



# PROSPECTUS



**IPO**

**LEAD UNDERWRITER:**



**2022**

## CONTENT

NOTICE FOR INVESTORS.....	15
SUMMARY OF OFFERING .....	16
PARTNERS TO THE OFFERING .....	17
1. INFORMATION ON THE ISSUER .....	19
1.1. Legal registration.....	19
1.2. Operating licenses.....	20
1.3. Share capital of the Issuer .....	21
1.4. Shareholding structure of the Issuer.....	22
1.5. Related parties.....	25
1.6. Introduction .....	27
1.6.1. Mission and Vision.....	27
1.6.2. Operation .....	28
1.6.3. Social responsibility .....	66
1.7. Corporate structure and governance.....	70
1.7.1. Corporate structure.....	70
1.7.2. The Shareholders meeting .....	70
1.7.3. The Board of Directors.....	71
1.7.4. Board committees .....	74
1.7.5. Executive management.....	75
1.7.6. Implementation of corporate governance principles of the Bank .....	78
1.7.7. Principles of corporate governance.....	78
1.8. Authorized officials.....	80
1.9. Contracts and agreements.....	86
1.10. Financial information of the Issuer .....	88
1.10.1. Statements of financial position.....	89
1.10.2. Statements of profit or loss and other comprehensive income .....	90
1.10.3. Statements of cash flows .....	91
1.10.4. Statements of changes in equity .....	93
1.10.5. Audit opinion.....	94
1.10.6. Financial analysis and financial ratios .....	95
1.11. Compliance with the Bank of Mongolia's prudential ratios .....	98
2. ISSUER'S BUSINESS ANALYSIS.....	101
2.1. Macroeconomic outlook of Mongolia .....	101
2.1.1. Economic situation .....	101

2.1.2.	The financial sector overview .....	115
2.1.3.	Macroeconomic policy measures, and its impact on banking sector .....	119
2.2.	Banking sector and legal environment of Mongolia .....	122
2.2.1.	Banking sector information .....	122
2.2.2.	Legal environment and regulatory body .....	130
2.2.3	Covid-19 impact on Banking sector .....	146
2.3.	Analysis on the Issuer's operating and financial environment .....	151
2.3.1.	Overview of external environment .....	151
2.3.2.	Market share of Khan Bank .....	152
2.3.3.	Operating environment analysis-PESTEL .....	160
2.3.4.	Competition landscape .....	175
2.3.5.	Customer trends .....	177
2.3.6.	Digital transformation .....	180
2.3.7.	Analysis of financial indicators .....	185
2.3.8	Risk management, three lines of defense .....	209
2.3.	Mid-term business plan overview .....	220
2.4.1.	Business objectives .....	220
2.4.2.	Financial assumptions .....	221
2.5.	Risk factors and management .....	224
2.5.1	Risks relating to the business .....	224
2.5.2	Risks relating to the banking industry .....	234
2.5.3	Country risks .....	236
3.	OFFERING DETAILS .....	238
3.1.	Resolution on Offering .....	238
3.2.	Decision and rationale of the share offering price to the public .....	239
3.3.	Share public offering summary - Type, quantity, form and offering price .....	240
3.4.	Banking Law Amendments .....	241
3.5.	Change in shareholding structure .....	242
3.6.	Use of proceeds .....	243
3.7.	Offering details .....	246
3.8.	Dividend policy .....	250
3.9.	Security price stabilization .....	252
3.10.	Rights and obligations certified by publicly offered securities .....	253
3.11.	Conflict of interest .....	255
4.	Issuer PARTNERS .....	256



4.1. Lead Underwriter's introduction .....	256
4.1.1. Underwriting license of the lead underwriter .....	256
4.1.2. An underwriting agreement with Lead underwriter .....	257
4.2. Co-Underwriter's introduction .....	258
4.2.1. Underwriting license of the co-underwriter .....	258
4.2.2. An underwriting agreement with Co-underwriter .....	258
4.3. Auditor introduction .....	260
4.3.1. Audit license.....	260
4.3.2. An agreement with audit company .....	260
4.4. Independent expert introduction .....	262
4.4.1. Valuation license.....	262
4.4.2. An agreement with valuation company.....	262
4.5. Summary of independent valuation report .....	264
4.5.1. Business valuation .....	264
4.5.2. Asset valuation .....	269
4.6. Legal Advisor introduction.....	270
4.6.1. Legal advisor license.....	271
4.6.2. An agreement with legal advisory.....	271
4.7. Summary of legal advice .....	273



## Definition and abbreviations

"Issuer" or "Bank" or "Khan Bank"	Khan Bank LLC
KB	Khan Bank
IFC	International Finance Corporation
Influential shareholders of the company/bank	A shareholder that holds five or more percent of the bank's shares individually or jointly with related parties, or their ultimate beneficial owner who has an influence on the bank's policy, decision and on management;;
Related party	Entity or individual specified in Article 3.1.2 of the Banking Law
BoD	Board of Directors
BRC	Board Risk Committee or Risk Committee under the Board
SC	Steering Committee
ATM	Automated teller machine
CSP or PSP	Card Service Provider or Payment Service Provider. Individuals or legal entities that accept payment for goods and services paid by card and electronic data generators in their bank account;
POS	Point of Sale device, placed at service provider to accept payments by card, connected to the card recipient's system
KIOSK	Self-service machine that allows access to banking services 24/7 with customer fingerprint and national identity card.
FNS program	Financial Network Services program
Correspondent bank	A foreign bank that has a cooperation contract with a domestic bank and its customers to conduct settlement, currency trading and asset management activities
Swap contract	Trades to be settle within two business days after the transaction date, from T+0 and up to T+2 on the day of the transaction for MNT pairs;
Forward contract	Trade that is settled after the spot date
SWIFT	The Society for Worldwide Interbank Financial Telecommunication:
Qpay	Payment service feature using QR code
KhanPay	Payment service feature on the Facebook
PASS wallet	Electronic wallet application on the smart phone
PCI DSS	Payment Card Industry Data Security Standard
SME	Small and medium enterprise
KHUR system	Government information exchange system that integrated Government organizations and business entities through service platform

EMV contactless chip card	Cards that use proximity near field communication devices to allow transaction
ADB	Asian Development Bank
UCP	Uniform Customs and Practice for Documentary Credits
URDG	Uniform Rules for Demand Guarantees
ISP98	International Standby Practices (ISP98)
EBRD	European Bank for Reconstruction and Development
WAIR	Weighted Average Interest Rate
SWIFT gpi	Gpi stands for Global Payments Innovation. SWIFT gpi is a new initiative from SWIFT and was developed to improve the experience of making a payment via the SWIFT network for both customers and banks
IIB	International Investment Bank
Open banking API	Application Programming Interface
ERP	Enterprise Resource Planning software
QR code	Two-dimensional barcodes that can be quickly read and recognized from smartphones and POS devices
MSCH	Mongolian Securities Clearing House
ALCO	Asset-Liability Committee
GDPR	General Data Protection Regulation
OWASP	Open Web Application Security Project
CVE	Common Vulnerabilities and Exposures
CRM	Customer relationship management
OBR	"Online branch" project
IT	Information technology
ISC	Integrated service center
SLA	Service Level Agreements
"Financial reporting year" or "Fiscal year"	The financial reporting year of a business entity or organization is from January 1 to December 31 of the same year.
FRC	Financial Regulation Commission
MSE	Mongolian Stock Exchange
NBFI	Non-banking financial institution
IFRS	International Financial Reporting Standards
JSC	Joint Stock Company

GDP	Gross Domestic Product
DevOps	Development and operations
MCSD	Mongolian Central Securities Depository
IMF	International monetary fund
BOM	Bank of Mongolia
Intervention	Central bank's tool for stabilization of foreign exchange market
Futures	A contract or derivative financial instrument in which the parties are obliged to sell or purchase a certain number of assets at a pre-agreed price within a pre-specified period of time.
"OPEC"	The Organization of the Petroleum Exporting Countries
Repo financing	In order to ensure the implementation of monetary policy, the weighted average interest rate in the interbank market should be kept at the target level, and a permanent financing tool should be used to support banks in meeting their reserve requirements.
Capital buffer	Reserve interval to protect the bank's risk tolerance
Moral hazard	Risk of moral collapse
CAGR	Compounded annual growth rate
SACCO	Savings and Credit Cooperative Organization
Blockchain	Electronic registration tool that registers transactions
Fintech	Financial technology companies that provide financial services using modern technology advancements
Crypto market	Cryptocurrency trading market
Virtual asset	An intangible asset with a digital expression of value that can be transferred or traded in digital form other than the official currency of a country, digital form of securities, or electronic money approved by the Bank of Mongolia, or used for investment purposes
Cryptocurrency	An electronic currency that is digitally located in an electronic environment based on blockchain technology and does not have any intermediary regulatory institutions or organizations.
FATF	Financial Action Task Force
NSO	National Statistics Office
Derivative	Derivative financial instruments
Custodian services	Services related to the storage of securities owned by the securities owner and the exercise of other ownership rights certified by the securities
MMC	Mongolian Mortgage Corporation



USSD	Unstructured Supplementary Service Data system or transaction service solution using mobile operator network
Biometric technology	Technology that reads customer fingerprint, face or unique data
Machine learning	Predictive algorithm for processing numerical data using a computer
FMO	Dutch Development Bank
Ombudsman	An organization that resolves disputes between financial institutions and consumers in a non-judicial manner
Agile	Project management methodology, a mindset
DAN	"DAN" INTEGRATED SYSTEM OF AUTHENTICATION
Hedge	Exchange rate volatility risk mitigation tool
Overnight loan	A loan is a loan that is issued for the period until the interbank clearing transaction is closed and the next business day clearing transaction is opened.
LCR	Liquidity Coverage Ratio
NSFR	Net Stable Funding Ratio
Unit risk dashboard	Dashboard that shows risk profile for the specific branches and units
RCSA	Risk Control Self-Assessment
Loss database	Database specifically designed for losses
KRI	Key Risk Indicator
CFT	Combating the financing of terrorism
COBIT	Control Objectives for Information Technologies
ITIL	Information Technology Infrastructure Library
Issued shares	The portion of outstanding shares purchased and owned by the shareholders
Primary market	A relationship in which an issuer trades its securities by offering them to the public
Secondary market	A relationship related to the resale of securities issued in the primary securities market
Prospectus	A set of materials and documents prepared by the securities issuer for the purpose of obtaining and selling securities in accordance with the procedures specified in the relevant legislation and registered with the FRC
Offer to the public	In accordance with the procedures established by the FRC, the sale of securities to more than 50 persons shall be made public through the media.





## List of tables

Table 1. Licenses held by KHAN Bank.....	20
Table 2. Changes made in share capital over the last three years.....	21
Table 3. Shareholder structure of the Issuer.....	22
Table 4. TOP-10 shareholders of HS Holdings Co., Ltd.....	23
Table 5. Shareholder structure of Tavan Bogd Trade LLC.....	24
Table 6. List of Khan Bank's related entities and individuals as of December 31 <sup>st</sup> 2021.....	25
Table 7. Income from key segments.....	37
Table 8. Retail banking loan portfolio.....	37
Table 9. Retail banking deposit portfolio.....	38
Table 10. SME banking loan portfolio.....	39
Table 11. SME banking deposit portfolio.....	40
Table 12. Corporate banking loan portfolio.....	41
Table 13. Corporate banking deposit portfolio.....	41
Table 14. The Bank's property and equipment /by salvage value/.....	61
Table 15. Buildings owned by the Bank /by salvage value/.....	62
Table 16. Intangible assets /carrying value/.....	62
Table 17 Equity (outstanding amount).....	62
Table 18. Khan Bank credit rating /Moody's/.....	64
Table 19. Khan Bank's credit rating /Fitch/.....	65
Table 20. Information of the Board members.....	74
Table 21. Functions of Executive Management Committee.....	75
Table 22. introduction of Board Directors'.....	80
Table 23. <i>Executive management committee members: Introduction</i> .....	82
Table 24. Information on the shares held by the authorized official.....	85
Table 25. Statements of financial position.....	89
Table 26. Statements of profit or loss and other comprehensive income.....	90
Table 27. Statements of cash flows.....	91
Table 28. Statements of changes in equity.....	93

Table 29. Financial ratios for the last 3 years .....	95
Table 30. Profitability for the past 3 years .....	96
Table 31. Information on the total loan portfolio.....	97
Table 32. Information on the total deposit.....	98
Table 33. Capital adequacy ratio .....	99
Table 34. Liquidity ratio.....	99
Table 35. Net open position limit .....	99
Table 36. Concentration risk limit .....	99
Table 37. Mongolian economic growth projection .....	104
Table 38. 2021 exports by preliminary results (USD million) .....	105
Table 39. State budget approved and performance .....	109
Table 40. Government's "Comprehensive plan of MNT 10 trillion to protect citizens' health and recover the economy" .....	111
Table 41. Credit rating of Mongolia .....	114
Table 42. Financial sector composition by total asset (in billion MNT), and share in total market..	115
Table 43. Key indicators of banking system (in billions of MNT).....	116
Table 44. Key indicators of NBFIs, 2016-2021 .....	116
Table 45. Key indicators of capital market, 2016-2021.....	117
Table 46. Key indicators of credit unions, 2016-2021.....	117
Table 47. Banking sector quantitative indices from 2017-2021.....	126
Table 48. Banking sector digital quantitative indices .....	127
Table 49. Market share comparison between the systemically important 5 banks.....	127
Table 50. Systemically important TOP 5 banks' financial statements (in billions of MNT) .....	128
Table 51. Systemically important TOP 5 banks' income statement (in billions of MNT).....	128
Table 52. Main criteria for the systemically important TOP 5 bank– December 31, 2021.....	129
Table 53. Market share of Khan Bank .....	152
Table 54. Rural market share as of December 31, 2021 .....	158
Table 55. Total population by age group.....	166
Table 56. As of December 31, 2021, total assets (including the bankrupted banks), market share, CAGR performance. ....	175

Table 57. FinTech companies' products and services.....	177
Table 58. Consumer spending categories during pandemic period, Khan Bank card transaction data from Jan to Dec, 2021 .....	178
Table 59. Total assets.....	185
Table 60. Loan segment .....	188
Table 61. Loan products.....	189
Table 62. Loan outstanding by currency composition .....	189
Table 63. The total outstanding loan by interest types .....	189
Table 64. Loan outstanding by interval difference .....	190
Table 65. Classification based on the remaining tenure on the outstanding amount.....	190
Table 66. Top 10 borrowers .....	191
Table 67. Total loan by economic sector .....	191
Table 68. Lan outstanding by geographical location.....	192
Table 69. Loan outstanding by business segment .....	192
Table 70. Asset quality.....	193
Table 71. NPLs and adequacy of loan loss reserve.....	193
Table 72. Credit quality by different products .....	193
Table 73. Credit quality by economic sectors.....	194
Table 74. Credit quality by segment.....	195
Table 75. Constituents of the loan loss provision .....	195
Table 76. LLP by economic sectors .....	196
Table 77. LLP by loan products.....	196
Table 78. The 10 largest credit defaulters .....	197
Table 79. Total liabilities and equity .....	197
Table 80. Account and currency composition of customer deposits.....	198
Table 81. Regional composition of the customer deposits.....	198
Table 82. Customer deposit by amount .....	199
Table 83. Customer deposits by duration .....	199
Table 84. Due to banks .....	200



Table 85. Borrowings .....	200
Table 86. Repurchase agreement.....	202
Table 87. Other liabilities .....	202
Table 88. Equity.....	203
Table 89. Average balance of assets and interest rate for the past 3 years.....	205
Table 90. Net fee and commission income for the past 3 years.....	206
Table 91. Fee and commission income from card services .....	206
<i>Table 92. Fee and commission from mobile and internet banking services .....</i>	<i>207</i>
Table 93. Transaction types.....	207
Table 94. The Bank's operational expenses .....	207
Table 95. Provision for assets other than loans.....	208
Table 96. Income statement by business segment .....	208
<i>Table 97. Balance sheet, Khan Bank financial forecast .....</i>	<i>221</i>
<i>Table 98. Income statement, Khan Bank financial forecast .....</i>	<i>222</i>
Table 99. Share offering summary .....	240
Table 100. Restructuring of the issuer's shareholding.....	242
Table 101. Use of proceeds (percentage, amount) .....	243
Table 102. Primary market trading allocation .....	246
Table 103. Instructions for depositing cash for customers of other securities companies.....	248
<i>Table 104. Summary of Khan Bank's Estimated Market Value .....</i>	<i>264</i>
Table 105. Financial projections used in valuation.....	265
Table 106. Discount rate estimate.....	265
Table 107. Adjusted net shareholder equity.....	269
Table 108. Type of agreements .....	275

## List of figures

Figure 1. Khan Bank customer base .....	29
Figure 2. Overseas borrowing /in million USD/ .....	46
Graph 3. Corporate structure of the Bank.....	70
Figure 4. Total operating income (in millions of MNT).....	96
Figure 5. Profitability ratio.....	97
Figure 6. Growth dynamic .....	98
Figure 7. Economic output and its deviation from the COVID-19 pandemic expectation (January 2020 as base rate) .....	102
Figure 8. Vaccination rate (per 100 people) .....	102
Figure 9. Mongolia's economic growth breakdown by sectors .....	102
Figure 10. USD/MNT rate change and daily fluctuations .....	104
Figure 11. The Bank of Mongolia's intervention amount (USD million).....	104
Figure 12. Mongolia's main commodity prices .....	106
Figure 13. Commodity price index of Bloomberg .....	106
Figure 14. Banking sectors' loan and deposit interest rate .....	108
Figure 15. The Bank of Mongolia's policy rate .....	108
Figure 16. Bond principal payment timeline .....	110
Figure 17. Share of financial sector in nominal GDP .....	115
Figure 18. Bank of Mongolia's interest rates.....	119
Figure 19. Required reserve amount.....	119
Figure 20. Budget expenditure and net lending increase.....	120
Figure 21. Loans and advances to customers, banking sector .....	122
Figure 22. Loans and advances to private sector, in trillions of MNT .....	123
Figure 23. Loans and advances to private sector .....	123
Figure 24. Loans and advances to individuals, in trillions of MNT.....	123
Figure 25. Loans and advances to individuals, by loan type.....	123
Figure 26. Due past and non-performing loan percentage in total loans.....	124
Figure 27. Due past and non-performing loan outstanding amount (in billions of MNT).....	124

Figure 28. Private sector non-performing loans (in trillions of MNT) .....	124
Figure 29. Private sector non-performing loan outstanding amount (in trillions of MNT) .....	124
Figure 30. Consumer non-performing loan outstanding amount (in trillions of MNT) .....	125
Figure 31. Consumer non-performing loan outstanding amount, by sector .....	125
Figure 32. Current account outstanding amount (in trillions of MNT).....	126
Figure 33. Demand, time deposit outstanding amount (in trillions of MNT) .....	126
Figure 34. Khan Bank's total assets market share ( in millions of MNT, %) .....	152
Figure 35. Khan Bank's market share in terms of total loan portfolio (in millions of MNT, %) .....	153
Figure 36. Total loan market share (product) .....	154
Figure 37. Total market share (business unit) .....	154
Figure 38. Employment support loan, percentage in total system disbursement, 2021 (percentage) .....	154
Figure 39. Repo financing loan, amount in total system disbursement, 2021 (percentage).....	154
Figure 40. Green loan portfolio, market share, 2020-2021 (in millions of MNT) .....	155
Figure 41. Share in loan portfolio, by sectors.....	155
Figure 42. Loan portfolio quality (in billions of MNT, % ).....	156
Figure 43. Khan Bank's Market share in terms of total deposits (in millions of MNT, %).....	157
Figure 44. Customer deposit market share (by product).....	157
Figure 45. Customer deposit market share (by sector) .....	157
Figure 46. Market share in digital banking service from 2019 to 2021 Q3.....	159
Figure 47. Market share in internet and mobile banking transactions from 2019 to 2021 Q3.....	159
Figure 48. Market share in terms of ATM transaction number and POS transaction amount from 2019 to 2021 Q3.....	159
Figure 49. Household monetary income grouping in MNT, by percent.....	167
Figure 50. Household loan type, by percentage.....	168
Figure 51. Wages and salaries by group in MNT, by percentage in total .....	168
Figure 52. Market share as of December 31, 2021 (*excluding sub-debt) .....	175
Figure 53. Shares of transaction channels in the total transactions, 2019-2021 (exclude POS transactions).....	179
Figure 54. Use of payment apps.....	179



Figure 55. Change in the capital adequacy ratio in 2021.....	203
Figure 56. Impact analysis of net interest income .....	205
Figure 57. Use of proceeds .....	243
Figure 58. Primary market trading general diagram.....	247
Figure 59. Instructions on how to participate in the primary market offering .....	248
Figure 60. Pre-IPO market value of equity (million MNT).....	267
Figure 61. Pre-IPO price to book ratio.....	267
Figure 62. Post-IPO market value of equity (million MNT).....	268
Figure 63. Post-IPO price to book ratio .....	268
Figure 64. Post-IPO share price .....	268

## NOTICE FOR INVESTORS

This is public offering of common shares ("Security") of "KHAN Bank" LLC ("Issuer" or the "Bank" or "KHAN Bank") in compliance with the "Banking law", "Company law", "Capital market law" and in accordance with the regulations of Bank of Mongolia, Financial Regulatory Commission and Mongolian Stock Exchange SOE.

