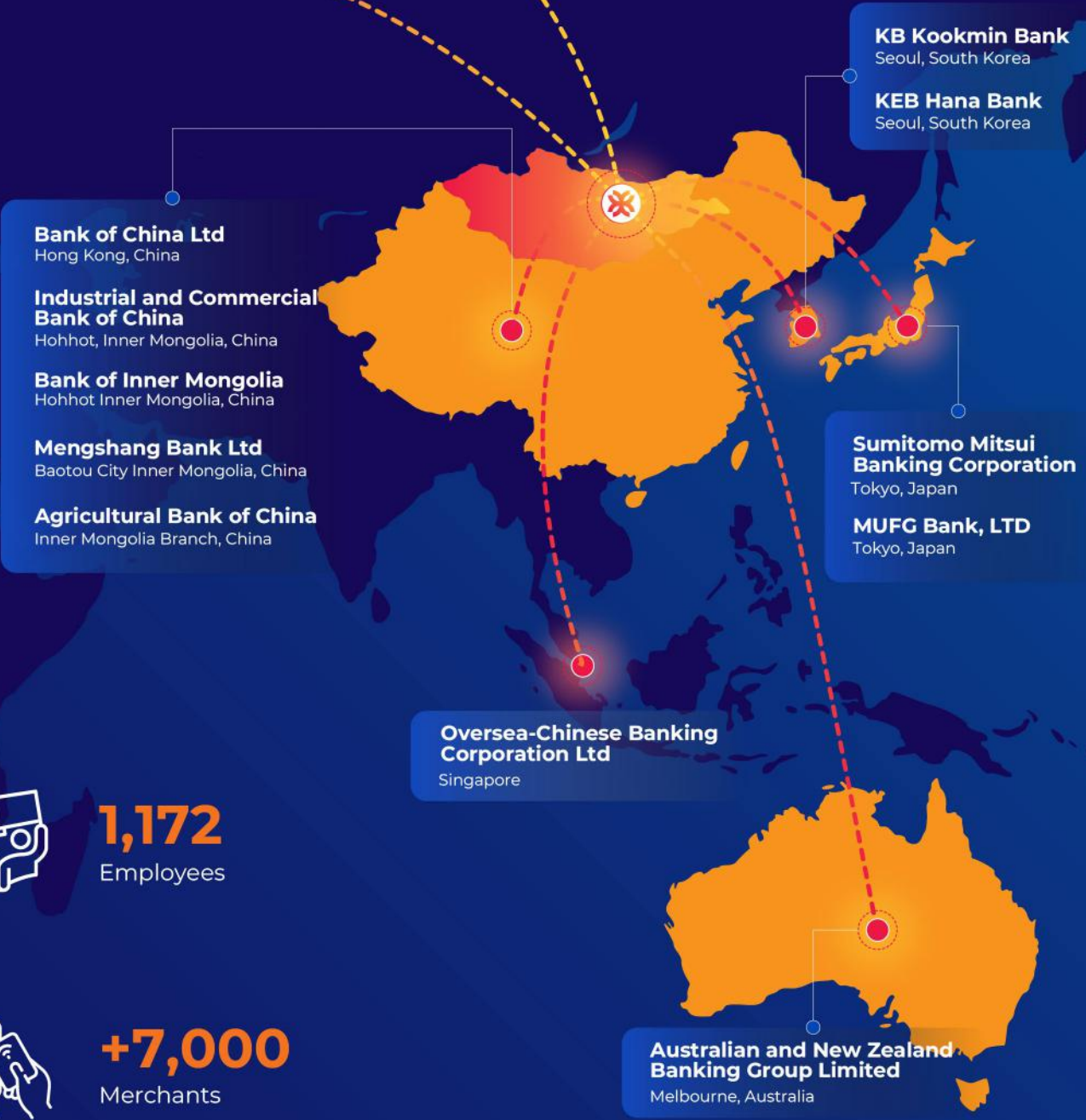


360
ATM



14

Correspondent banks



1,172

Employees



+7,000

Merchants

› Leasing division

XacLeasing™, formerly affiliated with XacBank under the same parent company, Tenger Financial Group LLC, underwent a merger with XacBank JSC in November 2021, in accordance with Article 20 of the Company Law, as part of a comprehensive corporate restructuring initiative across the Group. Presently, XacLeasing functions as the leasing department within XacBank JSC.

Leasing portfolio

342.9 ▲ 54.1%
MNT billion

The Leasing Division collaborates with manufacturers and authorized suppliers of globally renowned automobiles and technical equipment in Mongolia. It offers financial leasing services to both individuals and enterprises, eliminating the need for additional collateral.

In 2023, logistical challenges associated with the import of passenger vehicles and equipment to Mongolia were resolved, thereby positively impacting sales. Consequently, a total of MNT 267.4 billion in finance leases were extended to customers, leading to a 54.1% increase in the finance lease portfolio compared to the same period of the previous year, reaching MNT 342.9 billion.

Total disbursement

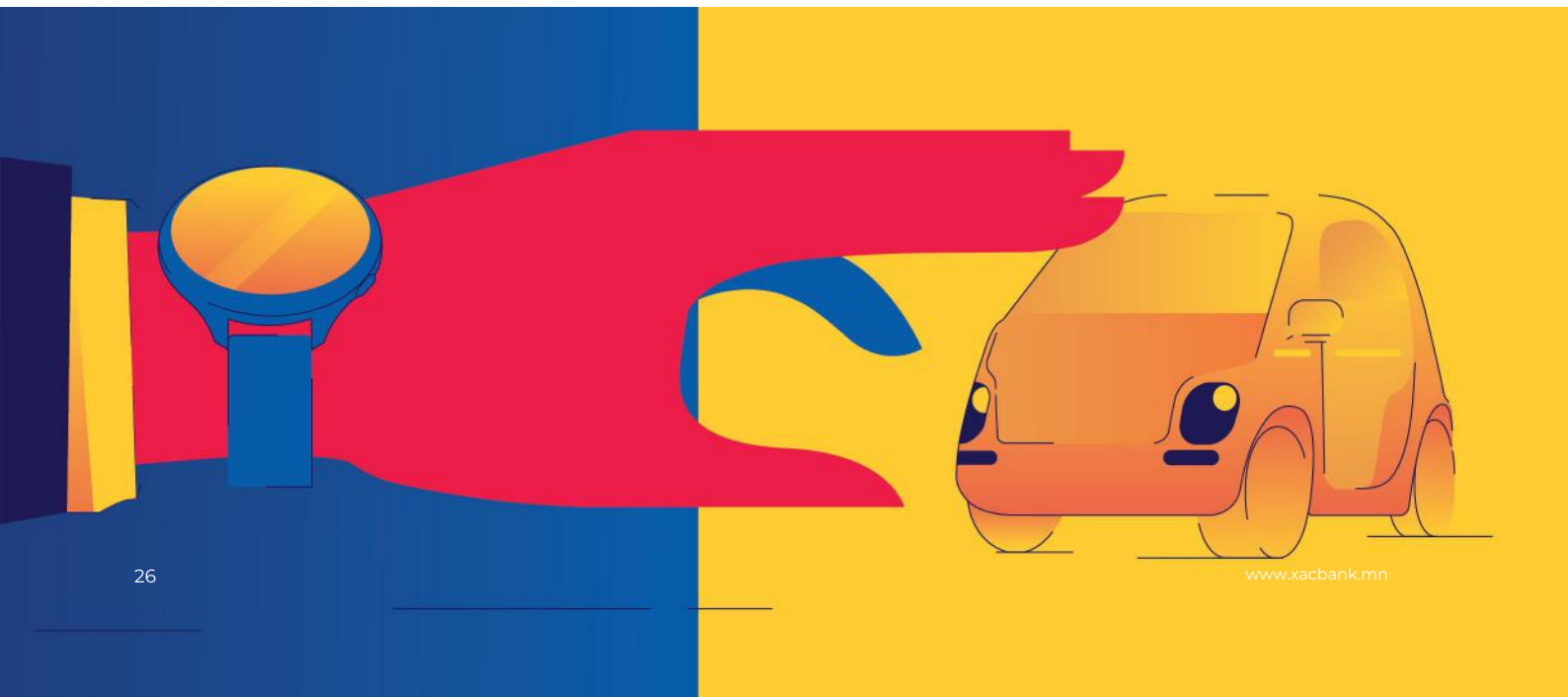
267.4
MNT billion

The Bank's cooperation with leading auto dealerships were expanded in 2023, through establishment of one-stop shops that deliver all services and products of XacBank at key vendors such as Tavanbogd (Toyota dealer) and MSM (Mercedes Benz dealer).

In accordance with updated strategy of XacBank on passenger vehicle segment, 2 new branches were established at key auto markets that focus on imported used cars. The sales of finance leases for used cars at these new branches will be bolstered through the implementation of a dealer-based approach.

The cornerstone of managing asset quality lies in the careful selection of A-class products featuring modern technology, possessing high resale value, and forging partnerships with reputable vendors holding official distribution rights. Through strategic management of asset concentration, tailored to each client's business sector operations, the non-performing loans (NPL) of finance leases are effectively maintained at 1% of the total lease portfolio.

Throughout the year, XacBank's Leasing Division introduced several new products and expanded its operational footprint.





Eco Car Leasing

Started providing finance leasing services for environmentally friendly electric cars from suppliers. During the year, MNT 8.9 billion worth of electric cars were financed.



Finance lease for newly imported used cars

New product can process a lease request within 1 business day.



XacMortgage

As part of the XacMortgage project, we have introduced a long-term loan service for the purchase of a house in cooperation with TOP construction companies.



The MADA credit card

The MADA credit card, designed for financing spare parts, maintenance, and equipment for car users, has been developed in collaboration with car distribution organizations.



In partnership with UBCab

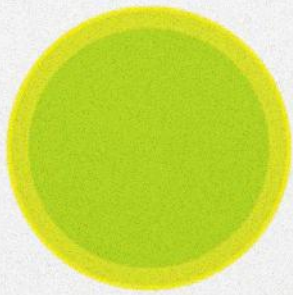
In partnership with UBCab, Mongolia's largest taxi service system, the bank has initiated the provision of loan services tailored to self-employed taxi drivers

XacBank finances the sustainable energy market and meaningfully contributes to climate change mitigation.