IT IS IMPORTANT TO NOTE REGISTRATION OF MONGOLIAN STOCK EXCHANGE AND FINANCIAL REGULATORY COMMISSION DOES NOT PROVIDE ANY GUARANTEE FOR RISKS RELATED TO THE SHARES. INVESTORS ARE EXPOSED TO A CERTAIN DEGREE OF RISK WHEN DECIDING TO INVEST INTO THE SHARES BY PURCHASING, THEREFORE IT IS RECOMMENDED TO MAKE ADEQUATE RESEARCH OF THIS PROSPECTUS AND RELATED PROCEDURES PRIOR TO ANY INVESTMENT DECISION.

This prospectus is not a substitute for the investor's independent assessment, research and analysis. As an investor, you are investing based on your own research on the Issuer, its Security, and relevant information, and we recommend that you consult with your personal financial, legal, and other professional advisors.

This securities prospectus is intended to contain all the information to help an investor make an investment decision. If the investor needs more detailed or additional information on top of the information provided in the prospectus, or may have any additional inquiries, please contact Khan Bank or Underwriter, BDSEC JSC.



## SUMMARY OF OFFERING

Issuer of shares	Khan Bank LLC
Type of the shares	Common shares
Total number of outstanding shares	1,720,978,200
Offering as new issue	191,219,800
Percentage of offering as new issue	10%
Percentage of total offering	10%
<i>Of which::</i>	
Offered to the strategic investors	85% or 162,536,830 shares
Offered to retail investors	15% буюу 28,682,970 shares
Total number of shares after the offering	1,912,198,000
Offering price for per share	<b>MNT959</b>
Total capital to raise	<b>MNT183,379,788,200</b> (One hundred eighty three billion, three hundred seventy nine million, seven hundred eighty eight thousand and two hundred mongolian tugrik)
Use of proceeds	The Bank shall invest 35% of the fund into information technology, digital product development and innovation to accelerate digital transition of banking products and services, and the remaining 65% of the fund shall be used to finance long-term investment loans and energy-efficient green projects.
Share offering method	Fixed price issue method
Mongolian stock exchange listing tier	Tier I of Mongolian Stock Exchange

## PARTNERS TO THE OFFERING

### LEAD UNDERWRITER

**"BDSEC" JSC**

Address: BDsec building, Zaluuchuud Avenue,  
27/1, 8th khoroo, Sukhbaatar district,  
Ulaanbaatar city, Mongolia  
Phone: + (976) 7555-1919  
Website: [bdsec.mn](http://bdsec.mn)



### CO-UNDERWRITER

**"TAVAN BOGD CAPITAL"  
LLC**

Address: Galleria Ulaanbaatar Centre, Chinggis  
Square-16, 8th khoroo, Sukhbaatar  
district, Ulaanbaatar city, Mongolia  
1-р давхар  
Phone: + (976) 7272-7282  
Website: [www.tavanbogdcapital.com](http://www.tavanbogdcapital.com)



### LEGAL ADVISOR

**ADVOCACY "MJL  
ATTORNEYS" LLPs**

Address: Suite 503, Global Business Center  
Sambuu street 13/02, 4th khoroo  
Chingeltei district, Ulaanbaatar  
Mongolia  
Phone: + (976) 7012-9665, + (976) 9906-9665  
Website: [www.mjlatorneys.mn](http://www.mjlatorneys.mn)



### LEGAL ADVISOR

**ADVOCACY "KHANLEX  
PARTNERS" LLPs**

Address: №1404, 14<sup>th</sup> floor, Ayud Tower, Olympic  
Street 5, 8th khoroo, Sukhbaatar district,  
Ulaanbaatar city, Mongolia  
Phone: + (976) 7747-1122  
Website: [www.khanlex.mn](http://www.khanlex.mn)



### INDEPENDENT EXPERT (VALUATION)

**"BDO AUDIT" LLC**

Address: Door 1502, Level 15, Union Building-B,  
Unesco Street, Sun Road 62, 1<sup>st</sup> khoroo,  
Sukhbaatar district, Ulaanbaatar city,  
Mongolia  
Phone: + (976) 77404040  
Website: [www.bdo.mn/mn](http://www.bdo.mn/mn)



### AUDIT

**"ERNST & YOUNG  
MONGOLIA AUDIT" LLC**

Address: Suite 200, Naiman zowkhis building, Seoul  
street 21, 1<sup>st</sup> khoroo, Sukhbaatar district,  
Ulaanbaatar city, Mongolia  
Phone: + (976) 1131 4032  
Website: [https://www.ey.com/en\\_mn](https://www.ey.com/en_mn)



## 1. INFORMATION ON THE ISSUER

### 1.1. Legal registration

---

#### Legal entity's state registration information

---

Issuer's legal name:	In Mongolian: ХААН Банк ХХК In English: KHAN Bank LLC
Date of registration:	4 <sup>th</sup> of November 2005
State registration number:	9016001011
Registration number:	2693321
Primary business activities	<ul style="list-style-type: none"><li>- Monetary deposits</li><li>- Loans</li><li>- Payment and settlement services</li><li>- Purchase, sale, deposit, and placing of foreign currencies</li><li>- Safe deposit box</li><li>- Issuance, purchase and sale of securities</li><li>- Issuing bank guarantees and warranties to third parties in its own name</li><li>- International remittances</li><li>- Financial leasing</li><li>- Sale and purchase of loans and other financial instruments</li><li>- Insurance intermediary (sales agent) services;</li><li>- Purchase, sale, deposit and placing of precious metals and stones</li><li>- Custody services</li><li>- Specific securities registration;</li></ul>

---

---

#### Contact information

---

Address:	KHAN BANK TOWER, CHINGGIS AVENUE-6, STADIUM ORGIL-1, KHAN-UUL DISTRICT, ULAANBAATAR 17010, MONGOLIA
Phone:	(976) 7515-3333
Website:	khanbank.com
Email:	info@khanbank.com

---

## 1.2. Operating licenses

The Bank carries out the activities specified in Article 6 provision 6.1 of the Banking Law based on the license certificate No. 06 of December 5th, 1991 and license No. 02 of November 22, 2006 of the Bank of Mongolia.

In addition, the Bank obtained the license from the FRC in 2012, 2015, and 2017 to conduct certain activities specified in Article 6.2 of the Banking Law (bancassurance, custodian, and specific registration of securities) and operating under following activities as of now.

*Table 1. Licenses held by KHAN Bank*

№	Type of business activity	Date of license obtained	License issue number
1	Monetary deposits	05 Dec, 1991	Nº06 approval of the Bank of Mongolia
2	Loans	05 Dec, 1991	Nº06 approval of the Bank of Mongolia
3	Payment and settlement services	05 Dec, 1991	Nº06 approval of the Bank of Mongolia
4	Purchase, sale, deposit, and placing of foreign currencies	05 Dec, 1991	Nº06 approval of the Bank of Mongolia
5	Safe deposit box	05 Dec, 1991	Nº06 approval of the Bank of Mongolia
6	Issuance, purchase and sale of securities	05 Dec, 1991	Nº06 approval of the Bank of Mongolia
7	Issuing bank guarantees and warranties to third parties in its own name	6 Dec, 2007	BOM Governor decree Nº575
8	International remittances	25 Nov, 2009	BOM Governor decree Nº264
9	Financial leasing	04 May, 2010	BOM Governor decree Nº269
10	Sale and purchase of loans and other financial instruments	30 Nov, 2011	BOM Governor decree Nº684
11	Insurance intermediary (sales agent) services;	08 Aug, 2012	Financial Regulatory Commission's resolution Nº234
12	Purchase, sale, deposit and placing of precious metals and stones	25 Nov, 2014	BOM Governor decree NºA187
13	Custody services	24 Jun, 2015	Financial Regulatory Commission's resolution Nº284
14	Specific securities registration;	15 Dec, 2017	Financial Regulatory Commission's resolution Nº237

### 1.3. Share capital of the Issuer

The Bank has 3,000,000,000 pcs of common shares outstanding. Accordingly, the Bank issued 1,720,978,200 pcs of ordinary shares with a par value of MNT 100 each. The total share capital is MNT 172,097,820,000.

*Table 2. Changes made in share capital over the last three years*

№	Changes	Date of approval
1	The Bank increased the par value of common shares from MNT 8,000 to MNT 8,800 and increased its share capital by MNT 5,279,204,800	Approved by the Bank of Mongolia on September 22, 2020.
2	The Bank bought back 589,446 pcs of common shares from its shareholder, the International Finance Corporation (IFC)	Approved by the Bank of Mongolia on September 22, 2020.
3	The Bank increased the par value of common shares from MNT 8,800 to MNT 30,000 and increased its share capital by MNT 121,615,792,800	Approved by the Bank of Mongolia on September 9, 2021.
4	The Shareholders' Meeting of the Bank decided on June 28, 2021 to cancel its 862,412 treasury stocks with par value of MNT 8,800	Approved by the Bank of Mongolia on September 1, 2021.
5	The Shareholders' Meeting of the Bank decided on June 28, 2021 to split the shares 30-for-1, bringing the par value of the shares to MNT 1,000	Approved by the Bank of Mongolia on October 11, 2021.
6	The Shareholders' Meeting of the Bank decided on September 30, 2021 to implement ESPP and total 4,136 employees participated the program to purchase 4.7 percent of total outstanding which resulted change in shareholding structure	Approved by the Bank of Mongolia on January 28, 2022.
7	The Shareholders' Meeting of the Bank decided on March 14, 2022 to split the shares 10-for-1, bringing the par value of the shares to MNT 100	Approved by the Shareholders' Meeting of the Bank on March 14, 2022. Submitted for approval of the Bank of Mongolia.

## 1.4. Shareholding structure of the Issuer

The following shareholders hold the 1,720,978,200 pcs of issued ordinary shares of the KHAN Bank.

Table 3. Shareholder structure of the Issuer

As of December 31, 2021

KHAN Bank shareholders	As of December 31, 2021		As of February 28, 2022	
	No. of common shares	Ownership %	No. of common shares	Ownership %
HS Holdings Co., Ltd. (formerly Sawada Holdings Co., Ltd.), Japan	783,882,300	45.55%	783,882,300	45.55%
H.S. International (Asia) Limited, Hong Kong	248,704,800	14.45%	167,856,050	9.75%
Tavan Bogd Trade LLC, Mongolia	435,653,100	25.31%	435,653,100	25.31%
Khulan D., Mongolia	252,738,000	14.69%	252,738,000	14.69%
KHAN Bank's employees	-	-	80,848,750	4.70%
<b>Нийт</b>	<b>1,720,978,200</b>	<b>100.00%</b>	<b>1,720,978,200</b>	<b>100.00%</b>

HS Holdings Co., Ltd. and HS International (Asia) Limited, Tavan Bogd Trade LLC, D.Khulan and Khan Bank employees as shareholders are parties with common interest.

Article 36.1 of the Banking Law stipulates that "the number of bank shares and equity investments owned by any entity individually or jointly with its related parties shall not exceed 20% of the total shares issued by the bank". Thus, it is required to reduce its shareholding percentage of each of current shareholders' down to 20%.

As for other shareholders, the Bank plans to change its shareholding structure following the law from the second half of 2022 to the end of 2023, under the "INITIAL PUBLIC OFFERING ACTION PLAN", which is approved by the Bank of Mongolia in August 2021.

### "HS Holdings" Co., Ltd.

HS Holdings Co., Ltd., listed on the Tokyo Stock Exchange (8699), holds shares of companies primarily engaged in the financial sector and has equity in 7 consolidated companies, including Gaitame.com Co., Ltd., H.S. International (Asia) Ltd. (HSIA), H.S. Securities Co., Ltd., H.S. Servicer Co., Ltd., JSC Solid Bank, KHAN Bank LLC, and OJSC Kyrgyz kommerts bank.

Table 4. TOP-10 shareholders of HS Holdings Co., Ltd.

Name of legal entity	Shareholders	Share percentage		
		As of Sep 30, 2021	As of Dec 31, 2021	As of Mar 31, 2022
HS Holdings Co., Ltd. (Japan)	Hideo Sawada (individual)	26.0%	12.6%	16.1%
	Upsilon Investment LLP, general partner to Meta Capital	-	32.0%	40.6%
	World Capital Co., Ltd.	14.5%	-	-
	J Trust Co., Ltd.	14.4%	14.9%	-
	Matsui Securities Co., Ltd.	4.7%	7.3%	10.2%
	Mirainobeto Co., Ltd.	4.4%	2.5%	-
	Fujisawa Nobuyoshi	4.2%	4.4%	-
	DMM.com Securities	-	2.1%	3.9%
	Hide Inter Co., Ltd.	2.7%	-	-
	Chibagin securities Co. Ltd.	-	1.1%-	1.4%
	Daiwa Securities	-	-	1.9%
	GMO Click Securities Co., Ltd	1.9%	-	-
	Kurata Masashi	1.6%	-	-
	Murayama Toshihiko (individual)	-	1.5%	1.9%
	AIG General Insurance Company Limited Public	1.5%	1.5%	1.9%
	SBI Securities	-	-	1.7%
	JP Morgan Securities Japan	-	-	1.1%
	<i>Other investors</i>	<i>24.1%</i>	<i>20.1%</i>	<i>19.3%</i>

#### "H.S. International" (Asia) Limited

"H.S. International" (Asia) Limited is a 100% subsidiary of HS Holdings based in Hong Kong. The company is focused implementation of HS Holdings' strategy in the Asian market based on opportunities for the high growth of the Chinese economy and Asian economy and conducts market research in the region.

#### "Tavan Bogd Trade" LLC

Tavan Bogd Group has 21 subsidiaries and four invested companies with more than 11,000 employees, leading in every business sector, and is working to improve the quality of life of Mongolians. Tavan Bogd Group's parent company, Tavan Bogd Trade LLC, was established in 1995.

Tavan Bogd Group operates in trade and services, manufacturing, tourism and hotels, mining equipment supply, and banking and finance. In addition to Khan Bank, Tavan Bogd Group owns reputable companies like Gobi JSC, Ulaanbaatar Guril LLC, and the Kempinski Khan Palace Hotel. It is also an official distributor of Toyota, Volkswagen, Bridgestone, and Xerox brands and is the authorized franchisee of KFC, Pizza Hut, and Little Sheep chain restaurants in Mongolia.



Table 5. Shareholder structure of Tavan Bogd Trade LLC

Name of legal entity	Operations of the legal entity	Full name of the qualified shareholders (5%<)	Percentage of the shares held by the qualified shareholders of the legal entity:
Tavan Bogd Trade LLC (Mongolia)	Foreign and domestic trade;	Ts.Baatarsaikhan	60%
	Investment;	D.Khulan	20%
	Real estates;	Ts.Oyuntsetseg	10%
	Hotel, tourism, and restaurant	Ts.Oyunsuren	5%
		Ts.Oyunjav	5%

#### Ms. Khulan D, a citizen of Mongolia

Ms. Khulan D., a citizen of Mongolia, is a founder and shareholder of “Tavan Bogd” Group and has been working as the Executive Vice President of Tavan Bogd Group since 2003. Ms. D.Khulan is a director and a deputy chairperson of the Bank’s Board of Directors and has been a shareholder of the Bank since December 2010.

#### KHAN Bank employees

As approved by the shareholders’ resolution #9 dated September 30, 2021, and the Bank of Mongolia’s approval received on January 28, 2022, the Bank carried out “Employee Share Purchase Program” (ESPP) and the Bank’s 4,136 employees became shareholders of the Bank.

By implementing the ESPP, the Bank creates an advantage of building more robust and stable human resources to enhance the Bank’s business growth, profitability, and social responsibility as a public company.

## 1.5. Related parties

Following table shows entities deemed as related parties to the Issuer in accordance with 4.1.30.d of the Securities Market Law. Table 6. List of Khan Bank's related entities and individuals as of February 28<sup>th</sup> 2022

Entities name:	State registration number:
HS Holdings Co., Ltd.	4011101034411
H.I.S. Limited	6011101002696
H.S. Securities Limited	3011101043198
H.S. Servicer Limited	4010001111031
H.S. International (Asia) Limited	1201532
Solid Bank	1024100000121
Kyrgyz Kommerts Bank	2910198910019
H.S. Planning (HK) Limited	658973
Asia Business Support Service Limited	851881
B&B Construction LLC	5173345
Hide Inter Limited	4011002026755
Tavan Bogd Trade LLC	2543303
Mon Beef LLC	5803403
Tavan Bogd Finance LLC	6710891
Ulaanbaatar Guril LLC	2624036
Gurvanseer LLC	2785218
Gobi JSC	2076357
Juulchin LLC	2026937
Tavanbogd International LLC	2548429
Tavanbogd property	6541216
Tavanbogd Solution LLC	6481221
Tavanbogd Hotpot LLC	6226132
Ulaanbaatar guril LLC	5887712
Tavabogd Washyoku LLC	5785898
Tavanbogd LLC	2074699
Tavanbogd Foods Pizza LLC	5803403
Tavanbogd Foods LLC	5646804
Ulaanbaatar Print LLC	5887712
Mongol Machine Concern LLC	2675293
Tavanbogd Smart Electornics LLC	5700302
Airlink Mongolia LLC	2663686
Juulchin duty free JSC	2097893
H.S.Y. Holding Co., Ltd.	0111-01-039449
Data bank LLC	6011616
Hideo Sawada Khan Resort LLC	5006767
Tavanbogd Capital Securities LLC	5469112
Khan Palace LLC	2873877
Food Service Solution LLC	6341926
Atar urguu JSC	2039664
Mon Beef Farm	6643663
Tavanbogd Tyre LLC	6292771
Tavanbogd House LLC	6643663
Tavanbogd Mon Meet LLC	6768679

Five Stars In Kharkhorin LLC	3559831
Tavanbogd Building Supply LLC	6738958
Zamine Services LLC	5361427
Support service Mongolia LLC	5807476
Sergelen resort LLC	3868753
Tavanbogd Residence LLC	6644465

Khan Bank LLC identifies its related person and submits them to the Bank of Mongolia on each case in accordance with 3.1.2 of the Banking Law to comply with requirements of restrictions on banking operations as specified in the article 17 of the same law.

## 1.6. Introduction

### 1.6.1. Mission and Vision

**Mission** *We strive to bring the best and most innovative financial resources to our customers at every step of their financial journey.*

**Vision** *To be the most trusted bank that grows together with our customers.*

**Slogan** *Growing together*

**Values** *Be champions of prosperity*

*Our role is not to simply provide banking solutions, we put our customers, employees, and shareholders on the path toward growth and prosperity.*

*Sustainability is the future*

*We don't stand still. We learn, adapt, and improve to build a truly sustainable business, so that we continue to equip our customers for the future.*

*Provide access to the best digital tools*

*Everyone deserves the best experience, and we will constantly innovate and extend access to the best financial tools.*

*Be the trusted advocate for our customers*

*For decades, customers have trusted us with their financial lives, and we will continue to be with them, progress for them, and help them reach their goals*

#### 1.6.1.1. Timeline

Though Khan Bank's history started in 1991, its legacy was set about 100 years ago, when Mongolia's banking and finance sector was established.

The Bank was established as Agricultural Cooperative Bank on January 31, 1991 by its investors upon the approval of a new law on banking. The Bank was known to have the most extensive branch network through which financial services were extended to rural areas until 2000. the Government of Mongolia nationalized the bank, recapitalizing it, and World Bank implemented a renewal plan for the bank, an external management team funded by USAID was brought in to implement the program. Following the execution of a successful recovery plan, the Bank was privatized through a transparent and highly competitive bidding process to an international entity HS Holdings Co., Ltd. (formerly Sawada Holdings Co., Ltd.), headquartered in Japan, acquired 100% of the Bank's shares. It later sold 40% of its shares to Tavan Bogd Trade LLC.

In 2006, the Bank officially was renamed as Khan Bank LLC.

Khan Bank is licensed for its activity by the Bank of Mongolia on November 11, 2006 as it met with all requirements set out in Mongolian Law on Banks Article 17, provision 2 and Bank of Mongolia Governor's regulation 375 of 2000, related to bank operation and its branch opening.

Today, we provide fast and reliable full range financial products to our 2.7 million customers through our digital banking network and 547 branches.

## 1.6.2. Operation

### 1.6.2.1. Overview

Khan Bank is the largest commercial bank in Mongolia leading the banking market by its asset size, loan, deposits balances and after tax profits as of 2021 year end.

The scope of the Bank's activity has a significant impact on Mongolia's national socio economic environment. The bank ranks at 4th place in TOP 100 Enterprises, a ranking from Mongolia's National Chamber of Commerce, in the fourth consecutive year. Also, the Bank is recognized as the Best Bank award, from Euro money magazine, a coveted award for a financial institution, for the 12th consecutive year, Best Partner in country from ADB for the 4th time, Mongolian best bank for the 6th time. The consistency of recognition and acknowledgement from external parties is an affirmation of the Bank's position and reputation on the market.

Khan Bank has a 2.7 million customers, reaching and serving 82 percent of the population. The bank reaches every administrative unit of Mongolia through the branches. As at reporting period the bank had 97 UB, 449 rural branches. The bank also has one representative office abroad for Mongolians. Apart from physical branches, extensive network of 1,431 ATMs and self service outlets called Express banking units are located through the country to extend the service to 24/7.

In the last 5 years, the banking customers' demand for financial services is shifting to smartphone application and to digital use of services. In response to this trend, the bank offers more and more service through its banking application. As of 4th quarter of the 2021, Khan Bank had 1.6 million digital banking users.

The bank has a suite of offerings to cater to the customer needs which were continuously improved and expanded as per promise to deliver innovative financial products, thus creating today's strong foundation. It started with introduction of SMS banking where customers had first experience of banking remotely. Then the internet banking was introduced on the web which was developed into Khan Bank application. which ushered many innovative solution to the market. The number of financial transactions notwithstanding Covid period, increased in the digital space. Compared to 2019, 2021 transaction volume increased by 2.4 folds. Although KB's internet banking users constitute 35.3 percent of market, their transaction volume constitute 72.3 percent. This is a testament that bank's product is meeting the needs of the user.

Khan Bank, being one of the systemically important bank, recognizes its role in social welfare of the country and collaborates with the Government of Mongolia, and the Central Bank on delivering state objectives. For instance, on top of distribution of state pension and welfare monies to the target market, the Bank actively participated in Government MNT 10 trillion program "Comprehensive plan to protect health, and improve economy ". Through program participation, the bank provided employment protection 3 percent loan, Bank of Mongolia's repo refinance, intensified of the Government mortgage program.

The performance of the Bank shows that KB's assets grew 15.7 percent in the last 5 years, resulting in 7.6 point increase in market share from 2017, to 33.2 percent. Banking sector grew 10.1 percent CAGR for the same period. Loan growth was the key driver in KB's successful performance during this period.

While, banking sector loan grew by 11.2 percent CAGR in the 2017-2021, KB's loan grew by 16.5 percent, growing its loan market share by 7.0 point in 2017 to 33.6 percent. The growth is mainly due to active participation in the Government loan programs that were designed to reduce economic impact of health crisis caused by worldwide pandemic and to reduce uncertainty surrounding business environment. The non-performing loan was 6.2 percent in 2019, it reduced to 5.3 percent in 2021. All these and other activities resulted in MNT 291.5 billion net profits in 2021. This is a 53.1 percent of total banking sector profits.



### 1.6.2.2. Competitive strengths

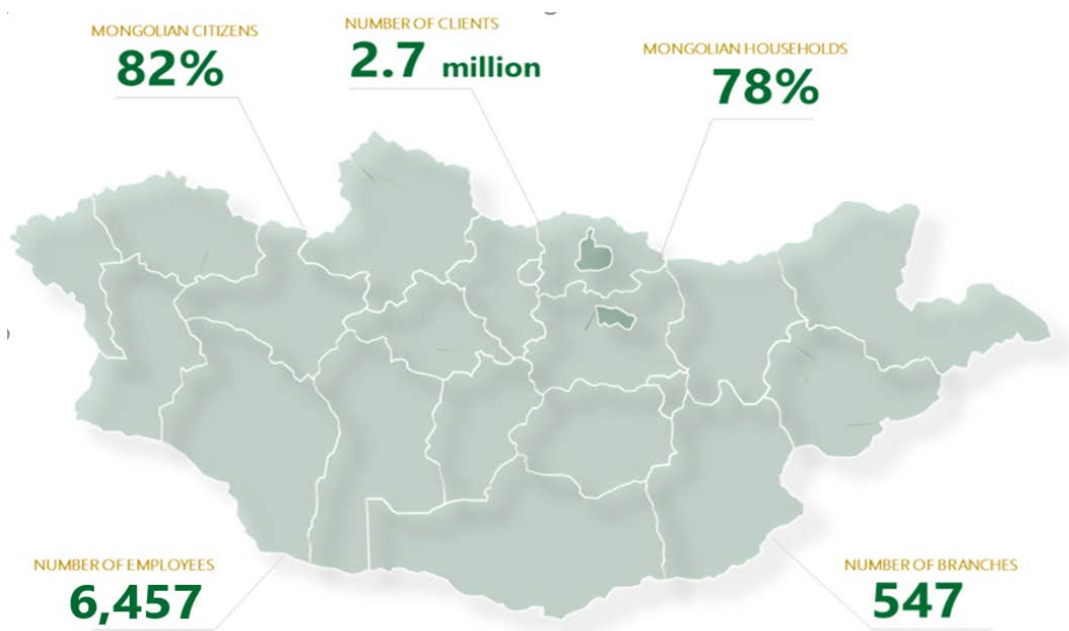
As part of its mission, Khan Bank continuously assesses and attentively improves its competitiveness on the on market. In the midterm, the Bank plans to further improve its following competitive advantages.

#### Extensive customer base

The bank has become the main bank for retail and SME customer leveraging its 30 year track record and market presence. The past 30 years has positioned the bank as trusted partner for customer.

82 percent of Mongolian citizens, 78 percent of households, have an account with KB. This wide customer base is the key competitive strength for the bank. Bank plans to keep and capitalize on this strength in coming period.

Figure 1. Khan Bank customer base



The customer base is segregated into following market segments:

- Public and private sector employees, private entrepreneurs, Signature and Priority customers;
- Small and medium, growing small scale private companies;
- Corporate companies;

KB collaborates closely with Government and its various Ministries and agencies. Apart from payroll distribution services, Bank provides full range of banking services such as payment cards, deposit acceptance, mortgage and personal loan services. As of 2021 year end, 143 thousand public sector employees bank with Khan Bank. The loan outstanding from this segment is MNT 1.1 trillion, of which MNT 750 billion is personal loan. This is 62 percent of total salary loans outstanding.

Apart of retail segment, significant part of small and medium business customers bank with KB. There are estimated 29,000 small enterprises are operating countrywide and bank with KB. In 2021, KB has MNT 3.6 trillion loan outstanding to this segment.

To support growth of this segment, KB has a policy to attract low cost funding and finance it through dedicated Business centers. In 2021 following funding were secured for this segment:

- USD 20 million 8 year loan from Austrian Development bank to finance rural SME customers to develop rural economy. At least 50 percent of funding is expected to be used for rural customers to support their effort to diversify economy.
- Long term USD 120 million funding, of which USD 80 million will be disbursed to support SME activity.

In addition to financing, SME Support center runs capacity building programs, various training and advisory services equipping customers with opportunity to develop their business. In 2021, around 1500 training sessions were conducted for customers. Part of training and advisory sessions were done in partnership with professional consulting companies.

The number of corporate customers is steadily increasing at Khan Bank. In 2021, 244 corporate customers banked with the KB. Each of the customers individually has a place in TOP 100 Mongolian enterprises and has a large scope of business. Their banking business hence is particularly important and has a large contribution to loan outstanding. As of 2021, MNT 1.1 trillion loan outstanding with 244 customers.

#### Well recognized brand, trusted partner image on the market

According to 2021 external survey, Khan Bank was recognized as *Top of Mind* Bank. This survey is done annually, to measure, image and recognition level of the brand.

The marketing and positioning of the product and services on the market were done appropriately to generate current image, and strong position in the customer mind. Bank intends to capitalize on the strong brand image to generate more value to its shareholders in a most efficient way. Compared to lesser known and new companies on the market, the bank has inherent advantage because of its strong brand image.

#### Extensive distribution network, including in digital space

Mongolia is one of the countries with vast territory, although, sparsely and widely populated, due to urbanization, more than half the population reside in cities, particularly in Ulaanbaatar city. Though urbanization has taken momentum, development of Oyu Tolgoi mine, Erdenet mine, Tavan tolgoi coal mine and Darkhan metallurgical plant create employment in rural area, driving infrastructure development. Following this development, banking services too, are being made available. Capitalizing on its rural presence Bank grew business at these places over the past years.

As of 2021 year end, Khan Bank and State bank chiefly are operating in rural regions through their branch networks, while other banks have branches in selective regions. Other banks mainly opened branches considering the regional business opportunities and presence of large national projects, which are few in numbers.

82 percent of Khan Bank branches or 449 branches are located in rural regions, and provide comprehensive banking service to customers. These branches are there to solidify the Bank's presence and high business market share. Khan Bank has 45.9%, 47.7%, and 51.4% market share in branch number, loans, and deposits respectively. In some regions, the market share is as high as 70% in deposits.

Over 204 express bank units, 1,431 ATMs, 215 kiosks, and 26,048 merchants using 33,047 POS terminals all constitute extensive banking network.

Bank grew its distribution network during peak economic growth periods, investing in 100 new branches in a year in rural area, thus creating employment and regional development opportunities and today's strong distribution network.

From 2017, Bank refurbished all branches with international standard, eco-friendly, power saving, human centric furnishings creating a comfortable place for customers to bank. At 2021 year end, 322 branches were refurbished to the new branch standard. By 2023, all branches will have either renovated by new refurbishment or its building rebuilt by international standards.



Policy to develop rural area and decentralizing urban areas will create economic opportunities in regions, thus fueling growth in those areas.

#### Leader in innovative products, comprehensive banking service provider

Aligning with worldwide digital transformation wave and taking a customer cue, Khan Bank is improving its Omni channel service experience for its customer, thus striving for uniform channel experience backed by automated, simple back office operation. As a result, 50 percent of customer services are automated, and 98 percent of transactions by customers done through digitally.

As of 3<sup>rd</sup> quarter 2021, 72 percent or 200.1 million of all internet banking transactions were done through Khan Bank's digital banking platform. At the end of 2021, 298.9 million of internet banking transactions were made through Khan Bank.

Adoption of internet banking is supported by expanded internet availability through mobile phone operating networks in rural area. Furthermore, worldwide pandemic that started in 2019 accelerated use of digital banking, as nations found themselves in lock downs from time to time. Mongolia was no exception to lockdowns, hence, banking services were more shifted into digital space.

As part of digitization, Khan Bank introduced behavioral scoring of customers for auto loans and mortgages. Building on this foundation, online personal loan will be customized to customer's behavior and lifestyle in coming period.

Bank's recent innovations include online personal loan, easy payment solutions such as QPay, KhanPay, mobile wallet PASS, Thanks.mn mobile phone application that accrues and redeems Loyalty points accumulated over card usage, Goal saving, personal finance management menu..

A recognition of digital banking efforts, Mongolia's leading digital bank title was given from "World Economic Magazine" magazine in 2021. Also, "Finance Derivative" magazine reviewed banks key metrics as customer service, digitalization, state of innovation etc and awarded the bank with " Best retail bank in Mongolia" in the same year.

With sudden onset of pandemic situation, Khan Bank expediently made some of the services as possible remotely, increasing its service availability through Customer contact center and web page. Following the effort a quality improvement is also being endeavored. For instance, during the strict lock down period, when bank branches were closed down, development of 24/7 digital product services continued, supported by information services through chatbots in social networks. Customer requests were accepted, verified and served remotely in Viber, thus helped customers residing abroad to access banking services. Side by side these efforts, the Bank expanded capacity of its Contact center increasing staffing to cater to 150 customers at the same time. This resulted in 10 million call served in 2021.

#### Guardian of the asset quality with powerful risk culture

Mature risk culture is Khan Bank's one its strong competitive strengths. Ability to identify risks in advance and manage it effectively is thanks to its risk management framework which allows balancing of risks and returns while keeping profits at the maximum possible level. Identification, assessment, treatment and management of risks are continues, and so is its reporting and allocation of its owners. This results in strong culture of risk awareness, where every person has a responsibility to inform and monitor risks as part of their daily duty.

Khan Bank manages Strategic, Credit, Liquidity, Market, Operational, Legal, Compliance, Information security as well as Information technology risks.

To manage various risks, Bank runs risk committees where loan products and services along with their terms and conditions get approved. In addition to that, back office operation, credit risk issues solved, portfolio





quality, risk concentration, provisioning, internal limits, early warning systems performance, risk performance gets discussed and appropriate actions approved, monitored. As a result, KB's non-performing loan rate reduced from 6.2 percent in 2017 to 5.3 percent in 2021. The Bank's non-performing loan rate has been consistently lower than that of sector average.

Bank successfully manages risks within the approved internal risk acceptance limits. Bank adheres to and complies to all requirements including anti-money laundering, terrorism financing legislature, partner institution, correspondent banking and international partner requirements.

The mature risk culture prevents Bank from deviating and not performing objectives, allows early detection and management of risks thus contributes in real terms reaching profit targets.

#### Leading socially responsible bank with unparalleled corporate capacity

One of key strengths of Bank is its market leading position. As of 2021 year end banks market share was 33.2% by assets, 33.6% by total loans, 35.8% by customer deposits, 35.1% by equity, and 53.1% net profits.

The Bank has won TOP Taxpayer recognition for 4 times, making its contribution to development of country economy.

By becoming financially strong, the Bank's responsibility increases towards the society it operates in while also providing the opportunity to develop to international peer level. Financial statements are audited and verified by an international standards. For example, information security, business continuity requirement standard ISO27001:2013 has been met for the 9th year, Security of payment card standard of PCI DSS has been met for the 8<sup>th</sup> year in a row. Meeting international standards allows bank to showcase itself as reliable and reputable partner in business. PCI DSS standard adherence allows bank to feature VISA logo in digital space as its accredited partner.

Increasing number of corporate entities operating on par with international peers will bring in positive image in economy and country reputation.

As part of its social responsibility the Bank consistently supports children and youth education, runs a health and environment protection programs, cares for vulnerable social segments, thus contributing to country's development objectives. Also, rural development programs, art supporting exhibitions have become part of its normal activity. Also, Sustainable development 17 objectives are met with, showing our commitment to banking sector as well as in business sectors on promoting the concept of sustainable development.

#### Modern institution with visionary management team with transparent governance principles

Company's competitive strengths are direct result of its management team and talented employees' skills and experiences. The Bank paid particular attention to its human resource capacity and capability since its establishment. It focused on providing an opportunity for long successful career for its employees, thus, creating today's talented team of people for the Bank.

Furthermore, maintaining its management governance structure, and running it as stable, the bank ensures good quality of its decision, succession practices helps the Bank to be independent and focus on long term development of the company. Khan Bank adheres to internationally accepted good governance standards, measuring itself by running a comprehensive review of its governance since 2018.

### 1.6.2.3. Historical achievements of the Bank

1991	One-tier state banking system collapsed, Agricultural Cooperative Bank was established with branches throughout the country.
------	--



2003	<p>Announced an international bid and was successfully privatized recovery in 2003.</p> <p>Introduced the FNS program and installed it at 50 branches, connecting them to a central database.</p>
2004	<p>Introduced Khan Visa Card as the first payment card in the domestic market.</p>
2005	<p>Updated the mission to: Become the country's leading bank with transparency and justice as values</p>
2006	<p>The Business Incubator Center was established to support SMEs.</p> <p>Introduced a herders package product for herders.</p>
2007	<p>Khan Bank introduced the e-banking by launching Mongolia's first Mobile Banking and Internet Banking services and installing the first ATMs in some provinces.</p> <p>Opened a representative office in Seoul, Republic of Korea.</p> <p>The Khan Bank Foundation was established to expand CSR efforts, a first move in Mongolian private companies.</p>
2008	<p>Introduced the UnionPay Card to the Mongolian market.</p>
2009	<p>All branches connected to fully online network allowing real-time automated operations.</p>
2010	<p>Sub-branches were classified, segment branches opened as SME Centers, and Priority Banking offices were established.</p>
2011	<p>Introduced the Motherland Worship payment card, mobile ATMs, cashback rewards, SMS alerts, and Balance Life programs.</p> <p>National Campaign Against Cancer was successfully implemented throughout Mongolia by the Khan Bank Foundation.</p>
2012	<p>Introduced ₮ Card national payment system and E-corner service.</p> <p>Cooperation was established with 60 banks around the world, and solid trade finance credit lines were founded.</p>
2013	<p>Launched bancassurance service for the first time in Mongolia.</p> <p>Launched drive-thru ATMs at Ulaanbaatar gas stations.</p> <p>Introduced the Khan Bank application.</p>
2014	<p>Self-service, 24/7 Express Banking centers were introduced to the market.</p> <p>Mobile branches were introduced for the first time in Mongolia, bringing banking services to densely populated areas, open markets, public events, and organizations.</p> <p>Launched Telephone Banking, e-Commerce, and a contactless card.</p>
2015	<p>Payment card information security standards were introduced for the first time in Mongolia.</p>

- 2016** Made comprehensive system upgrades, introducing a new card system meeting international standards.
- Khan Bank was recognized as the Best Bank in Mongolia 2015 by The Banker magazine.
- 2017** Khan Business was introduced as the Bank that supports SMEs.
- Campaign Against Hypertension officially launched.
- Khan Bank Tower opened in downtown Ulaanbaatar.
- 2018** Self-service banking KIOSK machines were introduced to the market, opening a new chapter in the Bank's digital transformation journey.
- "Future" Program implemented to provide children with financial education.
- As part of the Bank's mission to develop the local economy, a dairy cluster farm, the Rural Brand Project, and a loan product based on "harvest insurance" were successfully introduced.
- Joined the UN Global Compact and integrated the 17 Sustainable Development Goals into business operations.
- 2019** Total assets reached MNT 10 trillion.
- Online salary loan service was introduced to the market.
- Introduced EMV contactless card product to the market.
- The Customer Information Center was expanded to become the Contact Center, operating with 38 more channels, and all of the Bank's branches adopted new customer service standards.
- Khan Bank opened an employee library.
- The Bank's CSR was recognized by international experts, and the Bank received the Top CSR Advocates in Asia award.
- 2021** Omni channel Internet Banking platform and the Bank's upgraded application were introduced to the market.
- Online loans and the Thanks loyalty reward application were launched.
- Local MNT cards were upgraded to meet international standards with the offering of contactless EMV cards.
- The Bank's 30<sup>th</sup> anniversary was celebrated nationwide with the slogan "Thirty years of being closer to you and trusted by all".
- COVID-19 pandemic response was introduced where 13 products and services were offered remotely in lock down period.
- 2022** Introduced online salary loan requests.
- Introduced a new vision, mission, slogan, and strategy to develop and maintain a leading position in the digital era.

#### **1.6.2.4. Business introduction**

##### **Business strategy**

As part of its mission of growing together with customer on their financial growth journey, the Bank aims to grow further by providing innovative products and services to meet expanding needs of its customer.

The Bank plans to reach following strategic objectives in near term.

##### *Expand in key market segments and increase the market share*

Khan Bank will provide its services to both retail and business customer segments.

Within the retail banking, the Bank will grow in Priority and Signature market segments. As country economy grows, affluent or high income segment income grows in tandem, therefore, the Bank will diversify/customize its offerings to the specific needs of these segments in order to fulfill its growth objective. Wealth management, investment products and services will be introduced. The Bank will come closer to customer by having dedicated relationship managers serving the customers with products and providing human support via segment specific branches.

Khan Bank will continue to cater to the needs of majority of the retail segments through its existing branches. The Bank will maintain its extensive distribution network, continue to digitize and standardize the offerings and make it available at self service outlets, mobile phone banking application. Kiosks, Express banking units will continue to operate outside office hours to extend banking service without a quality compromise 24/7.

In business customer segment, the Bank plans to solidify its position in both SME and corporate customer market. Supporting through financing, developing the customer capacity by offering comprehensive banking services is one of key commitment of the Bank. In line with this, dedicated business centers are established to do banking, and Business Support center operates to provide advisory and training, capacity building programs.

The Bank will continue to serve the needs of the corporate customer comprehensively by providing flexible financing and supporting in all areas of customer operation. Khan Bank will strengthen its relationship with corporate customers in coming period by cooperating at all levels.

##### *Build deep and long lasting relationship with the customer*

Following modern customer preference to bank in online environment, Khan Bank offers its products and services in online space through self service outlets, mobile banking applications and through mobile operator networks. As this shift in business model progresses, customer care and support remotely, resolving, responding to their issues remotely becomes of paramount importance. Recognizing this importance, Khan Bank built capacity and capability of its Customer Contact Centers to better respond to customer feedback, inquiries. In addition to customer support services, the Contact center verifies the customer using technology and provide banking services on the spot. The Bank has revised the staffing plan of the center and invested in the contact center platform.

Leveraging customer data, and the customer relationship management platform Khan Bank aims to predict customer service requirement and offer it. Also, cross selling opportunities will be identified via lead generation modules using data. Identifying the customer needs in advance and meeting them will enable bank to deepen the customer relationship. The Bank will use cost effective technological solutions such as machine learning, data and will eliminate human related errors in service offerings. Having customer insight at data level will allow to predict customer's needs proactively, and allow meeting the need will generate deep and long lasting relationship with the customer.