Since establishing the Eco Banking Division in 2009, XacBank is providing loans aimed at decreasing air pollution, reducing greenhouse gas (“GHG”) emissions and developing renewable energy, and green loans constitute 4.31 percent of the bank’s total loan portfolio.

Total amount of greenhouse gas emissions reduced as at the end of 2023:

2,543,880 tonnes



Green financing

› Green business loan program

The MSME Business Loan Program for GHG Emissions Reduction implemented by the bank since 2013 has achieved a total GHG emissions reduction of 2,202,109 tonnes of CO₂ equivalent by the close of 2023. As part of this program, XacBank builds stakeholders' capacity with regards to the measurement and verification required for financing energy efficiency and developing sustainable financing in Mongolia. Additionally within this initiative, the bank organizes complimentary financial accounting and tax training for MSMEs, empowering them to successfully run their businesses. A total of 1,246 participants benefited from these training activities from 2017 until 2023.

› Green consumption loan program

Implemented since 2019, the program has successfully reduced 23,851 tons of CO₂ equivalent in GHG emissions by the end of 2023.

In addition to developing the options and promoting the utilization of energy efficient technologies such as electric heaters and housing insulation at the household level via concessional loans, we've also supported the construction of energy-efficient homes that use at least 20 percent less energy compared to the baseline as per the building norm effective in Mongolia.

As part of the program, we've engaged 1,422 individuals through training sessions and meetings to raise awareness on the benefits of energy conservation and housing insulation. Additionally, we've conducted capacity-building activities for construction firms to ensure compliance with energy efficiency standards from the initial design phase to completion, including interim audits during the construction process. These activities underscore our commitment to developing the energy-efficient housing market in the right direction from the beginning.

Furthermore, in 2023, XacBank collaborated with the Ministry of Environment and Tourism to provide subsidized green loans to households and businesses nationwide. These subsidized loans financed 25 types of technologies aimed at addressing the critical environmental concerns of air and soil pollution.

› Carbon financing

XacBank continues its activities to receive remuneration for carbon credits in the voluntary carbon market and under the UN's Clean Development Mechanism within the framework of the Energy-Efficient Product Distribution Program in collaboration with Micro Energy Credits. A notable achievement in carbon financing in 2023 was the successful sale of a total of 399,821 carbon credits in the voluntary carbon market.

Bank Performance

Risk Management

Human Capital Management

Digitalization

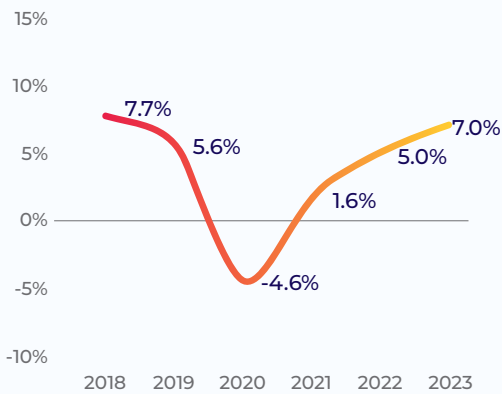
Highlights / Social Responsibility

Corporate Governance

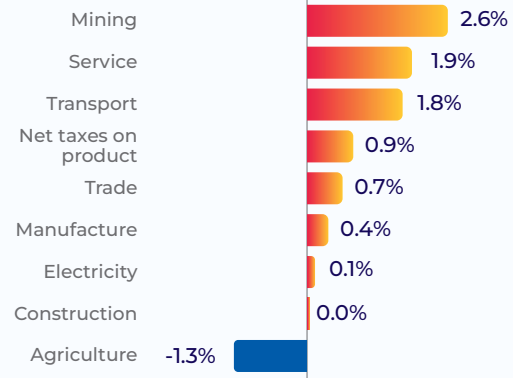
Macroeconomic environment

The Mongolian economy has expanded by 7.0% in 2023. All other sectors, except for agriculture, made positive contributions to the overall economic growth. Within these sectors, mining and transportation sectors primarily influenced the economic growth. The reduction in production within the agriculture sector, attributed to harsh winter and spring conditions, has constrained the economic growth.

Mongolian economic growth 2018-2023



The contribution of sectors to economic growth. (7%)

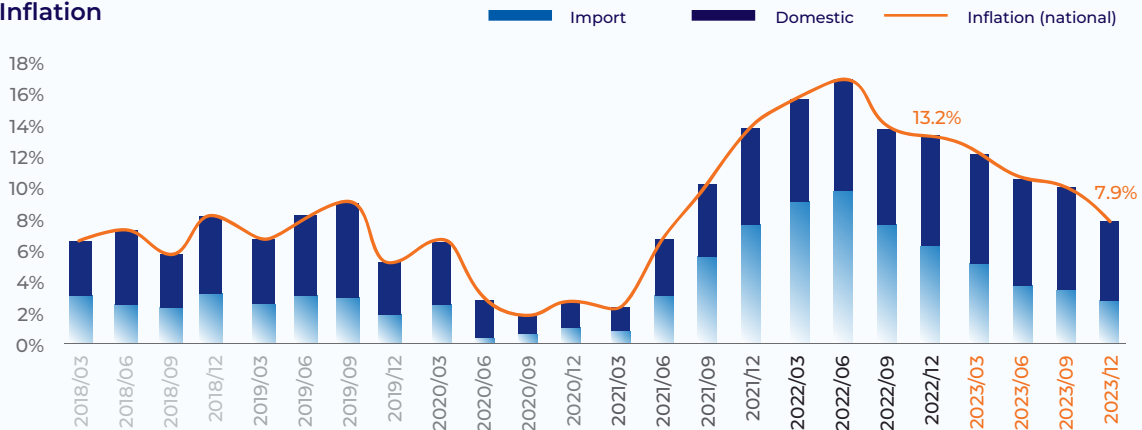


Source: National Statistical Office of Mongolia (2015 Base Price)

The inflation rate reached 7.9% by the end of the year, representing a decrease 5.3 percentage points compared to the previous end of the year. The significant increase in prices of major domestic products has adversely influenced the inflation rate, while the impact of price increases in imported products on the inflation rate has decreased compared to the previous year.

However, inflation has been decreasing gradually; the Monetary Policy Committee mentioned that the risk of the demand-side pressure, which is related to higher budget expenditures, is expected to increase in the Monetary Policy Statement.

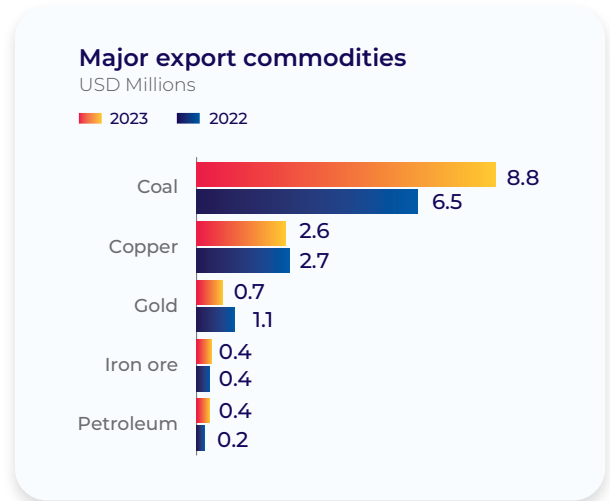
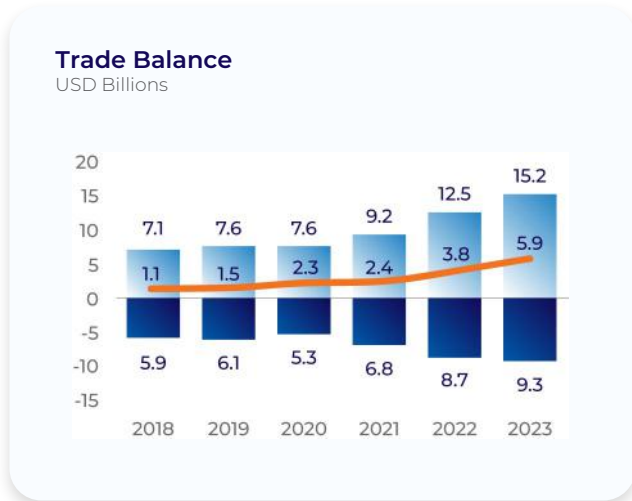
Inflation



Source: Bank of Mongolia

In 2023, total exports increased by 21% to USD 15.2bln and import increased by 6% to USD 9.2bln. Consequently, the trade surplus reached USD 5.9bln and increased by 55 percentage points from the previous year.

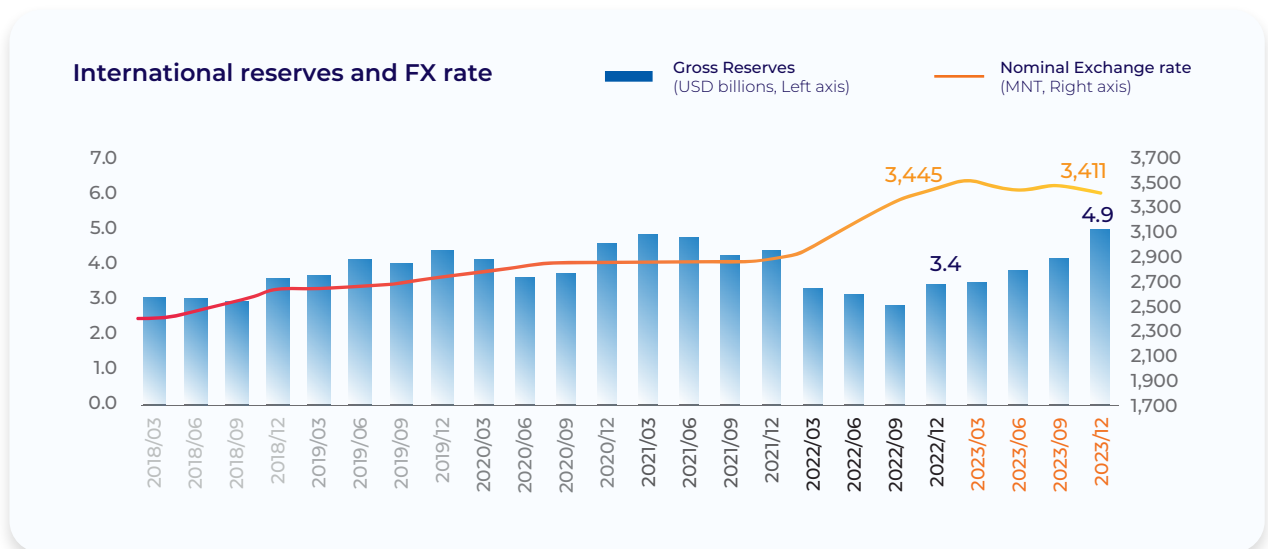
Throughout 2023, the external demand for coal exports has increased. As a result, coal exports rose by 37.9mln tons compared to the previous year, reaching the highest amount at 69.6mln tons.