### *Innovate product and services and develop banking super app*

Khan Bank envisions to develop current mobile banking application, Khan Bank app into comprehensive super app where multiple services are aggregated and provided. The base for the super app has already been built. The super app will embed financial services to customer's lifestyle services. In other words, the customer will be enabled to shop online, pay and earn loyalty points all in one place, without leaving the banking app. Anticipating and meeting the customer need will serve the Bank's long term vision of growing with the customer. It is planned that all applicable and pertinent banking services will be available on the app in a user friendly and most convenient way.

The development of super app additionally serves a growth purpose for the business clients. The business clients can connect its services to the banking app and become part of ecosystem where customers and service providers are all connected. Business customer can directly access Bank's large client base and thus cost of reaching customers. Ecosystem participant is enabled to save costs while reaching large customer base, thus grow in income to become larger company. As customer grows, bank's agenda to grow can also be met with.

### *Manage risks effectively by improving risk management framework*

As the bank strives to digitize, its risk profile also change and new risks emerge as pertinent.

The Bank is subject to risks that impact its plan realization due to rapidly changing external environment. Therefore, ability to manage risks faster becomes of high importance. Digital transformation activities necessitate bank to manage change, do it in optimal way, ensure containment of information security, fraud, model risks along with reputation, remote workforce that take center stage.

In view of this, bank renews its enterprise risk management framework.

### *Improve operating model, polish competitive strength areas*

Becoming a digital bank is directly relates to bank's ability to successfully launch new products and services on the market. To reach market with innovative products, project management way of working needs changing. The Bank has already piloted agile project management way into the mindset of technical staff. To support the new way of working, Scaled Agile value stream based team structure has been established. In tandem with this effort, an Agile culture is being spread systematically via cultural programs. For instance, Digital banker program was announced in January 2022, and bank's digital agenda has been shared to every employee.

As the agile working matures in organization, the Bank plans to scale it up to cover other areas of the bank to complement the transformation activities.

### *Create the "Digital bank" culture and improve management of human resources*

Having engaged, motivated and talented employee is critical to meet the strategic agenda of the bank. The bank will further improve management of human capital, by creating a culture where employees are supported in their career growth, and met with their development goals. An employee centric practices will support this goal as well.

Communicating Bank's strategic goals to every employee, upskilling them and supporting them to learn new skills underpinned by digital culture is the Bank's current focus area. As part of this focus, employee centric policy and services that leverage on technological solutions, and data driven decision making will be put forward.

The Bank's culture plays crucial role in performance of the organization and has impact on its growth agenda. In the past, the Bank promoted *Customer centric, Professional, Proactive, Team oriented* behaviors among



employees and tied it with incentives and supported by number of cultural programs. Further culture building activities designed to support digital agenda is being planned in the midterm.

### Key operating segments

Khan Bank operates in retail, SME and corporate segments as well as runs a treasury operation.

Bank serves to 2.7 million retail customers through its physical and online branches. As customers increasingly need to bank online, the online banking customer grew to 1.6 million at the end of 2021. Online banking customers include internet bank users, smart banking application user, mobile bank users and telephone banking customers.

Table 7. Income from key segments

Income statement (brief, in millions of MNT)	Retail bank	SME bank	Corporate bank	Treasury	Central office	Total
Interest income	611,299	103,529	111,260	320,936	31,745	1,178,769
Share percentage	52%	9%	9%	27%	3%	100%
NII	423,606	43,755	47,179	36,315	83,722	634,577
Share percentage	67%	7%	7%	6%	13%	100%
Net fee income	114,884	903	1,737	(2,850)	79,935	194,609
Share percentage	59%	0%	1%	-1%	41%	100%
Net profit after taxes	340,478	16,272	26,113	16,703	(13,006)	386,559
Share percentage	88%	4%	7%	4%	-3%	100%

### Retail banking business

Khan Bank offers retail banking service to its individual customers through the nationwide branch network of 547 branches and sub-branches; 97 sub-branches in Ulaanbaatar, 449 sub-branches in Rural and 1 overseas representative office. The Bank is providing a broad range of banking products and services through its digital platforms and digital channels to the retail customer.

The retail banking services include opening of current accounts, digital banking enrollment, payment card order/cancellation, consumer and various loans, deposit accounts, insurance, money transfers and remittances. Recent innovation include Pass, e-wallet, digital banking upgraded platform.

The Bank's national branch network also serves as primary channel to the target retail customers for Government's welfare and distribution program, including pension, welfare allowances and other distributions. Retail customers are also provided with out-of-hours banking services capability through self-service express banking units, comprising ATMs and Kiosks.

Retail banking is the largest part of bank's operation, as of December 31, 2021, MNT 2.3 trillion of consumer loan portfolio with 424 thousand borrowers, MNT 1.8 trillion of business loan with 30.7 thousand borrowers, and MNT 582 billion agricultural loan portfolio with 75 thousand borrowers belong to retail banking. 51 percent of consumer loan portfolio consists of salary loan and 71.5 percent of business loan portfolio consists of working capital loan.

Table 8. Retail banking loan portfolio

(in millions of MNT)

Loan portfolio	2021		2020		2019		2018	
	Amount	Accounts	Amount	Accounts	Amount	Accounts	Amount	Accounts

<b>Business loan</b>	<b>1,797,087</b>	<b>30,694</b>	<b>1,054,901</b>	<b>24,761</b>	<b>970,464</b>	<b>21,750</b>	<b>522,269</b>	<b>15,419</b>
<i>Business loan</i>	<i>1,286,067</i>	<i>23,952</i>	<i>560,879</i>	<i>15,767</i>	<i>505,603</i>	<i>14,042</i>	<i>309,788</i>	<i>9,917</i>
<i>Investment loan</i>	<i>457,850</i>	<i>3,775</i>	<i>393,185</i>	<i>3,899</i>	<i>379,706</i>	<i>3,057</i>	<i>162,319</i>	<i>2,139</i>
<i>Micro business loan</i>	<i>53,169</i>	<i>2,967</i>	<i>100,837</i>	<i>5,095</i>	<i>85,155</i>	<i>4,651</i>	<i>50,162</i>	<i>3,363</i>
<b>Consumer loan</b>	<b>2,325,007</b>	<b>424,633</b>	<b>2,046,213</b>	<b>395,467</b>	<b>2,676,334</b>	<b>505,518</b>	<b>2,894,489</b>	<b>459,535</b>
<i>Salary loan</i>	<i>1,179,226</i>	<i>201,738</i>	<i>1,260,111</i>	<i>226,234</i>	<i>1,485,735</i>	<i>237,247</i>	<i>1,660,599</i>	<i>208,214</i>
<i>Mortgage loan</i>	<i>638,069</i>	<i>11,776</i>	<i>449,689</i>	<i>9,520</i>	<i>336,100</i>	<i>7,663</i>	<i>251,305</i>	<i>6,691</i>
<i>Other consumer loan</i>	<i>507,712</i>	<i>211,119</i>	<i>336,412</i>	<i>159,713</i>	<i>854,499</i>	<i>260,608</i>	<i>982,584</i>	<i>244,630</i>
<b>Agricultural loan</b>	<b>582,042</b>	<b>75,000</b>	<b>408,920</b>	<b>70,258</b>	<b>340,876</b>	<b>62,585</b>	<b>216,948</b>	<b>53,772</b>
<i>Herder loan</i>	<i>535,982</i>	<i>73,276</i>	<i>395,692</i>	<i>68,907</i>	<i>318,613</i>	<i>60,909</i>	<i>206,075</i>	<i>52,652</i>
<i>Agricultural loan</i>	<i>46,060</i>	<i>1,724</i>	<i>13,227</i>	<i>1,351</i>	<i>22,263</i>	<i>1,676</i>	<i>10,873</i>	<i>1,120</i>

For deposit-taking business, 88 percent of deposit portfolio consists of retail customers, of which 55 percent is term deposits.

Table 9. Retail banking deposit portfolio

(in millions of MNT)

Customer deposit	2021		2020		2019		2018	
	Accounts	Amount	Accounts	Amount	Accounts	Amount	Accounts	Amount
<b>Total</b>	<b>4,428,365</b>	<b>9,000,649</b>	<b>4,143,504</b>	<b>7,986,136</b>	<b>3,894,741</b>	<b>6,274,008</b>	<b>3,931,127</b>	<b>5,089,925</b>
Current account	3,111,991	2,264,294	2,822,062	1,243,745	2,719,645	1,177,275	2,787,267	984,907
Demand deposit	828,865	1,757,118	840,619	2,276,536	766,702	1,247,181	752,640	1,213,780
Term deposits	487,426	4,961,138	480,331	4,447,732	407,995	3,829,155	390,923	2,880,473
Other deposit	83	18,099	492	18,123	399	20,397	297	10,766

## Private Banking

The Bank launched its Priority banking service in 2010 to offer a comprehensive premium banking service to its more affluent customers who make exceptional contributions to the society and economy. In 2017, the Bank launched its Signature banking service dedicated to aspiring professionals, young entrepreneurs, and leaders. By the end of 2021, the Bank serves approximately 50,000 Priority and Signature customers nationwide.

## Signature Service

With a focus on providing products and services tailored to the financial needs and busy lifestyle of Signature customers, the Bank offers digital banking services, various loan products with special conditions including salary loan, mortgage loan, private home loan for purchasing or constructing, Signature debit and credit card, loyalty discount programs and appointment booking service. Signature service provides our Signature debit and credit cardholders an opportunity to save up to 20 percent on every purchase from more than 100 contracted entities under loyalty discount program. Signature customers are given unique opportunities to increase their social status and network by participating in various educational, cultural, art, and networking events organized by the Bank. Moreover, Signature customers can join at their full discretion in the Bank's efforts to make a positive impact on the society as well. As of December 31, 2021, overall deposits outstanding

of Signature customers reached MNT 1,270 billion, representing approximately 12.6% of the Bank's total deposits.

### Priority Banking Service

The Bank offers professional and private banking service at our specially designated branches, bringing a comfort and convenience to our local and foreign customers through our skilled and dedicated relationship managers communicating in Chinese, Korean, Japanese, and English. In an effort to meet the needs of our customers, we offer a high-end Priority debit card, Platinum credit card, insurance and loan products, digital banking services, loyalty discount program, mile accumulation program, various events as well as appointment booking services. Furthermore, we receive every call from our customers 24/7 without a delay at our dedicated priority call line (7533-1917) and handle each request from customers and deliver them banking products and services remotely. As of December 31, 2021, overall deposits outstanding of Priority customers reached MNT 2,269 billion, representing approximately 22.6% of the Bank's total deposits.

### SME banking business

In 2017, Khan Bank launched "Khan Business" service dedicated to Small and medium sized enterprises aimed at easing their access to financial and non-financial services. The "Khan Business" service provides comprehensive banking products and services to SMEs based on their demands and needs through eight Business centers, located at UB's major business areas. Providing financial services such as local brand loan, supply chain loan and export loan along with nonfinancial services such as consulting and training benefit our SME clients to tap their competitive advantage and growth potential on the market. Moreover, Khan Bank established SME support center to empower SME's business capabilities to enable them to expand their businesses and bring to next level.

In 2021, by improving SME banking products and services, the Khan Bank was able to secure its market share in the banking market. The number of SME borrowers increased by 64.6%, while the loan portfolio showed 66.5% of growth compared to previous year.

The SME banking consists of SME banking department, Credit origination department, SME support center and eight Business centers. This structure not only eases inter-departments relationships, but also helps to smoothly and quickly provide specially designed services to SMEs. As a result, Khan Bank has been able to support closely its clients during a pandemic.

By the end of 2021, Khan Bank's SME loan portfolio reached MNT 1.1 trillion, which is sixteen percent of the bank's overall loan portfolio.

Table 10. SME banking loan portfolio

(in millions of MNT)

Loan portfolio	2021*		2020		2019		2018	
	Amount	Accounts	Amount	Accounts	Amount	Accounts	Amount	Accounts
<b>Business loan portfolio</b>	<b>1,072,461</b>	<b>1,847</b>	<b>642,080</b>	<b>1,190</b>	<b>196,054</b>	<b>505</b>	<b>192,070</b>	<b>475</b>
<i>Business loan</i>	<i>673,912</i>	<i>1,333</i>	<i>307,990</i>	<i>639</i>	<i>97,263</i>	<i>255</i>	<i>99,779</i>	<i>293</i>
<i>Investment loan</i>	<i>398,431</i>	<i>511</i>	<i>333,865</i>	<i>546</i>	<i>97,035</i>	<i>205</i>	<i>91,880</i>	<i>166</i>
<i>Micro business loan</i>	<i>118</i>	<i>3</i>	<i>226</i>	<i>5</i>	<i>1,757</i>	<i>45</i>	<i>411</i>	<i>16</i>
<b>Consumer loan</b>	<b>21,353</b>	<b>458</b>	<b>16,212</b>	<b>217</b>	<b>20,604</b>	<b>1,251</b>	<b>32,771</b>	<b>1,917</b>
<b>Agricultural loan</b>	<b>9,498</b>	<b>22</b>	<b>4,378</b>	<b>7</b>	<b>676</b>	<b>5</b>	<b>83</b>	<b>1</b>



Note: \* Loan portfolio redistributed in accordance with the Bank's reorganization

Since inventory management is crucial for SMEs, they usually do not build long term sustainable savings. As of Dec 31, 2021, three percent out of total bank's deposit portfolio were generated by SMEs. Whereas seventy nine percent of total SME deposit portfolio falls into current accounts.

Table 11. SME banking deposit portfolio

(in millions of MNT)

Customer deposit	2021		2020		2019		2018	
	Accounts	Amount	Accounts	Amount	Accounts	Amount	Accounts	Amount
<b>Total</b>	<b>6,953</b>	<b>353,728</b>	<b>4,266</b>	<b>276,045</b>	<b>10,385</b>	<b>149,654</b>	<b>14,071</b>	<b>319,587</b>
Current account	5,848	280,905	4,036	192,648	6,145	58,975	8,663	93,920
Demand deposit	714	5,428	63	17,515	3,062	31,930	3,930	39,704
Term deposits	383	63,416	133	62,758	1,144	54,839	1,433	182,019
Other deposit	8	3,978	34	3,124	34	3,910	45	3,944

### Corporate banking business

Khan Bank provides corporate banking services for large enterprises and groups of companies that make a major contribution to the country's development and economic turnover. The Bank prioritizes reliable and stable relationships with its customers by providing advanced and comprehensive financial services to major organizations and groups of companies operating in the construction, mining, agriculture, food production, wholesale and retail trade, health care, fuel import, and trade sectors, as well as international organizations, representative offices, and embassies.

### Corporate loans

As of the end of 2021, the Corporate banking loan portfolio reached MNT 1.1 trillion of 244 loans, an increase of 8.8 percent compared to the end of the previous year, accounting for 14.6 percent of Khan Bank total loans. In 2019, the Bank has redesigned its construction loan operations, controls, and sales, and in 2021, a total of MNT 303 billion was issued in new loans and MNT 156 billion was repaid in loans. In terms of construction loans, we provide loans based on construction performance and maintain the quality of construction loans at a reasonable level in line with the 6% mortgage loans and mortgage loans with the bank's own funding provided to individuals.

In addition to meeting the loan needs of business entities and organizations operating in the retail and wholesale sectors in line with their operations, Corporate banking also cooperates in providing FX trading, POS machines, ATMs, and various card services. We also support and offer favorable financial products for business entities engaged in the production and trade of drugs and foods that have a significant impact on public health and food safety.

Corporate Banking has been cooperating with major mining companies of strategic importance to Mongolia by providing appropriate financial services to them and their employees.

Corporate Banking's cooperation with international development banks and the provision of "Risk Sharing" facility with the European Bank for Reconstruction and Development (EBRD) for some major projects and programs have a significant impact on reducing banking risk, implementing international best practices, and improving corporate financial discipline.

As large corporate customers are sensitive to interest rates and exchange rate fluctuations, we offer products such as exchange rate hedging products and trade finance instruments to mitigate FX risk and trade risk. We are also taking measures to reduce customers' financial costs depending on market conditions. The weighted

average interest rates on corporate banking loans in MNT and foreign currencies decreased from 13.67% and 7.55% at the end of 2020 to 12.84% and 6.46% at the end of 2021.

In order to reduce the concentration of corporate loan portfolios, we are focusing on the loan portfolio mix. As of the end of 2021, 41% of the total portfolio are investment loans and 58% are working capital loans. Considering the Corporate banking loan portfolio mix by sectors, construction loans account for 33 percent of the total loan portfolio, mining sector loans account for 13 percent, wholesale and retail sector loans account for 19 percent, manufacturing sector loans account for 9 percent, and fuel import and trade loans account for 14 percent.

Corporate Banking is actively involved in providing green loans for energy-efficient projects and financing renewable energy projects and programs to further contribute to mitigating global climate change and greenhouse gas emissions.

Table 12. Corporate banking loan portfolio

(in millions of MNT)

Loan portfolio	2021		2020		2019		2018	
	Amount	Accounts	Amount	Accounts	Amount	Accounts	Amount	Accounts
<b>Business loan portfolio</b>	<b>1,018,179</b>	<b>210</b>	<b>938,123</b>	<b>173</b>	<b>582,894</b>	<b>207</b>	<b>441,079</b>	<b>128</b>
Business loan	599,987	151	678,079	119	365,217	145	298,188	110
Investment loan	418,192	59	260,044	54	217,677	62	142,891	18
<b>Consumer loan</b>	<b>806</b>	<b>30</b>	<b>331</b>	<b>5</b>	<b>19,033</b>	<b>12,177</b>	<b>13,964</b>	<b>4,258</b>
<b>Agricultural loan</b>	<b>2,248</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Corporate deposits

As of the end of 2021, Corporate banking customer deposits made up 8.2% of total deposits. Due to the business sector cycle and macroeconomic conditions, corporate banking deposits from customers are volatile. Current accounts increased by 70.1% from the end of 2020, while term deposits decreased by 49.7%.

Table 13. Corporate banking deposit portfolio

(in millions of MNT)

Customer deposit	2021		2020		2019		2018	
	Accounts	Amount	Accounts	Amount	Accounts	Amount	Accounts	Amount
<b>Total</b>	<b>2,200</b>	<b>834,010</b>	<b>1,913</b>	<b>978,133</b>	<b>2,222</b>	<b>772,526</b>	<b>2,213</b>	<b>769,820</b>
Current account	2,147	523,542	1,795	321,122	2,042	256,909	1,991	286,171
Demand deposit	1	25	35	45,476	74	33,218	96	11,385
Term deposits	47	305,863	66	608,011	97	482,039	120	472,160
Other deposit	5	4,581	17	3,524	9	359	6	104

## Trade finance services

Khan Bank's trade finance experts provides international trade settlement and financing services tailored to firms and clients engaged in foreign trade activities who are looking to manage their foreign trade and related risks using the standardized rules of UCP, URDG, ISP issued by the International Chamber of Commerce (ICC). In this regard, more than 30 international banks and financial institutions, including Taiwan Export-Import Bank, Atlantic Forfaitierungs, ODDO BHF Bank, Commerzbank, La Caixa Bank, and Erste Bank, provide a total

credit line of \$ 300 million to Khan Bank to finance its customers' international trade. The Bank is a long-standing member of Trade Finance Facilitation Programs of Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the International Finance Corporation (IFC), through network of which possibility to directly transact with over top 800 international trade finance banks is enabled. As of December 2021, Khan Bank's total trade finance turnover was USD 162.5 million, of which 83% comprised of trade loans and 17% comprised of documentary credit. Khan Bank has won the "Most Active Trade Financing Bank" award for the 12th time under the EBRD Trade Finance Facilitation Program and the "Best Trade Finance Bank" award under the ADB program for the fourth time. To this date, about 50 employees have been specifically trained in trade finance with international accreditation, and 1146 employees and customers have received international trade finance introductory trainings.

Khan Bank refinances letters of credit and provides pre and post-shipment financing to meet its customers' financial needs, resulting in a steady increase in total trade financing instruments and disbursements. In 2020-2021, Khan Bank's average quarterly market share in total issued and received (import, export) letters of credit and guarantees in the domestic market remained at 16%, and although in 2020-2021 the business needs for trade finance have decreased due to the COVID-19 pandemic, financing instruments and disbursements increased by 14.5% year-on-year.

#### **International remittances and correspondent banking relationship**

Khan Bank provides fast, reliable and secure international remittances services to our customers through SWIFT-International network in 13 major currencies (USD, EUR, CNY, JPY, CHF, GBP, CAD, AUD, KRW, RUB, SGD, NZD, HKD) using its wide correspondent banking network of 51 nostro accounts at 30 international banks. We handle over 136,000 international transactions of 15,000 customers with total amount of USD 3.2 billion, annually.

As at the end of 2021, the total number of international transactions processed through SWIFT network has increased by 10% and the total value of transactions has increased by 42%, respectively, compared to the same period of last year. In the local market, Khan Bank's ranking has stood at 2nd place in outgoing payments; while ranking in inward payment has stood at 1st place. The most number of payments were settled with South Korea, accounting for 43% of total transactions, while China and Singapore came in 2nd and 3rd top places for processed payments, accounting for 24% and 12% of total transactions, respectively.

Khan Bank introduced SWIFT-GPI service to the Mongolian market for the first time in 2017. This service allows customers to inquire the location of the transaction, the intermediary banks involved, their estimated fees, the time spent on the transfer, and the status of whether the transaction has reached to the recipient, all in real time.

Khan Bank strictly complies with international and domestic anti-money laundering and counter terrorist financing policies and has been expanding its operations by establishing new relationships with international banks and financial institutions.

Overcoming the countrywide challenge of shrinking correspondent banking network, we are working hard to enable the smooth flow of international remittances by introducing high-tech, cloud and blockchain-based international payment solutions in 2022.

#### **Foreign exchange**

Khan Bank accounts for about 30 percent of the domestic foreign exchange market turnover, and through its extensive banking network and branches, it offers 13 types of currency combinations to meet the needs of its customers in FX trading.





We continue to cooperate with internationally renowned banks and financial institutions such as Saxo Bank, StoneX, Raiffeisen Bank, Transcapital Bank, Kookmin, and KEB Hana bank to meet the FX demand of our customers and implement the bank's FX position management. Our Bank offers "FX Trading Deals" or services that trade the currency at a better rate than the announced rate for high-value currency trading customers. The Bank processes an average of more than 20,000 currency trading transactions with customers annually to meet their needs. In addition, the bank conducts currency trading averaged USD 20 million a day with its foreign and domestic customers, and is one of the largest participants in the FX market. In recent years, Khan Bank alone has accounted for about 30 percent of the Bank of Mongolia's FX auction turnover. Also, the bank has been the primary dealer in the digital trading system of the Bank of Mongolia since 2017. These further strengthen the leading position of the Khan Bank in the system.

### **Swap and forward trade**

The Bank offers its foreign trade customers FX derivatives, such as swaps and forwards, with a maturity of up to three months to hedge against FX risk.

Since 2016, Khan Bank has been offering short-term swaps and forwards for its customers engaged in foreign trade activities.

The Bank has also contributed to increasing Mongolia's official foreign exchange reserves by entering into long-term swap agreements with the Bank of Mongolia on long-term foreign currency funding from international financial institutions.

### **Gold trading**

Since 2014, physical gold trading has been offered to gold mining companies and individuals. Currently, the Bank purchases physical gold through gold purchase points located in Ulaanbaatar and Bayankhongor province. In 2020, we started offering the new product to our gold mining companies and customers. The uniqueness of this product is that it allows customers (gold mining companies and individuals) to place orders to sell physical gold at their target price in the international market through a bank, which is an advantage over regular trading.

### **Money market operations**

Khan Bank buys and holds US dollar-denominated Eurobonds on the international market of Mongolia in order to invest spare cash in interest-bearing liquid assets. As of September 2021, the limit set by the ALCO is USD 250 million. The Bank owns USD 249.19 million worth of bonds with a weighted average interest rate of 4.27%.

### **Long term repurchase agreement**

Khan Bank supports the long-term repurchase agreement program of the Bank of Mongolia as part of the MNT 10 trillion program implemented by the Government of Mongolia. The program aims to support small and medium enterprises, non-mining exports, services, manufacturing, wholesalers, and retailers with two hundred or more employees.

### **Risk sharing facility**

Khan Bank and the European Bank for Reconstruction and Development (EBRD) have agreed to enter into an interbank risk-sharing facility worth MNT 25 billion for financing loans. The risk-sharing facility is unique in that the Bank and the European Bank for Reconstruction and Development (EBRD) for the first time offer customers a variable interest rate loan.

## **Introduction of products and services**

### *Lending service*



Khan Bank offers 105 loan products of 5 types including consumer, project, green, business and mortgage in order to provide loan products and services to individuals and legal entities at a high level of customer services and cooperate with responsible and reliable borrowers for long term and in a way of mutually beneficial. In addition, the bank has been offering the most popular loan, the salary loan in online environment save customer's valuable time.

Consumer loans finance personal needs of borrower who have fixed regular income. The range of products include pension loan, deposit secured loan, salary loan, consumer finance, household loan, credit card and herder loan etc. There are 9 types of mortgage loans are offered to finance residential apartments.

The bank offers 17 types of loans such as investment loan, working capital loan, dealership loan, construction loan, trade loan, agricultural loan, value chain support loan, exporter support loan, micro express loan and green business loan. It also issues foreign and domestic guarantee to meet the financial needs of business entities of various business sectors to support.

The bank has 24 types of project loans for entrepreneurs, citizens with disabilities, herders, students and for sustainable operation of sectors with social and economic importance. The project loans are developed in collaboration with the international investment banks, the Government of Mongolia, and the Bank of Mongolia.

Within scope of its social responsibility and sustainable development policy, the bank finances environmental friendly business, supports green business through implementing "Green" projects and programs in collaboration with the Government and international financial institutions to support green consumption of citizens and providing technical advisory services for customers regarding to green technology, energy saving and reduce carbon dioxide /CO<sub>2</sub>/.

As of the end of 2021, Khan Bank's total number of consumer loan accounts is 495,545, mortgage loan accounts is 12,723 and business loan accounts is 34,790 in total.

#### *Current, Demand and Term deposits, Long-term funding*

Any individual or enterprise by opening current account or saving account will be able to become bank customer and access other banking products and services. Khan Bank is the market leader in the use of deposit products.

Number of accountholders with double counting of current, demand, and term deposit are 3,310,257, 843,678, and 512,997 as of the end of 2021.

Khan Bank offers current, demand or term deposit account for Mass, Signature, and Priority segments in Retail and Corporates tailoring to our customer's needs:

#### **Current Account**

Khan Bank provides current account products in 14 currencies to customers for daily payment and money transfer needs. Individuals and corporates can select from 10 types of current accounts such as regular, targeted (regular, salary, pension, student, and social welfare), and special purposes.

#### **Demand Deposit**

Demand Deposits are available with 3 currencies and it is for customers' immediate needs and personal saving purpose or insurance premium savings purpose with interest rates. Depending on the type of demand deposit, the customer can withdraw the interest at the end of the term or on a monthly basis.

#### **Term Deposit**



Time deposits are available in 3 currencies and select from regular and special plans (pre-paid interest deposit, herder, child), and Certificate of Deposit. Depending on the type of deposit, the customer can withdraw the interest at the end of the term or on a monthly basis

### Account based additional services

Khan Bank offers over 10 types of additional services that are based on their current and term deposit. The services are as follows:

- **Accumulation service** - Automatically deducts money from an account and transfer it to savings account by selecting the frequency and amount without any fee to help customers to make savings.
- **Safe deposit box** - Protects customer's documents, valuables, currency and irreplaceable valuables in the most guaranteed way within the secure premises of the Bank, secured by customer's fingerprint, password and key. The box can have sole or joint owner. The pricing various depending on the lengths of days to save and size of the box.
- **Standing order** - A non-cash automat transfer service for corporates that have high volume transfer. The transfers are executed after receiving payment instructions from the contacted customer's address.
- **Sweep service** - Offered to corporates to transfer and collect funds automatically from their branches and subsidiaries' account to one account and vice versa at the end of day or at the time specified in the contract.
- **Foreign exchange** - Offered to both retail and corporate customers to trade in 13 currencies throughout our wide banking network and branches. The market penetration of Khan Bank is approximately 25 percent. Khan Bank offers "Forex Trading" to deal rate on trading above MNT 20 million.
- **International payments** - Khan Bank has been providing international payments services since 2001. Khan Bank joined the international payment network SWIFT in 2005 which enhanced the bank's external payment service and sped up its payment operations..
  - Khan Bank cooperates with more than 200 globally reputable institutions. As of 2021, through its 51 nostro accounts held at 30 foreign banks, Khan Bank provides international payments, remittance service to its customers in 13 major currencies (USD, EUR, CNY, JPY, CHF, GBP, CAD, AUD, KRW, RUB, SGD, NZD, HKD). Each year, Khan Bank processes more than 136 thousand international transfers total of 3.4 billion USD for more than 15,000 clients.
  - Khan Bank is constantly expanding its international cooperation, for the purpose of expanding and successfully maintaining the international payment network, as well as to ensure business continuity. The bank has established correspondent banking relations with the world's largest banks such as leading Korean banks: Kookmin Bank, KEB Hana, Shinhan, Woori, Industrial Bank of Korea; leading Singaporean banks: DBS, OCBC; leading Russian banks: Transkapital; leading Chinese banks: Agricultural Bank of China, China Construction Bank, ICBC, Bank of China, Bank of Inner Mongolia, leading German bank: Commerzbank; leading Spanish bank: La Caixa bank, leading Canadian bank National Bank of Canada, leading Australian bank ANZ, leading Japanese banks: MUFG, Mizuho and SMBC; as well as leading Georgian bank: Bank of Georgia and so on.

### Long-term funding

#### *Fund raising from international financial markets*

The Bank has established long-term partnerships with various foreign financial institutions including development banks, prominent international financial institutions, commercial banks and investment funds. The partnership is to attract overseas funds for supporting our clients' long-term financing needs by offering



suitable financing solutions as well as for maintaining the funding base diversified and ensuring effective liquidity risk management and sufficient capital adequacy.

The Bank has raised over a total of USD 1.3 billion in unsecured, long-term funds with 3 to 8-years term from the international financial markets and currently collaborates with more than 20 international financial institutions, investment management companies and over 40 investment funds including International financial institutions such as IFC (International Finance Corporation), EBRD (European Bank for Reconstruction and Development), ADB (Asian Development Bank), IIB (International Investment Bank) and Development banks such as FMO (Dutch Entrepreneurial Development Bank), DEG (German Investment Corporation), Proparco (French Development Finance Institution), OeEB (Development Bank of Austria) etc.

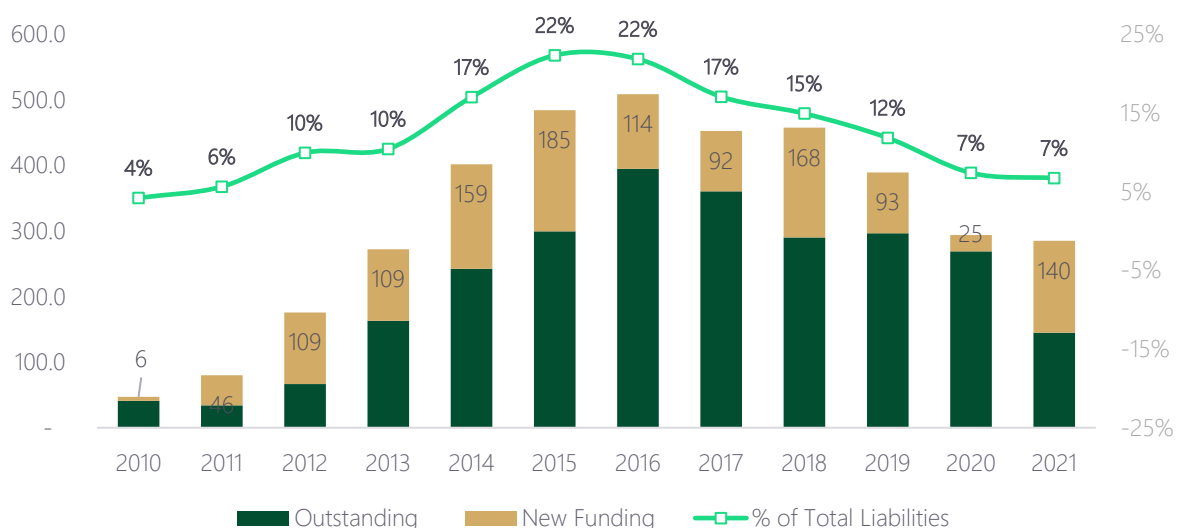
The investment decision by the international investors to provide long-term, unsecured financing is based on their assessment of bank's financial outlook taking into consideration a number of factors such as country risk, financial market risk, macroeconomic condition, banking operations, financial stability, customer service channels, branch network, quality of the products and services, the market capacity, financial inclusiveness, bank's corporate governance, the risk management, the expertise and experience of the senior management, and compliance with the international standards and requirements by the foreign institutions as well.

The Bank also implements relevant international environmental and social standards and requirements in its operations in addition to the financial covenants required by international financial institutions.

In 2021, the Bank has successfully concluded long-term financing agreements with more than 20 international financial institutions, development banks and investment funds managed by microfinance institutions with a total amount of USD 220 million, which is equivalent to about MNT 600 billion, and obtained USD 140 million in our account. The remaining USD 80 million of funding is expected to be disbursed in the first quarter of 2022. As of the end of 2021, borrowed funds from overseas accounted for 7% of the bank's total liabilities.

The proceeds of these loans will be directed towards financing long-term loans to support small and medium enterprises, as well as financing "green loan" products and services to finance buying environmentally friendly and energy-efficient equipment and other green projects.

Figure 2. Overseas borrowing /in million USD/



### Card products

#### Debit card business



Khan Bank offers individuals and businesses 8 different types of retail debit cards and 2 types of corporate cards for fast and seamless payments and secure spending.

Customers can order debit cards via internet banking, Khan Bank application and Contact Center, and receive their card through postal service. 70%-75% of newly issued cards are delivered to addresses requested by the customers in a timely manner. Many other card related services are available online. As of 2021 year-end, Khan Bank had 1.8 million cardholders with 2.4 million valid cards, and it held market share of 56% in terms of debit card count and 68.1% market share in terms of transaction active cards<sup>1</sup>.

### **Credit card business**

Khan Bank offers 12 different types of credit cards products to individuals and businesses for satisfying their financial and payment needs in a flexible manner. These credit cards, tailored to meet distinct demands of customers, are equipped with purchase based reward programs including instant discounts, points and cashback.

The bank's credit card market share in terms of card count was 42.45 percent.<sup>2</sup>

### **Merchant acquiring business**

Khan Bank provides merchant acquiring services to individuals and businesses through its card payment and settlement infrastructure to facilitate non-cash payments. As of 31 December, 2021, the bank had 33,047 POS terminals at 26,048 Merchants.

These POS terminals accept all types of payment cards including both domestic and international magnetic stripe, EMV chip and contactless cards as well as QR payment by PASS e-wallet. Moreover, in relation with rapid growth in e-commerce, the bank offers e-commerce acquiring service that accepts all domestic cards and overseas issued Visa cards.

Products and services offered to Merchants:

- Cashback- Khan Bank cardholders can withdraw up to MNT 200,000 of cash from Khan Bank merchants.
- Agent – Users of mobile operators, Skytel and Unitel, can receive variety of services including paying their bills, topping up and getting a new mobile phone number at Khan Bank POS terminals.
- ECR integration – POS terminals are integrated with electronic cash register at shops to enable cashiers to serve their customers promptly without additional manual work such as typing purchase amount at the terminal.
- PASS e-wallet – Khan Bank cardholders can make purchases at POS terminals with their mobile application through registering their cards at PASS e-wallet.
- E-commerce – It enables online merchants to accept all types of card payments. The bank introduced Visa 3D Secure V.2 service for the first time in the market to accept overseas issued Visa cards at local online merchants in February 2022.
- Alipay acquiring – In the beginning of 2022, the bank starts to offer its Merchants an acquiring service for Alipay payment application which is commonly used in China and South East Asian countries. It enables Merchants to accept payments from foreign tourists and business entrepreneurs promptly.

### **Card loyalty program**

---

<sup>1</sup> Source: Payment System Report, the Bank of Mongolia, Q3, 2021

<sup>2</sup> Source: Payment System Report, the Bank of Mongolia, Q3, 2021



With the launch of first-ever automated loyalty system to its cardholders among other banks, the bank implements regular loyalty reward programs to build its customer satisfaction and retention. Loyalty reward program is carried out in a numerous ways based on particular card product and seasonality including loyalty point award, redemption, coupon and instant discounts on card purchases. Khan Bank enlists loyalty merchants suitable with distinct features of each card, and it is now collaborating with over 215 loyalty merchants. The bank also launched "THANKS.MN" application enabling cardholders to view loyalty merchants easily.

### *Digital Products*

As the largest retail bank in Mongolia, Khan Bank has a diverse range of customers. To provide the best banking experience to each of our customers Khan Bank's digital products include Internet Banking service, Khan Bank Application, Mobile Banking Service, Telephone Banking, ATM and KIOSK.

#### **Internet Banking**

Customers can connect to our Internet Banking service through any device that is connected to the internet. The service is provided to both our Retail and Corporate clients, and can be accessed from any location, without limitation to time.

Through the service, customers can perform a broad range of financial services (make transactions, pay bills, loan), and non-financial services (card-related activities, monitor accounts, register to other digital products).

#### **Khan Bank smart phone application**

The application allows the user more convenience for banking services and is accessible from any smart phone using the internet.

#### **KIOSK**

The Kiosk machine is connected to the National KHUR system, which verifies the customer with high accuracy. To create a more user-friendly experience, our clients have the opportunity to directly have a voice or video call with a representative from the kiosk machine.

From the KIOSK machine, customers can view, print, send the account statement via email, account statement, perform inter-bank and intra-bank transactions, pay all forms of property tax, register to the bank's digital products, and update their personal information.

#### **Mobile Bank 2.0**

By dialing \*1917# customers can access the Mobile Banking service from any phone device. The service is based on USSD technology. The channel allows the customers to access the banking service from their phone without the use of any internet. To use the service, no additional settings need to be configured or downloaded.

Customers can perform intra-bank transactions, pay bills, view statements and remaining balances, and have the option of receiving transaction information via email. The service is accessible to Mobicom, Skytel, and Unitel users.

#### **ATM**

Khan Bank's ATM machines are located in the most convenient areas around the country. This allows customers direct access to the service wherever they are located.

At the Automated Teller Machines, customers can withdraw and deposit cash; perform intra-bank transactions, pay bills; activate bank card, change card pin code, receive e-pin code, view remaining balance and account statement, and print transaction receipt.

### Telephone Banking service

By connecting to the Banks call center at 1800-1917, customers can receive Telephone Banking service. With our experienced operators, customers can perform transactions, pay bills, monitor the account, close their card, and receive exchange rate information (can be sent via text message).

### SMS Alert

Customers who are registered to the service receive SMS text messages about their transaction that are equal to or above MNT 5,000. The service allows our customers to monitor their account and if the case arises can swiftly prevent any fraudulent activity.

### Corporate Gateway (Corporate clients)

Using Open Banking API technology, our corporate clients have access to a more tailored financial service that meets their needs. The service is provided through Google Apigee, International and National ERP developer vendors.

Depending on the customers preference, the service can be customized to certain specific needs; for example, our corporate clients configure their transaction workflow, automate transaction and account statement download, accounting, integrate the service to the financial service and monitoring companies.

### Payroll service (Corporate clients)

By enrolling in the service, our corporate clients can perform salary transactions. The service allows customers to perform this transaction without coming to the branch or using the internet Banking service.

### Sweep Service (Corporate clients)

The Sweep service centralizes the Corporate clients account activity to a singular account. The service supports the clients daily operation and assists with their business needs.

### QPay service

The QPay service is one of the most used services by both retail and corporate clients, initially introduced to the market by Khan Bank. The service allows clients to make transactions using a QR code.

- Clients with financial programs can integrate the QPay service into their system; the service allows the customer to generate QR codes for payment purposes.
- QR Code can be linked and connected to an account. This allows the customer to collect payment from their customers.
- QR codes can be scanned from other Bank applications that are integrated to the QPay service.

### *Investment and Custody services*

#### Investment services

Gold trading - Khan bank has been offering gold trade to gold mining companies and individuals. Currently, the bank buys physical gold through gold purchasing points located in Ulaanbaatar city and Bayankhongor province.

In 2020, the bank began offering a new product to gold mining companies and individuals. Through this product customers (gold mining companies and individuals) can place orders to sell physical gold on the international market at their target price through the bank, which is advantageous over ordinary gold trading.

Securities trade on the secondary market - The Bank also offers its customers the secondary market trade for Government of Mongolia's Eurobonds and securities traded on the international market. The uniqueness of this product is that it allows clients to invest in fixed-return investment instruments.

### Custody services

Khan Bank provides custodian banking services for foreign and domestic investors since 2016 in line with international standards with other banking services as a service bundling.

The Bank offers service packages for its customers as investors, investment funds and issuers based on its investment activity and features. Additionally, we provide agency services for our corporate customers.

- The service package for investors and investment funds includes safekeeping, securities settlement, corporate action, cash management, and reporting services. For investment funds the Bank provides unit rights registration and net asset valuation control as required by the law.
- For issuer, we offer depository receipt registration, securities registrar, and paying agent services.
- Escrow agent and security agent services are offered to corporate clients.

The Bank provides cash settlement services for securities trade at Mongolian stock exchange to securities companies. Depending on membership type of securities companies at Mongolian Securities Clearing Center, the Bank offers cash settlement services to non-clearing members as well as cash nominal account service to clearing members.