Source: Bank of Mongolia

The balance of payments, amounting to USD 1.5bln by the end of the year, was in surplus due to the increase in export income. Consequently, the Bank of Mongolia’s international reserves increased by USD 1.5bln to USD 4.9bln.

The inflation rate reached 7.9% by the end of the year, representing a decrease 5.3 percentage points compared to the previous end of the year. The significant increase in prices of major domestic products has adversely influenced the inflation rate, while the impact of price increases in imported products on the inflation rate has decreased compared to the previous year.



Source: Bank of Mongolia

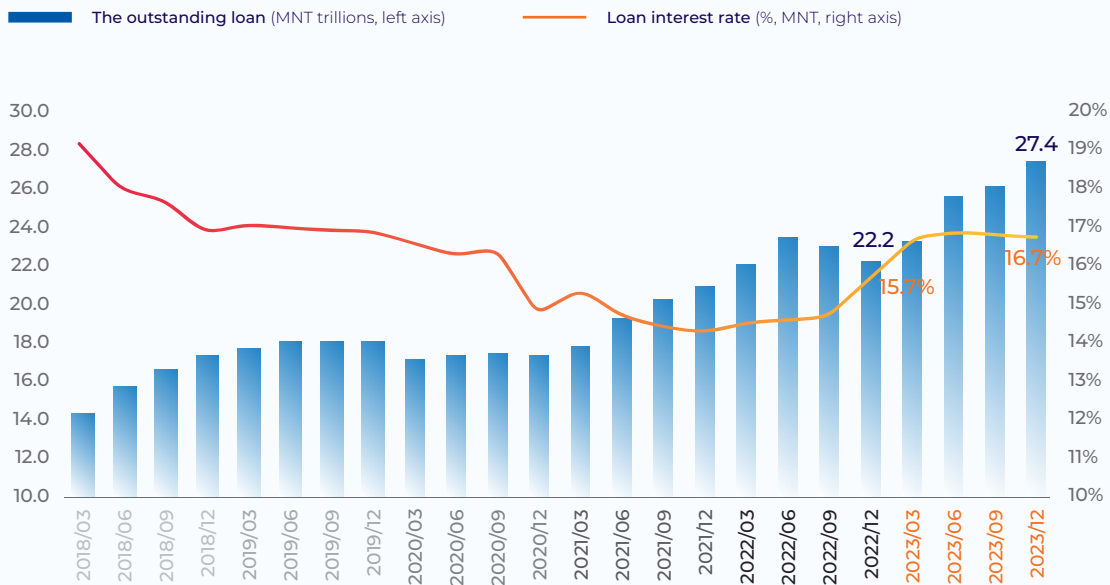
Banking sector

Total of 12 commercial banks operating in Mongolia and their total amount of assets in the banking sector has increased by 24.2% to MNT 57.1trn. Furthermore, the increased profitability of commercial banks, reaching MNT 1.3trn, had a significant influence on the total equity, which reached MNT 6.2trn.

In 2023, the total loan outstanding amount increased by 23.6% to MNT 27.4trn and the growth in loans disbursed to the individuals primarily impacted total loan growth.

As of December 2023, the weighted average interest rate on newly disbursed loans in domestic currency increased by 1% from the same period last year to 16.7%, while the weighted average interest rate on newly disbursed loans in foreign currency increased by 0.3% from the same period last year to 10.5%. Also, the interest rate on deposits in domestic currency increased by 0.7% to 11.6%, while the interest rate on deposits in foreign currency decreased by 0.8% to 4.2%.

The outstanding loan and the interest rate

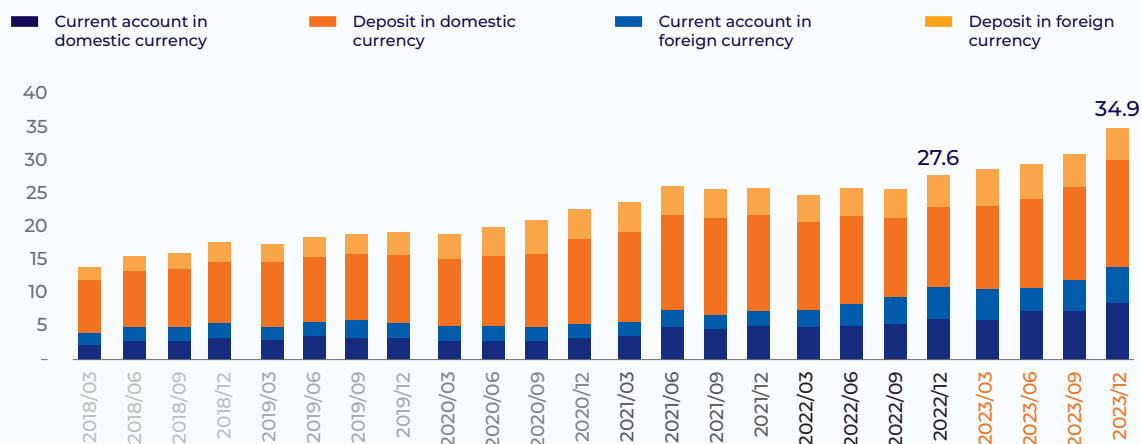


Source: National Statistical Office

At the end of the reporting year, the public deposits and current accounts constituted 69% of the total liability in the banking sector. Furthermore, total public deposits reached MNT 34.9 trillion, reflecting a 26.3% increase from the previous year. The growth in public deposits in domestic currency constituted 93% of the overall increase in public deposits.

CASA and deposits in the banking sector

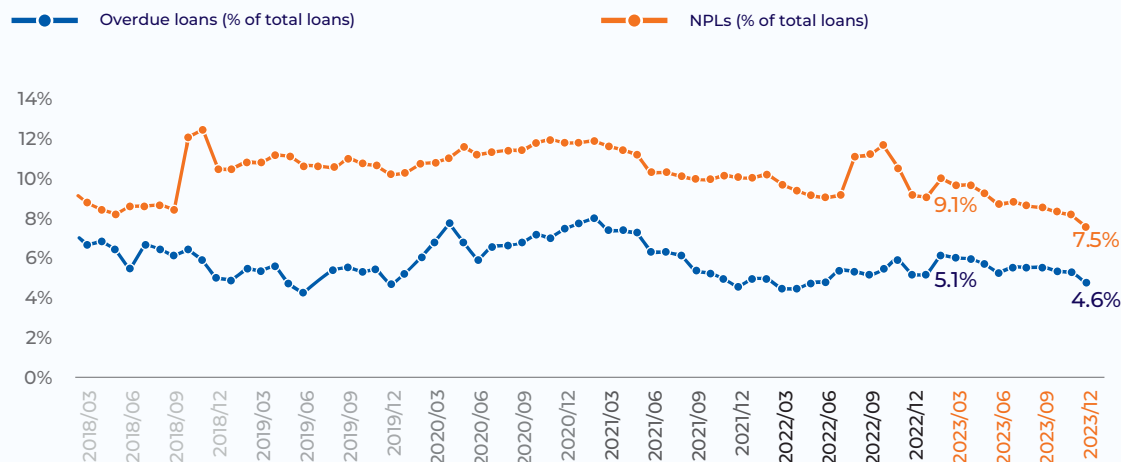
MNT billions



Source: Bank of Mongolia

However, the banking sector’s non-performing loan increased by MNT 19.3bln, the banking sector’s non-performing loan ratio reached 7.5%, which is a decrease of 1.6 percentage point from the same period last year, while the overdue loan ratio increased by 0.5 percentage points to 4.6%.

Non-performing and overdue loans (%) in the banking sector



Source: Bank of Mongolia

Risk management

The primary function of the Bank's Risk Management is managing financial and non-financial risks within acceptable risk levels while simultaneously providing support to the business lines to accomplish their business strategies and plans.

Under the Bank's risk management approach, roles and responsibilities for risk management are defined using a "Three Lines of Defense" model, as follows:



The First Line of Defense

owns and manages risk. It has ownership of and responsibility and accountability for directly assessing, controlling, and mitigating risk within its sight of control;



The Second Line of Defense

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



The Third Line of Defense

provides independent assurance. The independent audit function will provide the Board with assurance of the risk-based approach, covering how effectively the Bank assesses and manages its risk profile and assessing the effectiveness of the first two lines of defense.

➤ Risk governance

The ultimate responsibility for setting the Bank's risk appetite and effectively managing risks rests with the Board. Acting under 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.

Executive responsibility for risk management is delegated to the Bank's Risk Management Committee and the Bank's Chief Risk Officer.

➤ Risk management framework

The Bank's risk management framework is reviewed and approved by the Bank's Board of Directors to set forth the core principles for managing and governing risks. The Bank's risk appetite statement is defined by the Bank's Risk Management Framework as follows:



Risk capacity

is the maximum level of risk that the Bank could assume before triggering the regulatory constraints



Risk appetite

is the amount of risk, within its risk capacity, the Bank is willing to take in pursuit of the Bank's business model; and



Risk and exposure limits

are the limits implementing the Bank's Risk Appetite, for example through credit exposure limits or credit concentration limits.