### *Bancassurance*

Khan Bank began to carry out Insurance intermediation service under a license from the Financial Regulatory Commission since August, 2012 within the Banking law and Law on Insurance Professional Participants. Khan Bank is the first bank to offer a comprehensive insurance service to our customers throughout the country. Bancassurance provides following benefits for customers.

- Banking and insurance service at single location; comparison on insurance products and services offered by top insurance companies;
- Less insurance premium and higher coverage
- Insurance service at any of Khan Bank's branch around the country

Khan Bank offers product of vehicle insurance, driver's compulsory liability insurance, heavy machinery insurance, health insurance, accident insurance and occupational disability insurance.

We cooperate with Mongolia's leading insurance companies and enable our customers for compulsory and voluntary insurance products.

- Amar Daatgal LLC [www.amardaatgal.mn](http://www.amardaatgal.mn)
- Bodi Daatgal JSC [www.bodi-insurance.com](http://www.bodi-insurance.com)
- Mandal Daatgal JSC [www.mandal.mn](http://www.mandal.mn)
- MIG Daatgal LLC [www.mig.mn](http://www.mig.mn)
- Mongol Daatgal JSC [www.mongoldaatgal.mn](http://www.mongoldaatgal.mn)
- Monre Daatgal LLC [www.monre.mn](http://www.monre.mn)
- Munkh Daatgal LLC [www.munkhdaatgal.mn](http://www.munkhdaatgal.mn)
- Nomin Daatgal LLC [www.insurance.nomin.net](http://www.insurance.nomin.net)
- Tenger Daatgal LLC [www.tengerdaatgal.mn](http://www.tengerdaatgal.mn)
- Practical Daatgal LLC [www.practical.mn](http://www.practical.mn)
- Mongolian National Reinsurance JSC [www.mongolianre.com](http://www.mongolianre.com)



### 1.6.2.5. Risk management system

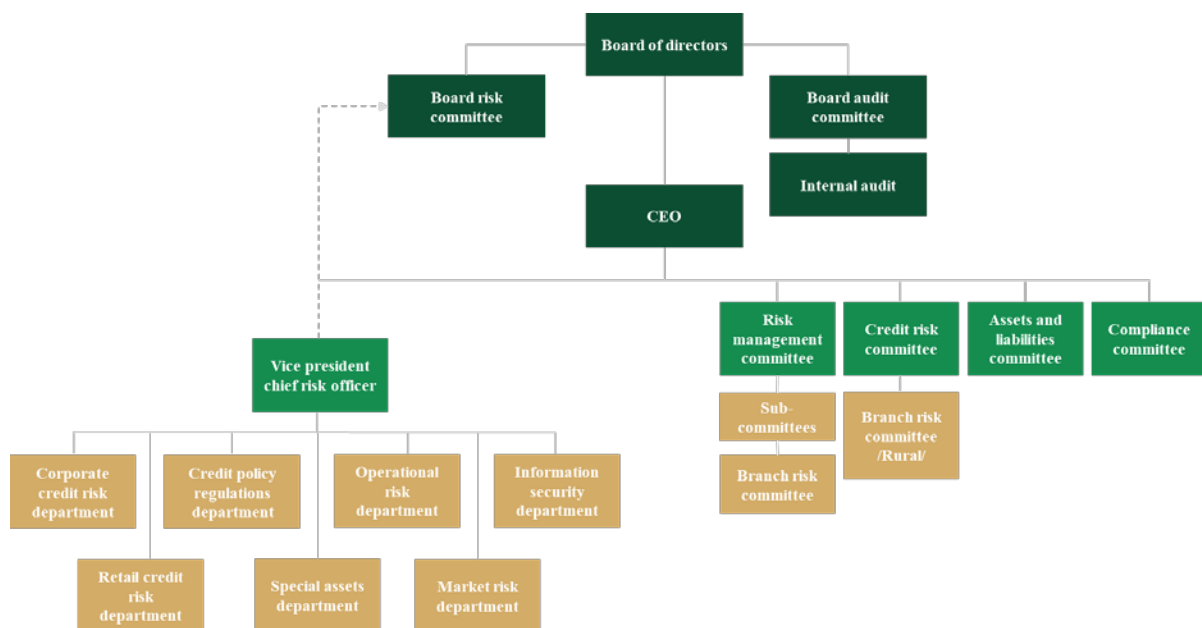
#### Risk management framework

Khan bank's risk management system consists of risk governance, risk management processes, risk appetite and risk management policies, procedures, methodologies, risk management plans and resources. The Bank is constantly improving its Risk management framework in line with international best practices, recommendations, standards, and regulations, procedures and requirements of the Mongolian regulatory authorities, and implements it in line with the Bank's business operations. The purpose of the Bank's risk management is to identify and effectively manage the risks that may affect the Bank's strategy and objectives within the Risk appetite approved by the Board of Directors, and to implement the following key objectives:

- Optimizing the risk-return ratio within risk appetite;
- Effective allocation of responsibilities to the Bank's risk management stakeholders;
- Develop a strong risk culture for all employees;
- Identify and effectively manage the Bank's key risks;
- Improve and implement risk detection, identification, assessment, response and monitoring processes in accordance with international standards, recommendations and best practices;

#### Risk management governance

In order to effectively implement, report and monitor the Risk management framework, Khan bank has established the following risk governance. The Bank updates its risk management governance in line with business size, strategic planning and institutional changes.



The Board of directors (BOD) has the general function of establishing the Bank's risk management framework, risk governance and risk culture. The BOD and Board risk committee monitor Bank's risk management policy and its effectiveness, and Risk appetite statements.

#### *Board risk committee*

The Board risk committee (BRC) assists the BOD in monitoring the Bank's risk levels. According to responsibilities listed in the Bank's and BRC rules, it aims to develop risk management framework suitable for the Bank's general risk levels, control environment, and identifies the Bank's risk management main components and evaluates implementation. BRC is in charge of monitoring reports presented by the Bank's

Risk management and Compliance committees on a monthly basis, moreover, it ensures implementation of Risk appetite statements and risk limits approved by the BOD.

#### *Board audit committee*

The Board audit committee assists the BOD in overseeing the accuracy of the Bank's financial statements and information, legal and regulatory compliance, internal control and audit activities.

#### *Internal audit*

Internal audit is conducted independently from the executive management in accordance with the principles of good governance and reports directly to the independent Audit committee under the BOD, which is responsible for ensuring the effectiveness and efficiency of the Bank's governance, risk management, internal control and other activities.

The scope of internal audit activities includes the Bank's decision-making, policy definition, business and support processes, compliance and reporting.

The Bank's mission is to build a trusted relationship with its stakeholders by supporting the Bank in achieving its objectives through implementation of effective internal audit services based on modern technology and by complying with international professional standards and ethical rules of the Institute of Internal Auditors.

During recent times, an automated internal audit system has been introduced for remote auditing, electronic verification, and scenario signal enhancement. We are also preparing a framework for using machine learning, data analysis techniques, and automating the audit process.

#### *Risk management committee*

The Risk management committee regularly oversees the Bank's risk management framework and risk management processes, assesses and identifies measures to be taken to address the Bank's major risks. It also records levels and measures of risks at the bank-level on the risk dashboard. The Risk management committee is chaired by the Vice president chief risk officer (VP CRO) and meets once a month.

#### *Assets and liabilities committee*

The purpose of the Assets and liabilities committee (ALCO) is to determine the structure of assets and liabilities in the Bank's financial statements to ensure the Bank's sustainable development, ensure profitability and liquidity through sound asset management, and manage foreign exchange, interest rate and other market risks. It is responsible for managing the total assets and liabilities of liquidity, foreign exchange, maturity, interest rate and the source risks.

#### *Credit risk committees*

Khan bank has two level committees, including the Head office credit risk committee (HOCRC) and the Branch credit risk committee (BCRC). The HOCRC discusses and approves regulations related to credit products and services, their general terms and conditions, credit operations, credit risk, and sets internal limits on credit risk. In addition, it discusses the quality of the entire loan portfolio, concentration risk, credit risk fund adequacy, early warning system implementation, risk reporting performance, approves internal constraints, compliance with contract requirements, action plans, and makes relevant decisions and conducts monitoring. The HOCRC is managed by the VP CRO. The BCRC discusses the quality of the portfolios of its affiliates and the specific issues for each loan, develops risk mitigation measures and action plans, and monitors implementation.

#### *Compliance committee*

The Compliance committee monitors the implementation of compliance risk management at the bank-level and provides an integrated management. It sets the Bank's internal policies and guidelines, identifies, assesses,

mitigates and monitors the implementation of measures in accordance with the requirements of anti-money laundering and anti-terrorist financing legislation, regulatory authorities, correspondent banks and international financial institutions. The Compliance committee is chaired by the Chief executive officer and meets on a monthly basis to discuss relevant issues, reports and issues, provides guidance and, if necessary, submit reports to the Board risk committee.

### Risk culture

Khan bank's risk culture is defined as follows:

*Risk culture: A risk culture is a culture in which the BOD, Executive management and all employees of the Bank are fully aware of the importance of risk, risk management and understand their responsibilities related to risk management.*

In order to strengthen the risk culture, the Bank defined policies for the BOD, Executive management and mid-level managers to develop a risk culture, to implement it and take the lead in risk management. In addition to training risk managers at the bank in order to spread a strong risk culture, the organization organizes continuous risk management trainings to continuously improve the risk awareness of all employees.

### *Three lines of defense*

Khan bank uses the "Three Lines of Defense" model to implement risk management by allocating risk management responsibilities appropriately. These include following:

- First line of defense: Business lines and their supporting functions
- Second line of defense: Risk functions and risk management support functions
- Third line of defense: Internal audit function

### Information security

Khan bank implements internationally recognized methods and initiatives to protect the security of the customer and the Bank's information, moreover, employees and technological operations pay the highest attention to the implementation of these methodologies. Furthermore, we develop information security policies, procedures and standards, and constantly improve them in our operations.

### *ISO27001:2013 – Information security management framework standard*

Khan bank has been successful in implementing the Information security management framework in accordance with the international standard ISO27001:2013 to ensure information security and business continuity since 2014 or for the ninth year in a row. It is verified annually by the Information security internal inspection and International auditing organization, and the Bank aims to constantly improve this framework.

The international standard ISO27001:2013 consists of 114 types of controls with 14 security chapters required for the implementation of the Information security management framework, and provides a Certificate of validation based on the full implementation of these controls in its internal operations.

### *PCI DSS – Payment card security standard*

Khan bank implemented the PCI DSS International payment card security standard and received its certification in 2015. Since then, it has been audited annually by an international auditing organization and has been successfully approved for the eight years in a row. In 2021, the Bank was recognized that it meets all the requirements for the latest version of PCI DSS - Payment card security standard 3.2.1. DSSv3.2.1 and has received its certification on November 30, 2021. Upon receiving the certification, Khan bank has been authorized to use electronic logo to present that it is an official service representative for the VISA International payment card organization.



The Payment card security standard (PCI DSS) is an international standard with strict technical and operational criteria for ensuring the confidentiality and security of card information at all stages of the organization's internal operations, from the time the card is ordered to the time it is delivered to the customer. In accordance with this standard, the Bank implements security controls and requirements at all levels of the Bank related to system, software, network and card operations.

#### *Personal information security protection*

In accordance with the requirements of international standards for the protection of personal information security, such as ISO27701:2019 Privacy information management and General Data Protection Regulation (GDPR), we have successfully introduced and implemented 11 groups of controls in our core business.

#### *Information security technology control, operations*

In order to ensure technical security, Khan bank regularly conducts inspections of information technology systems, networks, software and equipment by domestic and international accredited organizations, and conducts regular activities to determine whether the security is ensured. These include following:

- The Information security monitoring center provides 24/7 real-time monitoring, response, prevention and detection of detected attacks;
- Employees' access to banking systems is implemented and regularly monitored through international security methods, processes, techniques and systems;
- Machine learning detects and suppresses cyber-attacks, targeted attacks and attacks on OWASP (Open Web Application Security Project), CVE (Common Vulnerabilities and Exposures), APT (Advanced Persistent Threat);
- Introduces security solutions for banking systems, networks, servers and end devices, and conducts penetration tests- "Penetration testing - Black, White, Grey" and regular inspections in cooperation with leading internationally recognized organizations.

#### *Information security training, information*

Khan bank regularly conducts information security training for its employees and actively engages with the employees. It also provides training and regular advice on all possible channels to ensure the confidentiality of personal information for all customers, to prevent customers from cyber risks, advising them to not to disclose personal information on social media, to be careful and responsible when shopping online, and to increase their information security awareness.

#### **1.6.2.6. Customer experience**

The mission of Khan Bank's customer service is "To prioritize our customers by providing comprehensive financial services that meet their needs and exceed expectations with each bank employees by tangible and intangible channels, as well as to receive customer feedback, complaints and measure customer satisfaction to continuously improve The bank's customer service by resolving it promptly and offering products and services personalized to each customer." In order to achieve the highest level of customer service, each employee follows the 5 basic principles of being Reliable, Simple, Accessible, Empathic, and Caring on a daily basis.

The Bank always listen to our customers' voices and feedback and conduct regular internal and external surveys to improve its operations as well as it conduct customer satisfaction surveys to determine business goals, objectives, and strategic plans based on customer feedback and demand by certified external research organizations such as MMCG LLC and VMLY & R LLC which have implemented ISO 20252: 2019 international research standards.

Moreover, about 11,000-15,000 Khan Bank customers who regularly use Khan Bank's products and services on a monthly basis are surveyed by telephone and social media to measure customer satisfaction and listen to their voices. Based on the results of the survey, business and operations departments update their products and services in accordance with customer feedback and needs and define policies and procedures. In addition, based on customer feedback and needs, the Bank develop future action plans assigning departments responsible for each enhancement action and monitoring their performance on a regular basis. As a result, in 2021, the Bank have increased our customer satisfaction Net Promoter Score by 2 points.

The Bank is committed to prioritizing its customers and strives to deliver high-quality products and services based on advanced technology through a tangible channel with a comfortable environment and accessible, intangible channels that meet customer needs. When the Bank delivers our services to the customers through tangible channels, it follows the standard manual patented by the Intellectual Property Office prepared according to the international SERVQUAL model. Since 2018, the overall evaluation of customer service has been continuously assessed at more than 90% by regularly measuring the quality of services of branches and Contact Center in accordance with international methodologies.

The Bank focuses on saving the customers' valuable time, ensuring information security, and providing services, inquiries, and information remotely and quickly. The Bank is are increasing the capacity of the Contact Center to meet the needs of its customers from year to year, constantly expanding the range of the services and improving the availability, quality, and availability of remote service channels. For example, in the latter case during the quarantine period, when the branches were closed, the Bank provided banking services 24/7 through remote channels and provided financial services to customers continuously. The Bank has capacity to serve 170 customers simultaneously and a total of 10 million calls are received annually through Khan Bank employees in 21 provinces work remotely 24/7 to deliver 48 types of services, all types of inquiries, and information to customers in an equable and quality manner. In addition, it uses the latest technology to meet international standards and continuously improve the operations, allowing its employees to work regardless of space or time.

In 2021, the Bank excelled in customer service and selected as the winner in the "Best Contact Center Training & Development Program" category and awarded as one of the Top 5 organizations in the "Best in Class Remote Contact Center" category of the annual Customer Contact Week Excellence Awards organized by the CCW Association based in Las Vegas, USA. The association, which brings together more than 150,000 organizations from around the world in various fields, has selected the best in 15 categories this year and Khan Bank has won two awards from Mongolia, which means that its customer service, contact center's operation, and quality standards have reached international standards.

Khan Bank has developed a "Customer Protection Policy" in accordance with the Bank of Mongolia's "Regulations on the Implementation of the Bank's Good Governance Principles", which sets out the Bank's adherence to six key principles. These include:

1. Equitable and fair treatment;
2. To meet the customer needs and improve the financial education of customers;
3. Disclosure and transparency;
4. Protection of privacy;
5. Resolve complaints in accordance with laws and regulations;
6. Provide quality service

In accordance with this policy, the Bank regulates the receipt, investigation, and resolution of any complaints submitted by customers through the "Procedure for receiving, registering and resolving customer complaints". The Bank handles customer complaints in the first contact within the framework of these policies and



procedures and In case of a joint resolution with other departments, all departments and units of the bank are following in their daily operations to resolve complaints within the standard timeframe.

The Bank uses internationally accepted methods, techniques, and standards, such as Six-sigma and Fishbone, measure Defect rate calculation, to resolve customer complaints and investigate the causes, and continuously takes to prevent and reduce repeated complaints. In 2021, Khan Bank worked to reduce the customer wait time and to improve the quality of complaint resolving, and 95 percent of a total of complaints were resolved in the accepted timeframe, and 40 products were processed for the first time. We use CRM systems with many advantages in receiving and resolving customer complaints, such as creating, transferring, reviewing, adjusting controls, and reporting.

In the future, we will try to improve our customer service, reach it to a new level, and constantly introduce technology that meets international standards into our internal operations.

#### **1.6.2.7. Product development**

To keep the relationship with Bank as long lasting deep and efficient for the customers, Khan Bank plans to leverage data, artificial intelligence, machine learning models for its product and service development. Currently, the customers are enabled to borrow online, in the mid-term however, the Bank plans to roll out more and more lending products in online environment. In the mid-term, 70 percent of consumer loans are targeted to be disbursed in online environment.

As part of this goal, Online Branch project has been implemented from August 2020. This project endeavors to shift manual back office tasks related to consumer loan to automation, reduce human errors and increase customer satisfaction by increased operations speed and convenience. It also aims to increase online loan market share.

The project assessed the loan back office processes, developed automation requirements for user verification and associated system development. The project test launched on September 28, 2021 to KB employees, and publicly launched to market in December, 2021. Going forward, online deposit secured loan, consumer finance, credit card and other loans will be disbursed end to end online.

The Bank develops its Khan Bank application. Taking a cue from customer's is willingness to bank online, a Lifestyle feature is being developed. Lifestyle feature will connect service provider to the app creating an ecosystem that is digitally interconnected. The app will embed banking services required for payment, financing with the connected merchant services seamlessly.

Lifestyle feature development necessitates change in legacy loan and deposit products. Legacy consumer loans get fragmented, reduces in average size, increases in frequency. Following this, repayment becomes in multitude numbers requiring a friendly reminder to send to customers and enabling auto deduction from customer accounts. All these changes will be developed in a most convenient way possible for the customer.

Deposit products, payment services too will undergo changes. Innovative solutions such as bill sharing, easy transfer options, goal saving etc. services will be developed.

Card payment solutions will be enhanced in online environment. A virtual card, card tokenization is being explored. The card payment for online shops will be enabled. A full scale card loyalty system will be developed to offer customers a loyalty points to their usage of card. Based on customer lifestyle, a card loyalty system will allow customers to earn, store, redeem points seamlessly on the Khan Bank application.

Khan Bank also plans to step up the agency services by linking to the services in online environment. Khan Bank application will feature connected Insurance products, Mobile operator services as well.

Digitization will cover business customer products as well. POS terminals, which are most used banking service for business customers engaged in commerce will undergo upgrading and development continuously. A new



smart POS machines with value added services will be launched. Also an incentive and loyalty system will be developed for POS user customers

As for corporate customers, cash management system, Corporate gateway service will continue to be developed and upgraded.

Payment services will continue to be upgraded. Based on experience and market performance of Qpay, KhanPay, Alipay solution, follow up developments have been schedule.

#### **1.6.2.8. Operations automation**

##### **Automation of lending operations**

At the front end, the Bank accepts all types of loan requests through its website a feature developed in response to Covid-19 pandemic lockdown in 2020 and 2021 in order to provide customers with continuous lending services. At the backend, the Loan Origination System /LOS/ is used in receiving, approving loan requests, loan disbursement. The LOS is subject to continuous improvements.

Since the pre-epidemic period, the Bank had been automating its traditional lending operations step by step in order to simplify and speed up manual operations. The automation was accelerated by pandemic circumstances, and increased the urgency of connectivity with Credit information database, the KHUR, DAN systems to reduce the documentation requirement for the customer. The connectivity enabled to automatically calculate credit facility and reduced manual operations of loan officers. As for secured loan, automation of collateral registration to the State Registration Agency is under progress. The automation will enable to register and verify loan collateral remotely, and automatic release of collateral when the loan is paid-off. The development has a high significance to save valuable time of customers who would otherwise spend time to register collateral with the authorities.

Khan Bank is under progress to automate loan disbursement process in entirety and plans to speed up the whole process to real time level.

Improvements are being made in the risk management system while digital loan disbursement process is being developed and it is under progress to simplify and automate delinquent loan operations.

Khan Bank has renewed its online salary loan service and enabled to make credit decision in 3-5 minutes in 2021. As a result, it enabled customers with salary income verified by social insurance fee and who receive their salary through Khan Bank accounts to receive online salary loan within their limit of their credit facility without any document submission and needing to visit a branch to apply for an online salary loan. A one-time facility agreement however, needs to be signed at the branch.

Business loan amount is approved using industry benchmark based on real market data. Considering business loan approval process is different from the consumer loan process, industry benchmarking approval speeds up the approval process. Furthermore, the lending process is being simplified such as to inquire credit history in a simple way. Some requests such as restructuring requests received through website, distributed to loan officers automatically. The website has "New loan request", "Restructuring loan reference" and "Credit card restructuring reference" menu.

##### **Process improvement projects**

Khan Bank is the first bank in Mongolia to adopt "Lean Six Sigma" methodology, and continually used this process improvement methodology effectively since 2019 for all type of banking projects such as "Loan disbursement or repayment", "Card operation process", "Contact center inbound process", "Reducing number of complaints" etc.



Moreover, bank is building a culture of continuous improvement by establishing an excellence center or process improvement team and increasing the number of belt holders who would use the “Lean Six sigma methodology” for the projects to be implemented.

The bank is aiming to improve its process using following actions which are in line with our mission to become customer centric bank and mid-term goal for automation and risk control, these actions are: reduce manual operations that carry a higher risk of human error, provide fast and professional service to our beloved customers, decrease operational cost, increase efficiency and listen to voice of customers.

In addition, the bank is planning to introduce “Robotic Process Automation” and testing process will be started for some selected operations soon.

#### Information Technology operational improvements and automation

In the times of rapid technological advances, the banking systems need to upgrade its technologies as well. Major systems used in the Bank’s business operations are connected by MicroServices. In such connection, the implementation of systems for the Bank’s projects and programs is deployed in accordance with the MicroService development and deployment activities. These are manual actions performed by Information Technology employees on a daily basis. The automation solution for these actions or a technology project “DevOps Transformation” has been implemented. Having automated them, the Bank ensured delivery automation of projects based on MicroServices and supported Agile DevOps approach.

With more and more development of digital products and services, the Bank is implementing the automation of their testing processes. In order to ensure the continuous and reliable availability of all IT systems used throughout the Bank, IT Engineers manually perform testing and quality assurance of each system prior to its deployment. These manual operations require significant resources and take up major amount of time during a project delivery. The testing automation will reduce the delivery lead time of the Bank’s projects and programs.

The automation is helpful not only on saving time, but also on reducing the risks associated with manual operations.

#### **1.6.2.9. Marketing and promotion**

As a retail bank delivering comprehensive banking and financial services to 2.7 million customers, the Bank develops marketing strategies in accordance with the Bank’s short-term, mid-term, and long-term business plans. The Bank leverages customer journey based on data and research to define optimal marketing communication channels.

To increase the brand value of the Khan Bank brand and be top-of-mind for customers in all segments, the Bank implemented sub-branding and positioning for target segments, such as Signature, Priority, Glamour, and Khan Business.

Furthermore, the Bank carried out the Leader in Digital Banking Services marketing positioning plan to decrease branch traffic by offering digital banking services and card products to the customers in 2016, which significantly impacted the increased use of Khan Bank’s digital banking services.

The Bank uses traditional, digital, and direct marketing channels to deliver content with suitable execution and design to customers with different personas and segmentations. The Bank not only offer products and services but also cooperate with government and non-government organizations on nationwide campaigns and projects to provide financial education to the public.

As a part of customer care and retention policy, the Bank runs loyalty promotions and campaigns, organizes events, and sends newsletters and market news on a regular basis.

Marketing promotion focuses on three areas:

Targeted to specific customers	Targeted to deliver product and services	Targeted to sustainable development, social responsibility, and branding
Marketing promotions to attract, retain, and increase Priority, Signature, SME, and Corporate customers satisfaction.	Marketing promotions to advertise to or educate customers about current and new products and services.	Marketing promotions to increase brand reputation, promote environmentally-friendly banking, and fulfill social responsibility.

#### 1.6.2.10. Organizational development

Khan Bank implements effective human resource strategies and policies within the framework of its “Employer of Choice” policy in the Mongolian labor market. The Bank focus on strengthening positive organizational culture, promoting positive attitudes and behavior among our employees, enhancing employee engagement, improving their satisfaction and performance, creating favorable working conditions for the effectiveness which will contribute to the long-term and sustainable growth of the Bank.

The employees are at the heart of every advancement and success at Khan Bank. As of December 31, 2021, the Bank has provided job to 6,457 employees. Of these, 1,905 are male and 4,552 are female, and 70 percent of the total workforce is young people of the new millennium.

The Bank aims to be a leading organization in the banking sector that promotes a positive culture and behavior, provides opportunities for continuous learning and development for its employees, evaluates their performance fairly, pays them competitive compensation and benefits, and ensures equal employment opportunities and gender equality against discrimination.

#### HR policy and procedure updates

The revised Labor law was enacted in July 2021 and was enforceable from 1 January 2022. The Bank has revised and approved our labor relations policy and procedures in accordance with the revised Labor law.

#### Employment regulation during pandemic

During the global pandemic, the Bank prioritized occupational safety and health in our workplaces, successfully developed and implemented regulations on flexible working hours and remote work arrangements, and continued its business operations. In doing so, the Head office of Khan Bank adjusted its operations to 100, 70/30, and 50/50 ratios in accordance with its flexible working hours policy to meet current needs.

#### Employee mental health and wellbeing

In addition to maintaining the labor relations of our employees in accordance with the law and regulations during pandemic, the Bank offered online training and development programs that have a positive impact on their mental health, provide psychological services, and support the balance of work and life of employees.

Covid vaccination was carried out four times in a highly organized and safe manner. A total of 3 vaccination doses were offered to all employees, and the Bank-wide vaccination involved 5368 employees in the first dose, 5281 in the second dose, 2551 in the third dose and 140 in the fourth dose.

#### Training and Development

Khan Bank provides professional support and assistance to its employees to improve their knowledge and skills and gives opportunities for all employees to study on the job, to learn by participating in projects and programs, and to receive internal and external pieces of trainings. In addition, we organize a variety of



classroom and online trainings that provide opportunities to its employees to improve their performance, to be transferred, and/or to be promoted whilst maintaining equal opportunities for all employees to participate.

Even during the remote working period, we kept the policy and continued to provide a variety of online trainings. These include both technical and soft skills development training such as coaching, mentoring and other leadership training by gradually involving employees from all levels.

Specialized trainings were also organized to better train the employees that play an important role in implementing the Bank's strategy and enhancing the organization's capacity and providing world-class knowledge. For instance, in 2021, a total of 125 employees had received trainings in international and domestic specialties, and the Bank also focuses on the employees of the Information and Technology Department as part of the bank's goal to become a Digital Bank.

### Digital culture and Digital mindset

Khan Bank has started some functional changes in 2021-2022 in connection with the digital transformation and is preparing for a new approach. An example of this is the fact that in September 2021, a total of 100 employees from Rural Bank were transferred to the Contact Center in response to the demand for remote services due to the pandemic, and the SLA rate reached 58 percent in October.

**KB Academy**, an e-learning platform, has also been developed, and in 2021, a total of 82,326 employees in duplicated numbers have enrolled 156 e-learning content prepared by the bank's internal trainers. This includes the following programs.

**Seed program** was originally initiated to instill a culture in which employees share their knowledge and experience with others. Within the framework of the Seed program, online courses created by the employees were posted at KB Academy, and more than 2,000+ employees enrolled in duplicated numbers.

**LinkedIn Learning's** 300 licenses were given to its employees in 2021. And all 300 of them activated their licenses in 100%. The employees enrolled in more than 600+ online courses totaling over 5,000 hours in one year which made the participation rate 100%. Such success of Khan Bank was recognized and presented "Digital Learning Transformation Award" in 2021 by LinkedIn.

To increase the awareness of the **Digital mindset**, KB Academy has dedicated a digital transformation section, published various articles related to digital transformation, and provided pieces of training and information on major projects implemented within the Bank to its' all employees.

**E-Knowledge Sharing:** An e-knowledge sharing session has been organized to learn from the best practices and experiences of Mongolians who work in the world's leading organizations, and more than 800+ employees in duplicated numbers participated in 4 time-activities.

**Digital behavior:** Digital Banker, a comprehensive program was launched to prepare its employees for the successful implementation of digital transformation in 2021. Within the framework of the program, consecutive projects are being carried out and one of which is to define digital behaviors for successful digital banking strategy and named Digital Savvy which later adopted into employees' 5 leadership behavior of the bank and its corporate culture. To convey the information and concepts concerning digital bankers, digital mindset, digital transformation, the bank's strategy, and 6th leadership behavior, Digital Savvy was presented to all employees equally at the same time. The following phase of the program is to train and develop the employees with logical steps, and preparation of employees has begun with the participation of management and many departments and units.

### Strengthening the IT team

In order for successful implementation of digital transformation, the Bank focuses on hiring, sustaining and training IT talent. The Bank implemented Virtual Job Fair and Paid Internship to attract IT students and job



seekers, and to promote and raise the awareness of the Bank's IT activities. As a result, the turnover rate of IT jobs has been reduced from 12% in 2020 to 11% in 2021, keeping the IT related job-filling at more than 90% and improving the onboarding program for new hires.

### Supporting people with disabilities

Within the framework of social responsibility, in order to support the employment of people with disabilities, by providing them with jobs and improving their livelihoods, KB have signed agreements with a total of 47 chiropractor in cooperation with the Mongolian Center for the Blind. On the other hand, this has had a positive effect on the health of the employees, and our employees are now able to receive free services from these chiropractor. We have also hired one employee with a disability as a result of the announcement of an internal referral program.

## 1.6.2.11. Property and equipment, intangible assets and equity

### Property and equipment

As of 2021, Khan Bank's property and equipment amounts to MNT 455,595 million or 3.4% of total assets. (2020: MNT 465,928 million or 3.8%, 2019: MNT 405,803 million or 4.0%). This complies with the certain restrictions set forth in Article 17 of the Banking Law of Mongolia, and the and the requirement "the fixed assets calculated as sum of property and equipment, investment properties and assets held for sale shall not exceed 8% of the total assets" set forth in the Bank of Mongolia's "Regulation on Setting and Monitoring Prudential Ratios to Banking Operation".

The Bank's property and equipment are comprised of buildings, computer hardware, office furniture, equipment and motor vehicles, and the building accounts for the majority of the property and equipment, accounting for 62% (2020: 59%, 2019: 51%).

Property and equipment related numerical information spanning the past 3 years presented below.

Table 14. The Bank's property and equipment /by salvage value/

(in millions of MNT)

	2021.12.31		2020.12.31		2019.12.31	
	Amount	Share %	Amount	Share %	Amount	Share %
Building	283,199	62.2%	273,611	58.7%	206,057	50.8%
Computer hardware	120,338	26.4%	128,363	27.6%	148,250	36.5%
Office furniture and motor vehicles	34,636	7.6%	35,912	7.7%	37,474	9.2%
Construction in progress	17,422	3.8%	28,042	6.0%	14,022	3.5%
<b>Total</b>	<b>455,595</b>	<b>100%</b>	<b>465,928</b>	<b>100%</b>	<b>405,803</b>	<b>100%</b>

In recent years, Banks and financial institutions are globally moving towards digital transformation. Within the framework of digital transformation, the Bank has also been continuously upgrading its computer hardware and equipment by purchasing globally accepted equipment in recent years. Over the past 3 years, the Bank has invested a total of MNT 74.2 billion in server equipment, ATMs, Kiosks, and POS machines.

As of 2021, the Bank has a total of 547 branches and sub-branches, most of which, 407 branches and sub-branches, operate in its own building and the rest in rented premises. In terms of location, the Bank owns 384 buildings with a salvage value of MNT 93,407 million in rural areas and 23 buildings with a salvage value of MNT 189,192 million in Ulaanbaatar, or 407 buildings with a total residual value of MNT 282,599 million. Of these, the Head office owns 3 large office buildings (KHAN Tower, Seoul office, Jukov office), with a total salvage value of MNT 164,240 million.

The Bank has its buildings revalued once every 5 years by a professional valuation companies. Most recently, in 2020, all of the Bank's land and buildings were revalued by an accredited independent valuation companies.

The table below shows statistical information on buildings owned by the Bank for the last 3 years

Table 15. Buildings owned by the Bank /by salvage value/

(in millions of MNT)

	2021.12.31		2020.12.31		2019.12.31	
	Amount	Number	Amount	Number	Amount	Number
Head Office	180,655	13	185,365	14	135,102	18
UBRB	8,537	10	9,182	11	8,782	11
Rural RB	93,407	385	78,471	367	61,608	366
<b>Total buildings</b>	<b>282,599</b>	<b>407</b>	<b>273,018</b>	<b>392</b>	<b>205,492</b>	<b>395</b>
Safe	600	835	593	879	565	922
<b>Total buildings and safe</b>	<b>283,199</b>	<b>1242</b>	<b>273,611</b>	<b>1271</b>	<b>206,057</b>	<b>1317</b>

### Intangible assets

As of 2021, the Bank's intangible assets reached to MNT 54,765 million, representing 0.41% of total assets. (2020: 50,719 million MNT or 0.42%, 2019: 41,272 million MNT or 0.40%).

The table below shows the data on intangible assets for the last 3 years.

Table 16. Intangible assets /carrying value/

(mln MNT)

	2021.12.31		2020.12.31		2019.12.31	
	Carrying value	%	Carrying value	%	Carrying value	%
Core system	3,606	6.6%	4,619	9.1%	3,457	8.4%
Card system	3,020	5.5%	3,373	6.6%	3,413	8.3%
OCH	6,594	12.0%	7,715	15.2%	0	0%
CRM	9,068	16.6%	8,615	16.9%	0	0%
Other systems and softwares	32,477	59.3%	26,397	52.2%	34,402	83.3%
<b>Total</b>	<b>54,765</b>	<b>100%</b>	<b>50,719</b>	<b>100%</b>	<b>41,272</b>	<b>100%</b>

In the recent years, banks and financial institutions around the world have been making significant changes with regard to digital transition. As such, companies are making significant investments in their softwares and systems and gradually improving their digital literacy aligning to international standards. Over the past three years, investments in intangible assets have reached to MNT 63.3 billion in total.

### Equity:

As per audited financial statement as of December 31, 2021, the equity was at MNT 1,284,510,376 thousand. Of which statutory capital was at MNT 172,097,820 thousand, other reserve at MNT 94,278,825 thousand, retained earnings were at MNT 1,018,133,731 thousand.

Table 17 Equity (outstanding amount)

(MNT in millions)

--	--



	2021.12.31		2020.12.31		2019.12.31	
	Amount	%	Amount	%	Amount	%
Common stock	172,098	13.4%	58,071	4.7%	52,792	4.4%
Treasury stock	-	-	(7,589)	-0.6%	(2,184)	-0.2%
Other reserve	94,279	7.3%	112,569	9.2%	44,959	3.8%
Retained earnings	1,018,134	79.3%	1,066,160	86.7%	1,097,929	92.0%
<b>Total</b>	<b>1,284,510</b>	<b>100%</b>	<b>1,229,211</b>	<b>100%</b>	<b>1,193,496</b>	<b>100%</b>

### 1.6.2.12. Insurance

Khan bank uses insurance as a risk mitigation strategy, including "Banker's blanket bond insurance", "Accident insurance", "Public liability insurance", "Real estate insurance", and "Electronic equipment insurance", "Vehicle and driver's liability insurance".

**Banker's blanket bond insurance (100% International reinsurance):**

- Bankers blanket bond: Protects the Bank's funds from the risk of theft, fraud (domestic and third party) and robbery. This includes losses incurred by the Bank as a result of fraudulent payment orders or as a result of the fraudulent execution of payment instructions by the fraudster via electronic devices (e-mail, telephone, etc.);
- Electronic and computer crime: Protects electronic money from the risk of crimes committed by employees or other persons using the organization's computer system;
- Professional indemnity: Compensation is based on any claim made by a third party to compensate for financial losses caused by negligence, accidental negligence of an employee;
- Director and officer's liability: Protects the manager from legal liability to pay to a third party claimant who suffered financial losses as a result of the manager's misconduct.

**Accident insurance** covers natural risks, domestic risks, industrial and technical accidents, all types of vehicle accidents, attacks by others and accidents while on duty.

**Public liability insurance** covers the loss of life, health and property of a third party as a result of unintentional actions of the Bank on the land owned or used by the Bank.

**Real estate insurance** covers Fire, Explosion, Natural Disaster, Plumbing, Electrical, Robbery, Household, and Intentional and Accidental Third Party Activities.

**Electronic equipment insurance** covers Fire, Explosion, Natural Disaster, Plumbing, Electrical, Water and Moisture, Theft, Domestic, Intentional and Accidental Third Party Activities, and Subversive Activities.

**Vehicle and driver's liability insurance** covers the risks of participating in traffic, the risks of being in a designated parking lot and garage (water from external fires, natural disasters, plumbing damage), intentional and unintentional actions of third parties (breaking windows, colliding, etc.), windshield damage, damage to other people's lives and property.

### 1.6.2.13. Legal disputes

During the course of its' business activity Khan Bank gets involved in non-judicial and judicial cases as a plaintiff, defendant, third party, complainant, and civil defendant, wherein the majority of the cases concern loan recovery disputes.



Currently there are no cases and disputes arisen against the issuer on the basis of judicial, non-judicial or arbitral proceedings that would have a material adverse impact on the solvency and financial condition of the issuer.

#### 1.6.2.14. Credit rating

Khan Bank has been rated by Fitch Ratings (Fitch) and Moody's Investors Service (Moody's) since 2007 and 2008 respectively.

##### Moody's Credit rating of Khan Bank

In January 2018, Moody's upgraded Khan Bank's credit rating from "caa1" to "B3" in response to Mongolia's economic recovery and improved the Government rating. In March 2021 Moody's changed the outlook of the Bank over the next 12-18 months to 'stable' from 'negative' reflecting their view that banks' asset quality and profitability will remain stable as the operating environment improves on rebounding economic growth.

In September 2021, Moody's reaffirmed Khan Bank's rating at "B3, stable".

Table 18. Khan Bank credit rating /Moody's/

Category	Sep 2021
Outlook	Stable
LC Counterparty Risk Rating	B2/NP
FC Counterparty Risk Rating	B3/NP
Bank Deposit	B3/NP
Baseline Credit Assessment	b3
Issuer Rating	B3
Counterparty Risk Assessment	B2(cr)/NP(cr)

The following analyses were made with regards to the Bank's operation in the detailed rating report:

- Khan Bank's capitalization is moderate and in-line with the large domestic peers.
- Khan Bank's profitability is stronger than its peers and have consistently reported the highest net income/tangible assets ratio among the rated Mongolian banks. The bank's profitability is stronger than peers thanks to lower funding cost, higher portion of revenues from commissions on credit card and digital banking services that are supported by the bank's strong retail franchise.
- Good deposit funding and liquidity, supported by a strong franchise. The high proportion of low-cost deposits as a result of Khan Bank's solid franchise and its long-term relationships with its retail and MSME clients.
- Khan Bank maintains good deposit funding and liquidity due to the fact that the bank has access to long-term sticky funding from its shareholders, international financial institutions and microfinance institutions.
- Khan Bank's asset quality is moderate and the bank has large exposures to retail customers, including consumer loans and agricultural loans, which accounted for 46.8% of its total loans as of year-end 2020. The Bank's granular loan book supports its stronger asset quality than that of its domestic bank peers.
- Khan Bank's b3 Baseline Credit Assessment is constrained by Mongolia's Weak- Macro Profile.
- The Bank's exposure to social and environmental risks is in line with general view of the banking sector. In terms of governance, the bank has an appropriate risk management framework commensurate with its risk appetite.

- Although the Government is expected to support the Bank, as it is considered highly systemically important to the economy, however this does not affect bank's long-term credit rating.
- Khan Bank's profitability, stable funding structure and liquid banking assets rated higher by 1-2 points compared to the other rated commercial banks in Mongolia.

#### Fitch's Credit assessment of Khan Bank

In July 2018, Fitch upgraded Khan Bank's credit rating from "B-, negative" to "B, stable" due to improved economic outlook and operating environment, and reaffirmed this rating in August 2021.

Fitch's detailed rating report of the Bank noted that Mongolia's economy has a positive, growing outlook due to reduction of pandemic-related risks, and it had a positive impact on the operating environment of the banking sector, particularly Khan Bank. The report also noted that the Government's soft loan program which is being implemented during the pandemic will have a major impact on the growth of the bank's loan portfolio in 2021-2022. In terms of the bank's management, there have been some new assignments in the senior management team during 2020-2021, but there was no change to the assessment of the management and strategy factor score as the key management has a high depth of experience working in Khan Bank and representing the bank for many years. The bank's medium-term strategic plan to maintain its position in the retail and SME segments, and to develop digital banking remain unchanged.