› Credit risk management

The Bank defines credit risk as the potential loss associated with a borrower’s inability to meet obligations in accordance with agreed loan terms. As loans represent the largest component of assets on the Bank’s balance sheet, their related credit risk constitutes the most significant risks that has to be managed. The loans are monitored and reviewed periodically to identify warning signals at an early stage to enable the Bank to take appropriate actions without delay. To mitigate the credit risk at portfolio level, various credit risk management and monitoring activities are employed to acquire the credit risk limits approved by the Board of Directors and adhere to prudential ratios set by the Central Bank of Mongolia.

› Operational risk management

Operational risk arises from inadequate or failed internal processes, IT systems, people, and external events and can occur in all banking operations. The Bank’s operational risk management framework includes identifying risks to the Bank, assessing the exposures and impact of those risks, and implementing effective and efficient controls to mitigate risks.

It is important to foster a strong risk culture within the bank and to ensure all employees of the bank are aware of operational risk management processes since a bank with a strong culture of risk management is better placed to effectively manage operational risk. From this perspective, operational risk training was organized throughout 2023 encompassing the Bank’s business units and the newcomers.

Cyber security



Improved protection by installing a system that prevents cyber security attacks on connections with the third parties.



The cyber security examination of banking systems is performed with higher quality using the latest techniques and technologies.



The adoption of advanced security technologies has brought significant progress in mitigating cyber security risks for bank employees working remotely.



In order to improve and strengthen the security of the bank’s network infrastructure and network, a solution was introduced to control unauthorized access and better monitor connected devices.



➤ Market and liquidity risk management

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

In 2023, the Bank's market risk and liquidity risk profiles remained in compliance with both the approved risk appetite and the regulatory limits.

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

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

During the period, the Bank fully complied with the BoM requirements on the net FX position while maintaining Daily average loss (Value-at-Risk estimation) well within the Risk appetite.

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

Furthermore, starting in 2023, XacBank JSC implemented methods for internal capital adequacy assessment (ICAA) and ILAAP methods for internal liquidity adequacy assessment in accordance with international standards and has begun using them on a trial basis.

Bank Performance
Risk Management

Human Capital Management

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Human capital management

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

Full-time active employees

1,172

➤ Proud to be an employee of XacBank

As of the end of 2023, our team comprises 1,172 full-time active employees. The average age of employees is 34.9 years, and the average length of service in the Bank is 7.9 years.

As post-Covid labor movement slows and employees are willing to stay in their jobs, the employee turnover rate decreases, and the average length of service within the Bank increases.

During the reporting period, 285 new hires joined the bank and started their careers, while 136 employees were promoted internally through their career plans.

Average employment year

7.9

New hires

285

➤ Employee engagement and satisfaction

We openly value the voices of our employees at all levels and ensure their open participation. In 2023, the bank updated its compensation policy based on the job grades of the position, and while the flexible working hours and remote working possibilities improved, the office working environment was renovated with modern facilities. The results of the last three years of employee engagement and satisfaction survey reached 88.6%.

Employee promotion

136

➤ Consistent high performance

We have consistently ensured a performance-based remuneration policy. In 2023, in accordance with the bank productivity indicators, the base salary was increased by 30 percent on average, and the base salary of entry-level positions was increased more than the average.

➤ Gender equity across our bank

As part of our gender equality policy, 67.5% of all employees and 51.9% of the management team are female.

As required by Mongolian labor law, 170 employees were retained on maternity leave throughout 2023, and 81 returned to work.



➤ Employee well-being



The employee loan terms and conditions were reviewed and amended in the best interest of both the bank and the employees. In 2023, more than 120 employees participated in the employee housing loan and the government housing loan program and improved their living conditions.



In order to ensure the employee work-life balance, the flexible working hour arrangement was implemented in 2018, and we improved the flexible working hours and remote working arrangements in 2023.



In addition, all employees are fully covered by accident and health insurance, and every employee participates in the Retirement savings program, which provides supplemental retirement benefits and secures future financial needs.



In 2023, the bank organized preventive check-ups for more than 1,000 employees at well-known domestic hospitals to prevent employee health risks.

➤ A lifelong learning organizational culture

The Bank continues to invest in employees' professional online and classroom training programs to strengthen the lifelong training culture throughout the Bank, and enhance and empower employees' professional knowledge and skills.

We organize monthly regular orientation training for new employees to orientate and train them in the banking culture.

We also provide continuous learning opportunities through our e-learning platform (TalentLMS), with 89 types of training content prepared by our experienced internal trainers.



29,592
Total training
person/hours

124
Online
training

62
Classroom
training

5,796
Number of trained
employees

89
Types of online
training content

During the reporting period, we organized a "Situational Leadership" training program for newly promoted managers, as well as the personal behavior-based INSIGHT MDI follow-up training sessions for all managers. The number of employees with international and domestic certificates reached 30%.

In addition, all branch employees were trained in professional and sales training programs throughout the year with various delivery methods.

The international training program Aflaton for social and financial education has been revised, and 61 local trainers have been trained. The prepared local trainers trained 520 children and 220 adults in the financial education program.

Team achievements

We highly support various team sports events and tournaments for our employee's physical well-being, and in 2023, our team continued achievements.

Notably, our team won a gold medal for women and a silver medal for men in the interbank Volleyball tournament, a gold medal in the women's basketball tournament, a gold medal in the women's field soccer tournament, and a gold medal in the archery and darts tournaments.



Digitalization

> Card

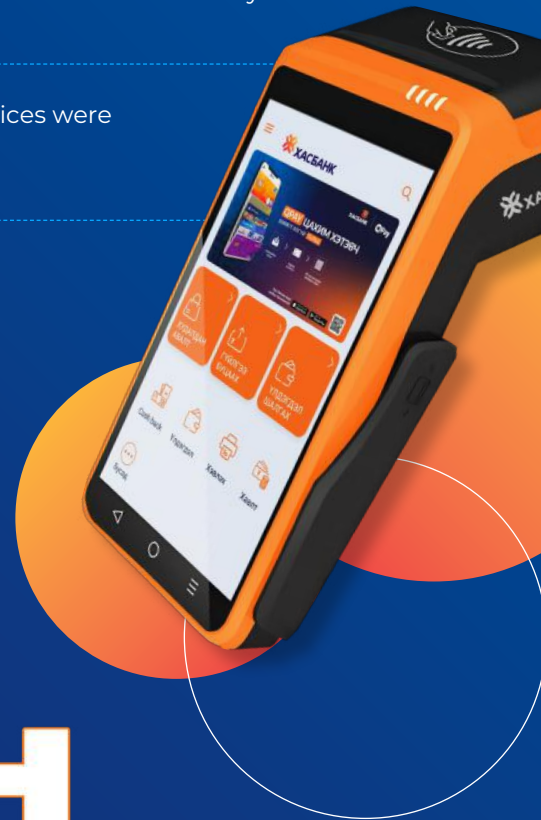
Introduced Credit card products jointly with NBFCs and UPI.

Platinum metal credit card is newly launched.

The new chip has started to be used according to regular improvements on VISA, UPI, and ₹ cards.

New POS devices were introduced.

An updated HSM device model has been introduced to ensure the privacy of card payments.



CASH BACK 20% BACK

XacBank has launched its cashback program for cardholders eight times, providing 10-20% cashback from its partnered merchants.

> Merchant

We focused on expanding our merchant network and enhancing service quality. As a result, compared to previous years, the number of merchants has surged by 35%, accompanied by a 16% increase in transaction fee income.

➤ New product / automation



Online salary loan

Salary loan was successfully introduced in Digital banking app and now widely used by any customer who has salary income. By implementing this project, we established.

- Core technical infrastructure along with fundamental business solutions much needed for introducing next online loans in short time with less effort.
- Currently 50% of total salary loan disbursement is fully online.

Disbursed loan **258.8** MNT billion



Digital banking

Due to consistent update and enhancements to the digital bank, coupled with the system's 100% availability, the customer portfolio has increased by 27%.

OTF Banking with No-Fee

We've completely waived transaction fees for transactions between XacBank accounts, providing substantial savings for our customers since 2017. In 2023, our customers collectively saved an impressive amount of MNT 1.1 billion in fees.

Amount saved: **1.1** MNT billion



Pension savings

A joint "Pension name account" product with organizations was introduced.

Comprehensive transaction control

A comprehensive transaction control AML/KYC system has been successfully implemented, which is key to preventing anti money laundering and terrorist financing.



Online loan

Online loans constitute 23.2 percent of the total loan portfolio, leveraging digital banking to offer deposit-backed loans, online salary loans, POS income-backed loans, and easy loan options.



System development

Newly developed the web page and shareholder meeting application for bank IPO presentation and order taking.



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Highlights

ХАСБАНКНЫ



IPO

ЭНЭ БОЛ ЗӨВХӨН ЭХЛЭЛ

Transitioned to publicly traded entity

XacBank successfully transitioned to an open joint stock company by offering 5.01% of its shares to the public via MSE and raised 35.7 billion during its IPO. Funds obtained from liquidation are allocated towards the expansion of lending and financial leasing activities.



Raised USD205.5 million senior debt

XacBank successfully raised USD 205.5 million from IFC, FMO, rA, GCPF, BlueOrchard, Symbiotics, Incofin, GCF with the aim of supporting women-led micro and SMEs.



Awarded Top-100 Enterprise

XacBank was awarded TOP-100 Enterprises which is organized by the Government of Mongolia, Mongolian National Chamber of Commerce and Industry.



Held its first EGM as Joint Stock Company

The EGM achieved a quorum with 95.55% attendance and the agenda items, which included reflecting the IPO proceeds in the share capital and setting the paid-in share capital of XacBank at MNT 105,270,000,000, as well as approving the Charter of XacBank JSC, were approved.



Bank's credit profile will remain stable over the next 12-18 months

Moody's stated and affirmed that XacBank's B3 ratings; outlook remains stable in the report published by December 1, 2023. The affirmation of Xacbank's ratings reflects Moody's expectation that the bank's credit profile will remain stable over the next 12-18 months.



XacBank's accreditation was extended for an additional 5 years until 2028.

XacBank entered into a master agreement on accreditation with the Green Climate Fund (GCF), established under the United Nations Framework Convention on Climate Change to facilitate the transfer of climate change adaptation and mitigation funds from developed to developing nations. Furthermore, XacBank's accreditation was extended for an additional 5 years until 2028. In parallel, within the scope of energy-efficient consumption loans for heating appliances and housing insulation retrofit, the bank raised USD 8 million as of November 2023.



Started a cooperation on retirement savings fund

Signed a cooperation agreement with Oyu Tolgoi on "Retirement Savings Fund" through which employees of OT will be able to start saving for their retirement with XacBank.

Social Responsibility

Bank has been supporting “Khasyn Khuleguud”, a national basketball league team continuously for the 20th year since 2004.



On the occasion of the 20th anniversary of Khasyn Khuleguud team and its partnership with the bank, XacBank has initiated the “Bank Shot” contest for Mongolian basketball regular season 2023-2024. Every time the Khasyn khuleguud land a Bank Shot, XacBank allocates a designated funding amount towards the advancement of children and youth development, fostering a passion for basketball and reward fans with prizes ranging from signed jerseys and even tickets to the season and playoff games.



Bank has sponsored and collaborated with the inaugural Ice Hockey World Championship hosted in Mongolia for the first time to continue to strengthen our commitment to sports.

We continued our collaboration with the Mongolian National Olympic Committee (NOC) as a “GOLD PARTNER” organization for the period spanning 2023 to 2025.



XacBank supported and sponsored chess grandmaster B. Munguntuul, facilitating her participation in the 18th Asian Continental Chess Championship tournament. Impressively, she became the second female chess player from Mongolia to earn a place in the competition and won bronze medal, qualified for the World Cup, highlighting her extraordinary talent and pioneering advancements for women in chess.



Bank supported and cooperated with the annual Ulaanbaatar Marathon to encourage residents to enjoy walking, running despite of their hectic and busy lifestyle.

We sponsored and collaborated with the 45th-anniversary concert of the Ineem-seglel Music Band.



To celebrate Children's Day, Bank hosted a task-oriented chess contest for children. A total of 300 children submitted completed tasks, and after meticulous evaluation, we selected the top 30 participants.

Following this, we curated a memorable event featuring chess classes personally conducted by chess grandmaster B. Munguntuul. Additionally, we presented the young champions with "Future millionaire children savings" vouchers, complemented by gifts.



Bank has actively supported the UN's "Young Representative - Environmental Leadership 2023" program. As part of this initiative, 30 talented individuals aged 18-30 specializing in the fields of environment, technology, and law were carefully chosen to undergo a comprehensive two-month training program led by experts. Furthermore, the bank has facilitated the implementation of micro-projects, encouraging teamwork among these young representatives to contribute meaningfully towards addressing environmental challenges.

On World Ethics Day, we proudly collaborated to support University of Finance & Economics (UFE), in organizing the essay contest "The Significance of Professional Ethics."



We updated the Aflatoun International's program for child social and financial education has been enhanced, including the development of a comprehensive trainer's manual featuring 15 diverse training modules. In the fourth quarter of 2023, a total of 61 employees were trained as trainers, and 520 children and 220 adults were enrolled in financial education initiatives.

More

- XacBank supported S. Alima, pianist and piano teacher, along with his students, for their participation in the international competition of professional musicians, writers, and singers to be held in Ragusa-Ibla on the island of Sicily, Italy. This event is recognized as one of the world's major music festivals and is registered as intangible cultural heritage by UNESCO.
- Athlete B. Yesui, specializing in 100 board checkers, was supported to compete in both the 100 board women's adult world championship and the American Open-2023 tournaments set to take place in Curacao.
- Bank has sponsored the "Presidents Cup" tournament organized by the Golf Association, as well as the 2023 Mongolian Badminton Championship.

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Senior management team



TSEVEGJAV Gumenjav
CHIEF EXECUTIVE OFFICER

Since: 2011
Experience: 19 years



ERDENEBAIYAR Ganzorig
CHIEF FINANCIAL OFFICER

Since: 2005
Experience: 18 years



ULAMBAYAR Enebish
CHIEF RETAIL BANKING OFFICER

Since: 2013
Experience: 23 years



ERKIN Bavaan
CHIEF BUSINESS BANKING OFFICER

Since: 2002
Experience: 20 years



DAURYENBYEK Syerikjan
CHIEF LEASING OFFICER

Since: 2000
Experience: 25 years



Iliya AVRAMOV
CHIEF RISK OFFICER

Since: 2019
Experience: 25 years



ZUL Ganzorig
CHIEF OPERATIONS OFFICER

Since: 1999
Experience: 24 years



UNURBAT Khurelbaatar
CHIEF INFORMATION TECHNOLOGY OFFICER

Since: 2012
Experience: 20 years



MUNKHTSELMEG Nyamsuren
GENERAL COUNSEL / CORPORATE SECRETARY

Since: 2022
Experience: 16 years



UNDARMAA Enkhbayar
CHIEF AUDITOR

Since: 2008
Experience: 25 years

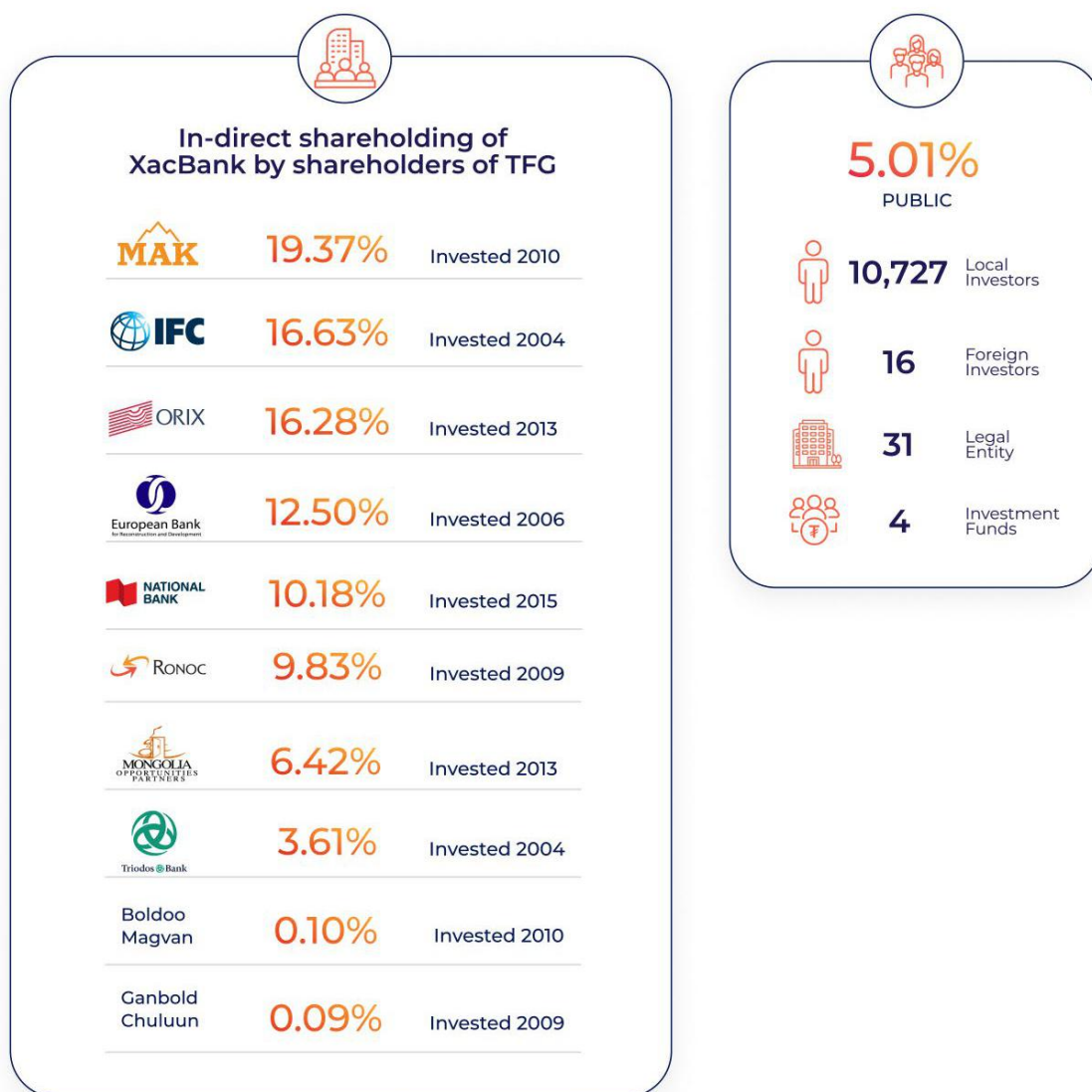
Average employment tenor with the Bank

14

Shareholders

National corporation, multilateral entities, international financial institutions, and individuals.

The only systemic Bank in Mongolia that qualifies 20% maximum shareholding limit in UBO perspective.



For an illustrative purpose, shareholders of TFG which owns 94.99% of XacBank, and respective shareholding of TFG’s shareholders calculated proportionally at XacBank shareholding level.

Board of Directors



Sanjay Gupta
CHAIRMAN

Since: 2017
Experience: over 40 years



Michael Madden
NON-EXECUTIVE DIRECTOR
Ronoc Partners

Since: 2009
Experience: over 30 years



Tselmuun Nyamtaishir
NON-EXECUTIVE DIRECTOR
Mongolyn Alt (MAK) LLC

Since: 2012
Experience: over 20 years



Ulambayar Bayansan
INDEPENDENT NON-EXECUTIVE DIRECTOR

Since: 2015
Experience: over 20 years



Yves Jacquot
NON-EXECUTIVE DIRECTOR
National Bank of Canada (NBC)

Since: 2016
Experience: over 40 years



Niraj Vedwa
INDEPENDENT NON-EXECUTIVE DIRECTOR

Since: 2018
Experience: over 30 years



Andrzej Witak
NON-EXECUTIVE DIRECTOR
European Bank for Reconstruction and Development (EBRD)

Since: 2019
Experience: over 30 years



TSEVEGJAV Gumenjav
EXECUTIVE DIRECTOR

Since: 2019
Experience: over 19 years



Albertus Bruggink
NON-EXECUTIVE DIRECTOR
ORIX Corporation

Since: 2020
Experience: over 30 years



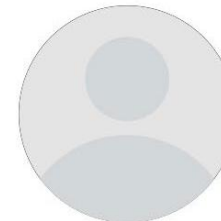
Suzannah Herring Carr
NON-EXECUTIVE DIRECTOR
International Finance Corporation (IFC)

Since: 2022
Experience: over 30 years



Amy Choi
INDEPENDENT NON-EXECUTIVE DIRECTOR

Since: 2023
Experience: over 25 years



INDEPENDENT NON-EXECUTIVE DIRECTOR

Selection process in progress

Board committees



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 significant or conflict of interest 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

Chair:

Ulambayar Bayansan
(Independent Director)

Members:

Niraj Vedwa
(Independent Director)

Amy Choi
(Independent Director)

Andrzej Witak

Suzannah Herring Carr



The Risk Management Committee is responsible for advising the Board on risk-related matters and risk governance and for establishing a sound system of risk oversight, management and internal control. The Committee review and assesses the risk management policy, adequacy of the plans for mitigation of material risks in the business lines, effectiveness of risk management functions, risk exposure limits, quality of the loan portfolio, credit approval limits and loan write-offs authorities, transactions and proposals exceeding limits detailed in the policies, loans and transactions with connected and related parties.

Chair:

Yves Jacquot

Members:

Albertus Bruggink

Ulambayar Bayansan
(Independent Director)

Niraj Vedwa
(Independent Director)

Amy Choi
(Independent Director)



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:

1. Select, evaluate and recommend to the Board qualified candidates for election to the Board and appointment of the Chief Executive Officer and;
2. Review performance and set compensation of Chief Executive Officer, oversee compensation policy and equity-based plans, review and make recommendations to the Board regarding board compensation; and
3. review employee loans terms and conditions.

Chair:

Michael Madden

Members:

Tselmuun Nyamtaishir

Ulambayar Bayansan
(Independent Director)

Niraj Vedwa
(Independent Director)

Amy Choi
(Independent Director)

Governance report



The Board Activities:

- Board meeting: 13 in total (comprising 8 Extraordinary Meetings and 5 Regular Meetings)
- GNCC 10 meetings
- Audit Committee 4 meetings
- BRMC 4 meetings



The Board has also amended and restated the following 2 policies:

1. Anti-Bribery and Anti-Corruption Policy – For compliance purposes, to further strengthen the company's commitment to ethical conduct, the Board has made certain amendments to the Policy, including the inclusion of a clause mandating compliance with U.S. and U.K. laws pertaining to anti-bribery and corruption.
2. Board Director Selection and Nomination Policy – made amendments to establish clear principles on addressing potential conflicts of interest arising from ties of a director (or a candidate for the position of a Director) to other Banks, other Financial Groups or Non-Banking Financial Institutions (NBFIs).



Dividend Policy:

By its recommendation, the Board has submitted to the shareholders for their consideration to amend and restate Dividend Policy of XacBank to allow semi-annual dividend distribution. The Shareholders have approved and adopted the amendment and restatement as per Board recommendation on 2nd of February 2024 through ballot voting.



The Board of XacBank approved the following internal policies, aligning with the Corporate Governance Code approved by the Financial Regulatory Commission:

1. Corporate Governance Code;
2. Internal Rules of Procedure of the Board of Directors;
3. Charter of the Governance, Nomination and Compensation Committee of the Board of Directors;
4. Procedural Policy for Organizing/Holding General Meetings of Shareholders;
5. Charter of the Audit Committee of the Board of Directors;
6. Employee Loan Policy;
7. Directors' Remuneration Payment and Travel Reimbursement Policy;
8. Internal Audit Charter of the Bank;
9. Internal Audit Policy of the Bank;
10. Procedure on Preventing Money Laundering and Terrorism Financing;
11. Information Disclosure Policy;
12. Know Your Customer Policy;
13. Code of Conduct and Conflict of Interest Policy for Directors and Employees;
14. Whistleblowing Policy;
15. Insider Trading Policy;
16. Conflict of Interest and Related Party Transaction Policy;
17. Governance Roadmap 2023-2026;
18. Charter of XacBank JSC;
19. Anti-Bribery and Anti-Corruption Policy;
20. Board Director Selection and Nomination Policy.

Governance report of Xacbank JSC

Operational report of board of directors

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 - 2.4 The committees under the board
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- 3 Chief executive officer
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1. GENERAL

For XacBank, 2023 was a year of a series of governance events and changes. In 2023, XacBank undertook various changes within its governance structure in connection with raising capital from the public, and continued to implement the principles of good governance that have been an integral part of XacBank's history in its operations.

During this transition period, we focused on improving our relationship with minority shareholders to fully adapt to the new regulatory environment and to create an open and friendly relationship with our stakeholders. We end this year with the promise of greater success in this direction.

During the reporting period, the first extraordinary general meeting of the shareholders (the "EGM") of XacBank was convened on September 15, 2023, in the Diamond meeting room on the 3rd floor of the Blue Sky Hotel, following XacBank's reorganization into a joint-stock company. The meeting was organized in a hybrid format, both in-person and virtual. The EGM achieved a quorum with 95.55% attendance and the agenda items, which included setting the paid-in share capital of XacBank at MNT 105,270,000,000 (one hundred and five billion two hundred and seventy million), as well as the Charter of XacBank JSC, were approved.

XacBank welcomes the adjustments associated with its reorganization into an open joint-stock company and is actively striving to uphold high standards of transparency.

2. Management and structure of the bank

The meeting of the shareholders is the supreme authority for the governance of the Bank.

The Board of Directors (the "Board"), duly elected by the shareholders, serves as the governing body of the Bank and makes decisions on matters falling outside of the shareholders' authority between shareholders' meetings. The Board is responsible for the strategic management by developing strategies and policies of the Bank, as well as approving plans aimed at securing the financial and human resources essential for realizing these objectives. Furthermore, the Bank oversees the operations to ensure they are conducted for the benefit of all related parties within the parameters of applicable laws, internal regulations, approved plans, and budgets, and establishes an effective internal control system to identify, assess, and manage risks appropriately.

The Board establishes standing committees to fulfill its responsibilities and facilitate efficient operations. These committees provide recommendations and opinions on matters deliberated by the Board, aligning with their designated functions. They also possess the authority delegated by the Board to make decisions on specific issues within their purview. Additionally, ad hoc committees are established to address pressing or unique matters as they arise.

The daily operations of the Bank are overseen by the CEO, appointed by the Board. The CEO serves as the Bank's representative and is accountable for providing regular updates and reports to both shareholders and the Board.

2.1. Shareholders' meeting

The supreme authority for the governance of the Bank shall be the Shareholders' meeting. The quorum for Shareholders' meeting shall be the presence in person or by proxy of the Shareholders holding equal to or more than a Simple Majority of the total issued and outstanding Shares of the Bank at the Record Date. The Shareholders' meeting shall be either a regular or extraordinary Shareholders' meeting.

The matters that are subject to the Shareholders' meeting, which are set forth in Article 29.2 of the Banking Law and Article 62.1 of the Company Law, and strategic matters set forth in Clause 8.6 of the Bank Charter, such as, but not limited to, redemption of Shares consisting more than 5 (five) percent of the total Shares, distribution of dividends and investment in a new business for the amount exceeding 2 (two) percent of the total equity of the Bank, shall be approved at the Shareholders' meeting.

2.2. Shareholders' structure

In the second quarter of 2023, XacBank raised 5.01% of its total announced common shares, equivalent to 52,700,000 (fifty-two million seven hundred thousand) common shares, by offering them to the public, resulting in a change in the share capital to MNT 105,270,000,000 (one hundred and five billion two hundred and seventy million). Consequently, due to the reorganization of XacBank into an open joint-stock company, the structure of XacBank's shareholders has changed. Currently, 5.01% of the total announced and issued shares are owned by the public, while the remaining share, accounting for 94.99%, is owned by the holding company, TenGer Financial Group LLC ("TFG").

TFG has a total of 10 shareholders, comprising international financial institutions, well-known domestic and foreign companies, investment funds, and individuals.

Shareholder structure of XacBank as of December 31, 2023:

Nº	Shareholders	Shares	Хувь	#	Shareholders	Stake
1	TenGer Financial Group LLC (TFG)	1,000,000,000	94.99%	1	MAK Invest Kft	19.37%
				2	International Finance Corporation (IFC)	16.63%
				3	ORIX Corporation	16.28%
				4	European Bank for Reconstruction and Development (EBRD)	12.50%
				5	National Bank of Canada (NBC)	10.18%
				6	Ronoc Partners Kft	9.83%
				7	Mongolia Financial Services Pte Ltd	6.42%
				8	Triodos Fair Share Fund	3.61%
				9	Boldoo Magvan	0.10%
				10	Ganbold Chuluun	0.09%
2	Олон нийт	52,700,000	5.01%			
	Нийт	1,052,700,000	100%			

2.3. The board of directors (the “board”)

The Board of Directors operates in accordance with the Bank's Charter and the internal procedures of the Board of Directors. The primary method of operation for the Board of Directors is through Board meetings, during which decisions are confirmed by resolution. It is regulated that during the intervals between regular Board meetings, the activities of the Board may be conducted online or through other means of communication, and decisions are made through voting.

- Apart from regular meetings of the board of directors, gatherings are arranged and convened using communication tools such as Zoom.
- Informative online sessions are arranged for the Board of Directors during intervals between regular meetings, according to the schedule, where the Executive Management provides updates on current issues.

2.3.1. Board leadership

The Board has approved a total of 22 new and amended rules, regulations, policies, and governance codes, aligning with the applicable regulations for joint-stock companies as specified in the Company Law, regulations of the Financial Regulatory Commission, and the stipulations of the Corporate Governance Code

Newly adopted:

1. Corporate Governance Code;
2. Procedural Policy for Organizing/Holding General Meetings of Shareholders;
3. Directors' Remuneration Payment and Travel Reimbursement Policy;
4. Procedure on Preventing Money Laundering and Terrorism Financing;
5. Information Disclosure Policy;
6. Know Your Customer Policy;
7. Code of Conduct and Conflict of Interest Policy for Directors and Employees;
8. Insider Trading Policy;
9. Conflict of Interest and Related Party Transaction Policy;
10. Governance Roadmap 2023-2026;
11. Anti-Bribery and Anti-Corruption Policy;
12. Dividend Policy of XacBank.

Amendment and restatement:

1. Charter of XacBank JSC;
2. Internal Rules of Procedure of the Board of Directors
3. Charter of the Governance, Nomination and Compensation Committee of the Board of Directors;
4. Charter of the Audit Committee of the Board of Directors;
5. Employee Loan Policy;
6. Internal Audit Charter of the Bank;
7. Internal Audit Policy of the Bank;
8. Whistleblowing Policy;
9. Board Director Selection and Nomination Policy
10. Anti-Bribery and Anti-Corruption Policy.

The Board amended and restated the Dividend Policy to allow for semi-annual dividend distribution to shareholders, with these changes being approved at the Shareholders' meeting.

2.3.2. Board meetings

In 2023, the Board convened a total of 13 meetings, including 5 regular meetings, during which they passed a total of 84 resolutions. At each of the regular meetings, the Board received updates on the measures implemented in accordance with the decisions and recommendations adopted at its previous meeting.

Attendance at the Board meeting:

Nº	Members of the Board	Attendance (in percent)
1	Sanjay Gupta, Chairman	100%
2	Albertus Bruggink, Non-Executive Director	100%
3	Andrzej Witak, Non-Executive Director	100%
4	Tsevegjav Gumenjav, Executive Director/CEO	100%
5	Yves Jacquot, Non-Executive Director	69%
6	Michael Madden, Non-Executive Director	100%
7	Niraj Vedwa, Independent Non-Executive Director	100%
8	Suzannah Herring Carr, Non-Executive Director	84.6%
9	Ulambayar Bayansan, Independent Non-Executive Director	100%
10	Tselmuun Nyamtaishir, Non-Executive Director	92.3%
11	Amy Choi, Independent Non-Executive Director	87.5%

The executive management team of the Bank attends all regular meetings of the Board, Board Committee's meetings, and other relevant gatherings as necessary. They provide essential information and explanations regarding the Bank's business, finance, accounting, compliance, governance, and other operational aspects when required.

In addition to formal communication and reporting during Board meetings, Board members have the opportunity to schedule one-on-one meetings with members of the Bank's executive management team. By arrangement with the CEO, during these regular meetings, the Board can request, receive, and discuss specific information without disrupting the Bank's daily operations. These practices ensure open discussion and the exchange of knowledge between the management team and the Board.

2.3.3. Composition of the board

The Board engages in discussions with each member to ensure effective operation, reaching conclusions based on a comprehensive view of the situation, and making rational decisions accordingly. The structure and number of the Board, their abilities, specialized experience, representation of the Executive Management, and the participation of Independent Director are all considered to make optimal decisions.

According to the Bank's Charter, the Board consists of 12 Directors. As of December 31, 2023, there are a total of 11 Directors, comprising 1 Chairman of the Board, 1 Director representing the Executive Management, 6 Directors nominated by Shareholders, and 3 independent Directors.

During the reporting period, 1 Independent Director requested to resign, resulting in 1 Independent Director vacancy. In this regard, the Board Governance, Nomination and Compensation Committee ("GNCC") has carried out an open selection process from July 2023. Subsequently, candidates are being presented and elected by Shareholders at the 2024 Annual General Meeting (the "AGM") of XacBank Shareholders.

The Board comprises Directors with diverse experience and skills in the banking industry.

As of 31 December, 2023

Nº	Name	Position	Representation
1	Sanjay Gupta	Chairman	-
2	Albertus Bruggink	Non-Executive Director	ORIX Corporation
3	Amy Choi	Independent Non-Executive Director	Independent
4	Andrzej Witak	Non-Executive Director	EBRD

Nº	Name	Position	Representation
5	Michael Madden	Non-Executive Director	Ronoc Partners Kft
6	Niraj Vedwa	Independent Non-Executive Director	Independent
7	Suzannah Herring Carr	Non-Executive Director	IFC
8	Tselmuun Nyamtaishir	Non-Executive Director	MAK Invest Kft
9	Tsevegjav Gumenjav	Executive Director/CEO	As per the Bank's Charter
10	Ulambayar Bayansan	Independent Non-Executive Director	Independent
11	Yves Jacquot	Non-Executive Director	NBC

2.3.4. Selection of board members

With XacBank's transition to an open joint-stock company, the "Board Director Selection and Nomination Policy" was approved on 07 July 2023 and is now being implemented in its operations. To ensure the continuity of the Board activities, succession planning for Board members is reviewed annually. To formalize this process, the development and approval of the "Succession Policy of the Directors" is scheduled for development and approval by the second quarter of 2025.

Board members are elected for a 2-year term at the regular Shareholders' meeting and are eligible for re-election. At the end of the term, a member shall resign or be re-elected at the Shareholders' meeting. In case of a vacancy or other circumstances specified in the Charter, a Board member may be temporarily appointed by the Board, with the full rights and duties of a regular member of the Board of Directors.

The Governance, Nomination, and Compensation Committee of the Board of Directors is responsible for defining the Board's composition and requirements for the Board members, establishing selection procedures of the Board members, evaluating nominee suitability of the Board member, including independent members, as well as presenting recommendations to the Board of Directors.

In accordance with the applicable laws, the Bank of Mongolia assesses whether a nominee for the Board of Directors meets the required criteria based on the information provided by the Bank. The Chairman of the Board of Directors is elected from among its members during a Board meeting.

2.3.5. Evaluation of the board of directors' performance

In accordance with the principles of good governance, the Board of Directors undergoes an annual performance evaluation that aims to assess its collective performance, pinpoint shortcomings, and take specific measures to enhance operations in order to improve governance and Board operations. Additionally, Board members evaluate each other based on predefined criteria.

Evaluating the activities and members of the Board of Directors is considered a good corporate governance practice and it presents an opportunity to strengthen the Board, identify its weaknesses, enhance capabilities, boost outcomes, and foster dialogue among members regarding its organizational structure. It also serves to enhance the Board's reputation among stakeholders and founders.

The Governance, Nomination, and Compensation Committee of XacBank presented a report on the performance, attendance, and engagement of the Board members, which also covered the outcomes of the Board of Directors' activities and performance, at the regular meetings of both the Board and the Shareholders, which were held in April 2023.

2.3.6. Training of board directors

Candidates for the Board of directors are given priority in corporate governance training, which includes training on Mongolian corporate law and corporate governance specificities.

In addition, when a Board Director is appointed for the first time, he/she will receive: a) a set of materials to recognize the characteristics of XacBank, including documents such as the previous year's operational result, financial statements, and minutes of previous meetings; b) for their further proper conduct, the following documents will be provided: the Code of Conduct and Conflict of Interest Policy, the Governance Code of XacBank, XacBank JSC Charter, the Board Internal Rules of Procedure, and the Insider Trading Policy, along with other corporate governance documents approved by the Bank of Mongolia. All directors can invite any of the executive management through the CEO to discuss any aspect of the Bank's business provided that there is no interference with the Bank's day-to-day operations.

2.3.7. Directors' remuneration

The remuneration of Directors is determined by the Shareholders. The amount payable to a board director during the year shall be determined based on their attendance records of board, committee, and shareholders' meetings which they are required to attend. Remuneration is payable quarterly. In line with principles of good governance, the remuneration of an independent member of the Board of Directors is set to be no less than that of a Non-executive Director.

A Board member who does not hold a dual position in the Bank receives no other rewards or incentives except for the fee set by the shareholders and any increments associated with chairing a committee.

2.4. The committees under the board

The Board of Directors of XacBank has 3 standing committees, each with specific responsibilities designated by the Board. These committees offer professional recommendations on particular issues and assist the Board in implementing its activities. The general provisions related to the committees' activities are governed by the internal rules of procedures of the Board, while issues specific to each committee are regulated by their respective rules. The Board of Directors comprises the following standing committees.

- I. Governance, Nomination and Compensation Committee (the "GNCC")
- II. Audit Committee (the "BAC")
- III. Risk Management Committee (the "BRMC")

The committees of the Board of Directors shall comprise 5 (five) or more members, all of whom must be members of the Board of Directors.

A member of the Board of Directors may serve on more than one committee. According to the Banking Law of Mongolia, an independent director of the Board of Directors must serve on both the Risk Management and Audit Committees. However, the CEO, who is also a member of the Board of Directors, does not serve on any committees of the Board of Directors.

The primary mode of activity for the committees is through committee meetings, during which decisions are made in the form of recommendations to be presented to the Board of Directors. Regular committee meetings are typically scheduled for the day preceding the meeting of the Board of Directors.

In 2023, following XacBank's transition to an open joint-stock company, the composition of the permanent committees underwent changes, with the majority now comprised of independent directors.

2.4.1. The governance, nomination and compensation committee ("gncc") of the board

2.4.1.1 Activities and Responsibilities of the GNCC

The GNCC oversees corporate governance matters, including the establishment of principles and policies, ensuring transparent and stable operations of the bank that align with the interests of all stakeholders. It also designs a governance framework encompassing necessary structures and processes for effective monitoring and oversight.

The GNCC's Charter was newly approved during the Board of Directors meeting on July 7, 2023.

Please refer to the operating procedure of the GNCC at the following link to obtain information regarding the functions and activities of the committee: [<https://www.xacbank.mn/page/board-committees>]

2.4.1.2 Composition of the GNCC

The composition of the GNCC in 2023 was as follows:

1. Michael Madden, Chair
2. Tselmuun Nyamtaishir, Member
3. Ulambayar Bayansan, Member (ID)
4. Niraj Vedwa, Member (ID)
5. Amy Choi, Member (ID)

2.4.1.3 Meetings and Attendance of the GNCC

During the reporting period, the GNCC held 11 meetings and provided relevant recommendations to the Board. GNCC meetings were held frequently during the reporting period due to the extensive selection process for candidates for independent Director positions, which involved multi-stage interviews.

Attendance of the GNCC

Nº	Members of the GNCC	Attendance (in percent)
1	Michael Madden, Chair	100%
2	Niraj Vedwa, Member (ID)	62.5%
3	Ulambayar Bayansan, Member (ID)	100%
4	Tselmuun Nyamtaishir, Member	72.7%
5	Amy Choi, Member (ID)	100%

2.4.2. Risk management committee of the board (the “brmc”)

2.4.2.1 Activities and Responsibilities of the BRMC

The BRMC is tasked with establishing an appropriate internal control system for risk management and providing recommendations to the Board of Directors on risk-related matters. Its fundamental responsibilities include formulating risk management policies, devising plans to mitigate significant risks in each business line, assessing the effectiveness of the risk management function, setting risk-taking limits, ensuring the quality of the loan portfolio, and overseeing the authorization and closure of loans from the fund.

Please refer to the operating procedure of the BRMC at the following link to obtain information regarding the functions and activities of the committee: [<https://www.xacbank.mn/page/board-committees>]

2.4.2.2 Composition of the BRMC

The composition of the GNCC in 2023 was as follows:

1. Yves Jacquot, Chair
2. Albertus Bruggink, Member
3. Ulambayar Bayansan, Member (ID)
4. Niraj Vedwa, Member (ID)
5. Amy Choi, Member (ID)

2.4.2.3 Meetings and Attendance of the BRMC

During the reporting period, the GNCC held 4 meetings and provided relevant recommendations to the Board

#	Members of the BRMC ²	Attendance (in percent)
1	Yves Jacquot, Chair	50%
2	Albertus Bruggink, Member	100%
3	Ulambayar Bayansan, Member (ID)	100%
4	Niraj Vedwa, Member (ID)	100%
5	Amy Choi, Member (ID)	100%

2.4.3. The audit committee of the board (the “bac”)

2.4.3.1 Activities and Responsibilities of the BAC

The Audit Committee is tasked with overseeing the integrity, appropriateness, and effectiveness of the internal control system. Its responsibilities include appointing, re-appointing, or dismissing the external auditor, evaluating the performance of the internal audit department, ensuring compliance with financial reporting requirements and regulations, reviewing audited and unaudited annual and semi-annual financial statements, scrutinizing unusual transactions, monitoring changes in legislation affecting financial statements, and exercising primary responsibility for impact control. Additionally, the Audit Committee appoints the Chief Auditor and evaluates his/her performance. The charter of the Audit Committee was newly approved during the regular meeting of the Board of Directors on July 7, 2023.

Please refer to the operating procedure of the BAC at the following link to obtain information regarding the functions and activities of the committee: [<https://www.xacbank.mn/page/board-committees>]

2.4.3.2 Composition of the BRMC

1. Ulambayar Bayansan, Chair (ID)
2. Niraj Vedwa, Member (ID)
3. Amy Choi, Member (ID)
4. Andrzej Witak. Member
5. Suzannah Herring Carr, Member

2.4.3.3 Meetings and Attendance of the BAC

During the reporting period, the GNCC held 5 meetings and provided relevant recommendations to the Board.

Nº	Members of the BAC	Attendance (in percent)
1	Ulambayar Bayansan, Chair (ID)	100%
2	Niraj Vedwa, Member (ID)	100%
3	Amy Choi, Member (ID)	100%
4	Andrzej Witak. Member	100%
5	Suzannah Herring Carr, Member	100%

3. Chief executive officer

Tsevegjav Gumenjav has been working as the Chief Executive Director of XacBank since May 2019. In this role, the CEO oversees the bank's daily operations, implements the strategies, goals, and policies approved by the Board of Directors, and leads the development and improvement of strategic and business plans, as well as organizational structures, internal rules of operations, and risk and control systems.

3.1. Work performance evaluation of chief executive officer

The Board of Directors annually evaluates the Chief Executive Officer's performance, considering the terms of the CEO's contract and recommendations from the Governance, Nomination, and Compensation Committee. This evaluation serves as the basis for determining the CEO's compensation.

At its regular meeting held in March 2024, the Board of Directors reviewed the CEO's performance in 2023, and a bonus was paid to the CEO based on criteria such as net profit, equity, and other performance criteria.

4. The code of conduct, conflict of interest and disclosure

In 2023, XacBank approved the "Code of Conduct and Conflict of Interest Policy for Directors and Employees" to ensure the conduct of legal and ethical business activities, uphold the highest standards of internal ethical behavior, and promote a moral culture based on ethics, which is currently being implemented in its operations.

All members of the Board and the executive management promptly disclose any changes in their related parties' information and semiannually prepares disclosure letter, facilitating the identification of potential conflicts of interest beforehand. Furthermore, members of the Board declare any conflict of interest both at the onset and during the course of board meetings. If such a conflict arises, the concerned member abstains from voting on relevant matters, as per the Company Law.

On July 7, 2023, XacBank approved the "Conflict of Interest and Related Party Transaction Policy," ensuring that transactions do not entail preferential terms compared to those offered to other parties within the bank's regular operations.

Following its reorganization into an open-joint stock company, XacBank has been disclosing its information regarding conflict of interest and related party transactions to the public through the bank's and the Mongolian Stock Exchange's website, pursuant to Article 56.2.4 of the Securities Market Law.

5. Conflict of interest transaction

In 2023, the Board of Directors (the "Board") approved a total of 27 conflicts of interest and related party transactions. This approval was conducted in accordance with the requirements outlined in Clause 17.9 of the Banking Law, which stipulates that transactions should not entail preferential terms compared to those offered to other parties within the bank's regular operations.

The list of conflicts of interest and related party transactions approved during the reporting period:

Nº	Relationship	Amount of the deal (MNT)
1	An authorized officer of the bank	244,179,750
2	An authorized officer of the bank	50,000,000
3	An authorized officer of the banking group	147,000,000
4	An authorized officer of the banking group	1,200,000
5	A related party of a shareholder of the banking group	50,000,000
6	A related party of an authorized officer of the bank	3,600,000
7	A related party of the banking group	50,000,000
8	A related party of the banking group	50,000,000
9	A company invested in by a shareholder of the banking group	7,000,000,000
10	A related party of an authorized officer of the bank	100,000,000
11	A related party of a shareholder of the banking group	50,000,000
12	A related party of an authorized officer of the bank	608,646.96
13	A related party of an authorized officer of the bank	429,084.02
14	A related party of an authorized officer of the bank	655,112.16
15	A related party of an authorized officer of the bank	591,127.27
16	An authorized officer of a company invested by a shareholder of the banking group	5,000,000
17	An authorized officer of a company invested by a shareholder of the banking group	3,000,000
18	A related party of an authorized officer of the bank	90,000,000
19	A related party of a shareholder of the banking group	50,000,000
20	A related party of an authorized officer of the bank	20,000,000
21	A related party of an authorized officer of the bank	500,000
22	A related party of an authorized officer of the bank	50,000,000
23	A related party of an authorized officer of the bank	20,000,000
24	A related party of an authorized officer of the bank	500,000
25	A related party of an authorized officer of the bank	100,000,000
26	A related party of an authorized officer of the bank	180,000,000
27	An authorized officer of the bank	417,300,000

During the reporting period, no major transactions were approved.

6. Internal audit

The Board of Directors supervises whether the Bank's financial statements are accurately prepared and comply with the relevant laws and regulations, the requirements of banking regulatory bodies, and the applicable accounting standards. The management of the bank is responsible for providing information and explanations to the Board of Directors regarding the financial statements proposed for approval, enabling the Board of Directors to make a reasonable assessment and decision.

The Board of Directors is responsible for selecting and appointing an external auditor and changing after a certain period of time. In 2023, Ernst Young performed the audit as an external auditor.

The Audit Committee under the Board of Directors has the following functions and meets quarterly to make recommendations to the Board of Directors and the executive management team on the necessary issues.

- Monitor compliance of financial statements and financial indicators with international financial reporting standards and other legal acts;
- Focus on the effectiveness of the Bank's internal control system, assess and evaluate it, give guidance on managing the Bank's risk management system and key risks;
- Ensure the independence of internal audit, approve and manage the budget, monitor performance, discuss internal audit reports, select, appoint and withdraw the Director of Audit, set salaries and incentives; and
- Select and release an independent audit organization, evaluate performance and submit relevant proposals to the Board of Directors.

The internal audit evaluates the effectiveness of the bank's internal control and Risk Management System, prepares and submits recommendations for improving of internal control to the auditor, monitors the follow-up of the recommendations, and contributes to the improvement of the bank's performance by reporting the results.

The Internal Audit Department acts as the third line of defense in the Bank's risk management system and follows the International Professional Practice Framework and code of conduct issued by the Institute of Internal Auditors.

7. Dividend information

Before issuing shares to the public, XacBank distributed a dividend of MNT 30 billion from the net profit of the 2022 financial year to its shareholders pursuant to their decision made on April 27, 2023.

Subsequently, a dividend of MNT 15.5 billion was announced from XacBank's net profit for the first half of 2023, and this decision was finally approved at the shareholders' meeting on February 2, 2024. Consequently, on February 9, 2024, it was deposited into the accounts of the shareholders at the Mongolian Central Securities Depository, and distribution was completed.

The Board amended and restated the Dividend Policy to allow for semi-annual dividend distribution to shareholders, with these changes being approved at the Shareholders' meeting.

8. Relationships with the bank's stakeholders

On November 30, 2023, XacBank newly approved the "Policy on Direct Communication with Shareholders" to manage communication with shareholders through a designated phone number and email address in an accurate, uniform, and legal manner.

XacBank regularly disseminates information to stakeholders through its website, xacbank.mn, and engages with stakeholders through its comments and complaints section.

9. Information transparency

To transparently report and inform shareholders and authorized organizations about the bank's information in accordance with relevant legislation requirements, the "Information Disclosure Policy" was newly approved and implemented on July 7, 2023. The Board of Directors is actively monitoring its implementation.