Table 19. Khan Bank's credit rating /Fitch/

FITCH RATINGS	August, 2021
Outlook	Stable
FC Long-term and Short-term IDR	B
LC Long-term IDR	B
Viability Rating	b
Support Rating & Support Rating Floor	4/B

The following analyses were made with regards to the Bank's operation in the detailed rating report:

- The report emphasized Khan Bank being the largest and systemically important bank in Mongolia and pointed that bank's extensive distribution network and strong domestic deposits franchise have contributed to the bank's high profitability, stable funding sources, high liquidity, and stable capital adequacy. The Bank's majority of the loan portfolio consists of retail customers and SMEs, which helps to the stability of loan quality measures.
- The stable outlook reflects the expectation that Mongolia's economy will rebound due to increasing prices of commodities and it will positively affect the operation of the banks.
- The bank keeps the capital adequacy ratios sufficiently above the regulatory requirements and able to keep the limits further, owing to the bank's strong ability to generate internal capital by retained earnings.
- The profitability is the highest among the peers. Net income improved significantly in 1H2021 compared with the same period of 2020 as the loan growth pick up and the bank's deposit cost declined resulting from the authorities' measures allowing banks to pay no interest for current and demand deposit until YE2021 under temporary regulation.
- Adequate funding and liquidity Profile. Customer deposit contributed 87% of total funding of the Bank as of 1H2021 and regulatory liquidity ratio was 54%, well-above the regulatory minimum requirement of 25%.

- The regulatory non-performing loan ratio has improved from 6.7% in 2020 to 5.2% in 1H2021, driven by strong growth in loans from the Government support loans. The Bank maintained an above-per loan loss provision at 102% of impaired loans in 2020, mitigating the asset quality deterioration risk.
- In terms of environmental, social and governance assessment, Khan Bank's loan portion provided to businesses that have a negative impact on the environment is very small, and the social and governance rating do not affect the bank's credit rating.

### 1.6.3. Social responsibility

#### 1.6.3.1. Environment and social responsibility policy

Khan Bank's corporate social responsibility (CSR) work started in 2000 by internally addressing employees' social welfare problems. In 2007, Khan Bank Foundation was established to systematically make real contributions to the welfare of society by implementing projects.

In 2011, the Environmental and Social Risk Policy was approved and applied to the loan disbursement process. In 2013, the Sustainable Finance Program was initiated by the Mongolian Bankers Association, and commercial banks signed a memorandum to implement eight sustainable finance principles. Since then, Khan Bank's environmental and social risk management system has been developed intensively. Since 2018, our focus has been on integrating the Sustainable Development Goals into Khan Bank's Sustainable Development Policy for implementation at all levels of operations.

#### 1.6.3.2. Projects and programs

The Khan Bank Foundation, which implements Khan Bank's corporate social responsibility, cooperates with governmental and non-governmental organizations and community groups every year in accordance with specific directions and plans, and implements projects and programs. The groups that will benefit from the Khan Bank Foundation project are divided into the following four sections.

Khan Bank's mission and Sustainable Development Policy	Khan Bank customers
	Communities where Khan Bank operates
	The public
	Khan Bank employees and their families

Projects and programs in priority areas of the Khan Bank Foundation are as follows

- Supporting the education of young people
- Promoting public health
- Protecting the environment
- Supporting socially vulnerable groups
- Promoting arts and culture
- Promoting local development
- The 17 Sustainable Development Goals

Below are summary of the projects and programs implemented by the Khan Bank Foundation in cooperation with governmental and non-governmental organizations, local communities, and social groups to contribute to the well-being of society and support the UN's Sustainable Development Goals:

#### Education



From 2007 to 2021, the Khan Bank Foundation provided tuition scholarships to 1,950 students through the Khan Bank Scholarship Program.

The Khan Bank Foundation has been implementing the RISE New Student Development Program since 2018 to help new students develop themselves outside of school, manage their personal finances, and adjust to becoming residents of a big city.

More than 3,000 new students have participated in the program and more than 10 in-person and online training and development activities.

In 2018, Khan Bank successfully launched a financial education program to educate target groups on financial planning and discipline, how to select the right financial products and services, and to drive public awareness of the security and financial risks of online banking.

More than 4,000 children and youth were involved in engaging activities and training, including financial education and personal development training.

### Environment

The Khan Bank Foundation has been implementing the Khan Bank Forest Program since 2007 to maintain environmental balance and prevent climate change and has planted about 24,000 trees.

To expand the scope of the program and contribute to increasing Mongolia's forest resources, KB worked with professional organizations to plant 108,000 larch trees on 40 hectares along the Selbe River.

Planting trees in this area has many benefits, such as maintaining the balance of forest ecosystems and restoring the headwaters of the Selbe River, which flow into the Tuul River.

### Vulnerable groups

The Khan Bank Foundation has implemented many practical projects for vulnerable and low-income groups. More than 30 projects and programs aimed at vulnerable groups have been implemented in cooperation with the Government and NGOs, and more than MNT450 million has been donated to bring joy to people's lives.

In support of Lantuun Dohio NGO's Magic Land 2 project, Khan Bank has become one of the project's Magical Brothers and Sisters to create a positive wave in society, joined by the Bank's customers and other businesses. Khan Bank's Magic Brother and Sister program allows customers to make recurring donations to the Magic Land child protection center in the amount of their choice.

### Supporting local development

Khan Bank's 30th anniversary was celebrated in 2021. A new project was launched to build 3x3 basketball courts in Mongolia's 21 provinces and Ulaanbaatar's Baganuur and Bagakhangai districts as part of the Bank's social responsibility and to mark the 30th anniversary of Khan Bank's founding.

### Art and culture

Since 2000, Khan Bank has been implementing many new initiatives and projects in arts and culture in Mongolia within the framework of its corporate social responsibility. The Bank's art gallery has been open since 2007, moving to the third floor of Khan Bank Tower in 2017. Khan Gallery offers the public free exhibitions by young artists on a monthly basis and now has a collection of more than 400 works of art.

### Sustainable development



The Khan Bank Foundation has started preparing an e-newsletter on sustainable development to raise awareness of sustainable development and why it needs to be addressed worldwide by 2030. The newsletter is prepared in collaboration with the website Unread.today.mn and is published every two weeks.

The newsletter has gained more than 7,000 regular readers in the three years since its launch. You can register to subscribe to the online newsletter at [www.2030.mn](http://www.2030.mn).

### Health

In 2011, the Khan Bank Foundation launched the National Campaign Against Cancer nationwide. The campaign has traveled around Mongolia three times, provided health screening for more than 150,000 people, trained more than 10,000 doctors, performed more than 500 emergency surgeries, detected more than 600 cases of cancer, and recruited more than 2,700 Khan Bank volunteers.

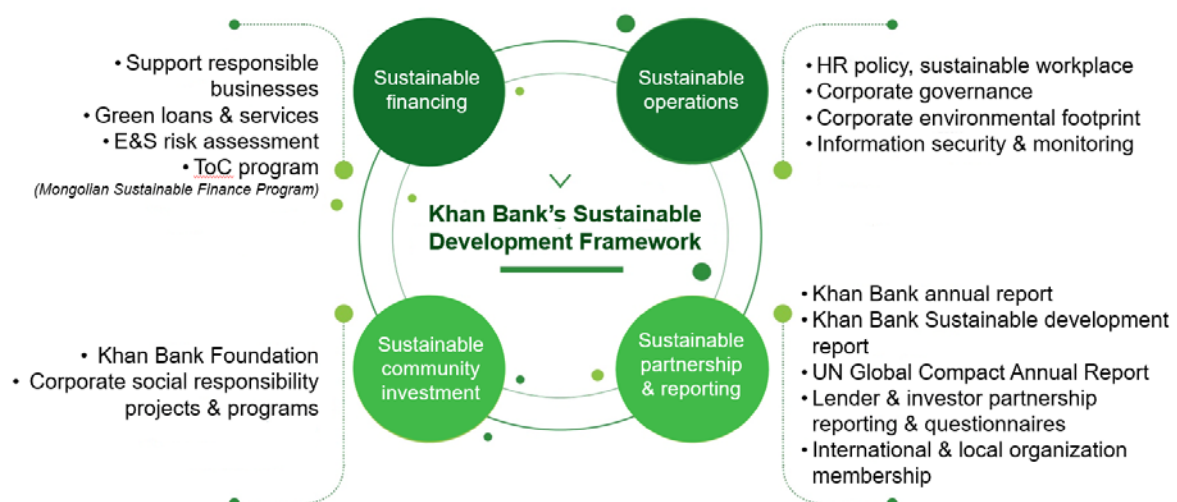
Since 2017, the Khan Bank Foundation has been implementing the National Campaign Against Hypertension nationwide, successfully implementing it in nine provinces of Mongolia and benefitting more than 15,000 people. The campaign's partners celebrate World Heart Day on September 29 each year and organize public health education events.

In 2021, the Khan Bank Foundation launched the Women's Development Program. The program supports women's employment, personal and professional development, and promotes their positions, roles, professional characteristics, and strengths in society to create positive attitudes.

The program selected 120 participants to receive free online training and awarded scholarships to the top 40 participants to participate in a specialized program at a local university.

### 1.6.3.3. Sustainable development policy

Since 2018, Khan Bank has been implementing the UN's Sustainable Development Goals at all levels of its internal operations. Khan Bank approved and implemented its Sustainable Development Policy for internal operations in 2019. The policy is based on the 17 Sustainable Development Goals defined by the UN in 2015, 10 principles in four chapters of the Global Compact adopted by the UN in 2000, and eight principles defined by Mongolia's Sustainable Finance Program in 2013.



Prior to the development of this policy, we implemented the Environmental and Social Policy, adopted in 2011, and systematically conducted environmental and social risk assessments for lending activities and lending processes. Focusing on and contributing to the UN's Sustainable Development Goals has long been a Khan Bank initiative.

The implementation of Khan Bank's Sustainable Development Policy and Sustainable Development Reports published for 2018, 2019, and 2020 are available on Khan Bank's website. The 2021 Sustainable Development Report will be published in the second quarter of 2022.

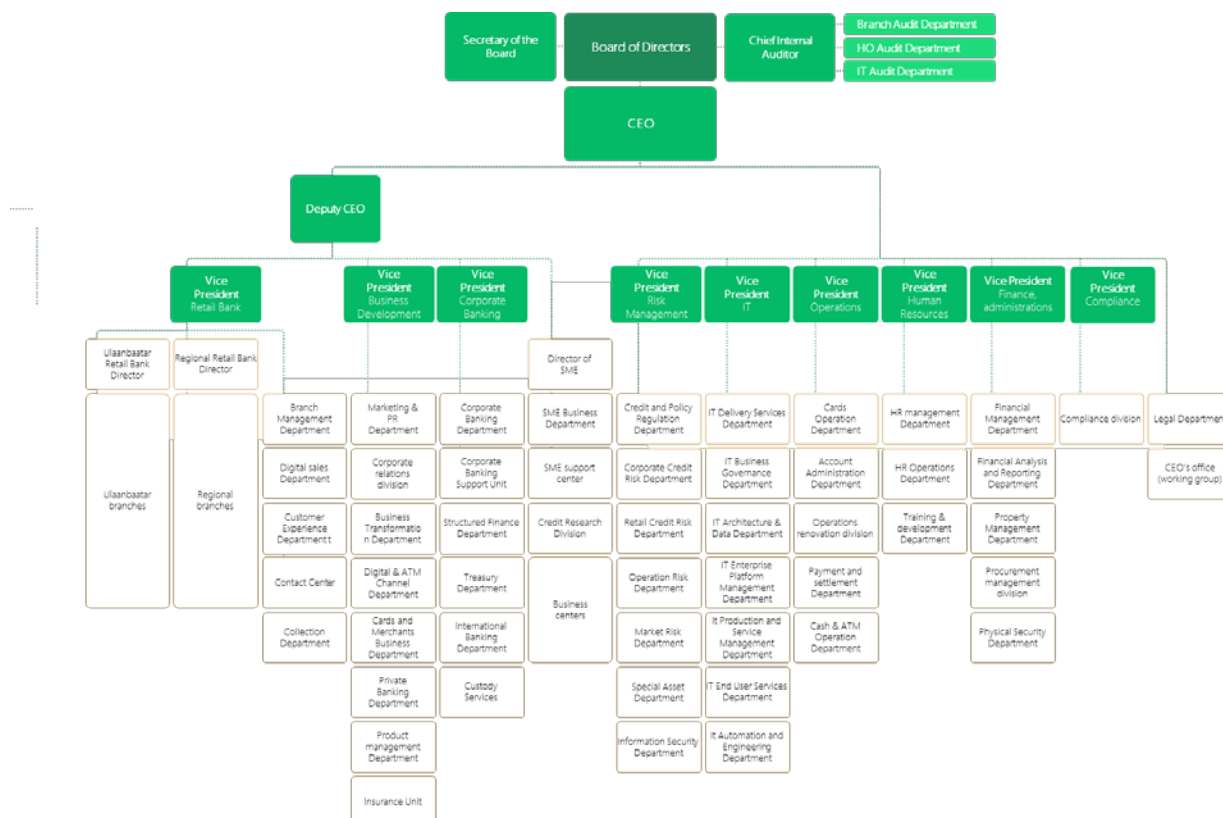
## 1.7. Corporate structure and governance

### 1.7.1. Corporate structure

Khan Bank's Board of Directors approves the Bank's organizational structure within the scope of the relevant laws and regulations.

As of the time of preparing the securities prospectus, the Bank is operating in the following structure which approved by the Board of Directors Resolution No. 13 of May 2, 2021 and the CEO Directive No. 01/234 of June 7, 2021.

Figure 3. Corporate structure of the Bank



### 1.7.2. The Shareholders meeting

According to Article 7.1 of the KHAN Bank's Charter, the Bank's highest governing body is the Shareholders Meeting.

The ordinary shareholders' meeting shall be convened by decision of the Board of Directors within four months after the end of financial year.

Shareholders of the issuer have the right to discuss and resolve the following issues under Article 29 of the Banking Law and Article 7.2 of the Charter of the Bank. These include:

- Making amendment to the Charter of the Bank or approve a revised Charter of the Bank;
- Reorganization of the Bank by merger, consolidation, division, separation, or reorganization;
- Replacing bank debt with shares, issuing additional shares, and determining its number;
- Changing the type of the Bank;
- Liquidating the Bank and appointing a liquidation commission;
- Splitting or merging the Bank's shares;



- Upon notification of the Bank of Mongolia, elect Board members and/or terminate their term of office prematurely;
- Whether a shareholder exercises its preemptive right to purchase shares and other securities by Article 38 of the Company Law;
- Discuss and approve the Board's conclusions on the Bank's annual operations and financial statements;
- Approve major transactions if the Board fails to resolve them under regulation of the law;
- Approve conflict-of-interest transactions if the Board fails to resolve under regulation of the law;
- Allow the Bank to buy back its shares as per the Company Law;
- Determining powers of the chairman and directors of the Board, the their responsibilities, salaries and bonuses, and the general operational procedures of the Board;
- Discuss and approve the report prepared by the Board of Directors on the Bank's operations, structure, organization, and assets for the current year;
- Changing structure and amount of share capital the Bank;
- Other matters submitted to the shareholders meeting for discussion by the decision of the Board of Directors;
- Appointing an external auditor after Board approval;
- Distribution of dividends after board approval;
- Other matter specified by law and the Charter of the Bank.

### 1.7.3. The Board of Directors

The Board of Directors of KHAN Bank consists of eight directors who have extensive experience in Mongolian and international financial sectors. Directors of the Board are elected by the Shareholders' meeting of KHAN Bank on an annual basis.

The Board of Directors of KHAN Bank operates in compliance with current laws and regulations of Mongolia, including the Banking Law of Mongolia, Bank of Mongolia regulations, the Charter, the Corporate Governance Code, Board Operational Procedure of KHAN Bank, and other relevant legislation and implements the good corporate governance principles.

#### Functions of the Board of Directors

The Board of Directors of the Bank exercise the following powers under Article 31.3 of the Banking Law of Mongolia, Article 9.13 of the Bank's Charter, the Board Operational Procedure, the Corporate Governance Procedure, and the Corporate Governance Code of KHAN Bank. These include:

- Defining and reviewing the Bank's strategy, approving its organizational structure, risk management policy, annual budget, business plan, and operational performances;
- Convening regular and extraordinary shareholders meetings;
- Resolving matters by external voting of shareholders without convening an extraordinary shareholders meeting;
- Resolving matters to be discussed at shareholders meeting, date of registration to make the list of voting shareholders, and other matters related to convening of shareholders meeting;
- Issuing shares within the type and number of shares approved by shareholders meeting;
- Issuing securities other than those specified in the Bank's Charter within the type and number approved by the shareholders meeting;
- Determining market value of property and property rights under Article 55 of the Company Law;
- Deciding whether to purchase or buy back its shares or other securities;
- Appointing executive management of the Bank and determining its powers in consultation with Governor of the Bank of Mongolia;





- Establishing powers and responsibilities of the executive management, monitoring its activities, and determining its salaries and bonuses;
- Organizing the Bank's internal audit unit independently from the executive management, approving its budget and staffing, appointing its executive management and staff, establish its operating procedures, and set salaries and bonuses;
- Selecting external auditing firm and determining the terms of the contract;
- Making conclusions on the Bank's annual operations and financial statements and presenting them to the shareholders meeting for approval;
- Unless otherwise provided in the Bank's Charter, determining amount of dividends and the procedure of its payment;
- Establishing, and monitoring implementation of, policies and procedures for the activities of the Board of Directors, the executive management, and corporate governance of the Bank;
- Establishment of branch and/or representative office of the Bank;
- Preparing draft resolutions of shareholders meeting on reorganization of the Bank and implementing the decisions;
- Permitting major transactions;
- Permission to enter into a conflict-of-interest transaction;
- Other matters specified in the Company Law, Banking Law, and the Company Charter.

Each director of the Board of Directors of the Bank shall have, on top of the obligations specified in the Company Law and the Banking law, the following obligations:

- Perform duties responsibly within the authority provided by laws, regulation and the Charter;
- Prioritize the Bank's interest over interest of own and of shareholders who appointed him/her;
- Not accept hidden benefit;
- Avoid conflict of interest and, notify the Board if it's occurred;
- Not to involved in day-to-day activities of the Bank;
- Monitor CEO of the Bank, and discuss performance report of CEO at least once in a quarter, to treat shareholders equally;
- Protect interests of shareholders, customers and deposit holders;
- Determine the Bank's policy, strategy and risk appetite and make decision which is beneficial for the Bank;
- Monitor CEO activities on matters such as the Bank's accounting and financial reporting system, independent and internal audits, risk management, financial and operational control, implementation of laws and regulations and the Bank's reorganization etc.
- Fully reflect the monitoring and reporting system over rights, duties and responsibilities in the agreement to be signed between the Board and CEO, and assess implementation of the agreement on a quarterly basis;
- Approve the plan to select the Bank's management and prepare their successors, to reflect professional requirements applicable to each of executive management positions clearly and sufficient preparation required to perform the duties efficiently;
- Approve CEO bonus in line with implementation of the Bank's mission, long term purpose, strategic plan, code of conduct and the duties specified in the agreement;
- Perform and strictly obey the job duties responsibly and honestly within the authority given under laws, regulations and the Bank Charter;
- Not make any action or inaction that may interrupt proper implementation of obligations due to conflict of interest;
- Select entity that meet the requirements specified in laws and regulations of Mongolia as well as international standard for independent auditing;



- Discuss inspection acts, materials and audit reports of the internal audit unit of the Bank on a timely manner, to give orders to CEO with regard to improve corporate governance and internal auditing system and to assess results of the actions taken;
- Work with full effort, and all of his/her knowledge and capability, to implement the duties given.

Independent director of the Board of Directors of the Bank shall have, on top of the obligations specified in the Company Law and the Banking Law, the following obligations:

- Ensure and review whether activities and decisions by the Board and the Executive Management have no negative impact to the Bank's interest, to notify the shareholders;
- Review whether activities of the Board and the Executive Management comply with laws and regulations;
- Protect interest of customers and deposit holders of the Bank;
- Involve in discussion of conflict-of-interest transactions, related-party transactions and major transactions, which are specified in the Company Law, and give vote on a mandatory basis;
- If either any activity, policy or decision of the Board or Executive Management is found as affected the Bank's operations or caused breach of law or regulation, Independent Director of the Board shall demand related person to eliminate the breach and, if the demand is not performed, to raise the matter to the Board for resolution, and moreover, submit a demand to the Board to convene shareholders meeting;
- Notify the Bank of Mongolia on each case where any activity, policy or decision of the Board or Executive Management affected the Bank's operations or caused breach of law or regulation, and moreover, to request inspection on the Bank;
- Each Independent Director of the Board shall report his/her performance and implementation of the main obligations to the Bank of Mongolia and shareholders meeting not less than once every year;
- Join in composition of the Board Audit and Risk Committees, mandatorily.

The Board of Directors shall be prohibited to be involved in the Bank's operations in following ways:

- Attend in a Board meeting with voting right if the Director, or business entity or organization represented by the Director has any duty or payment, which is under loan, guarantee or warranty agreement signed with the Bank, classified non-performing;
- In case where CEO is appointed as a Board Director, CEO shall be prohibited to be involved in the Board operations in following ways:
- Join in Audit Committee and/or Risk Committee with a voting right;
- Approve power and responsibility of CEO or to monitor CEO activities or to approve salary and remuneration of CEO;
- Assess CEO performances.

### Composition of the Board of Directors

The Board of Directors of the Issuer has the following members.

Chairperson of the Board of KHAN Bank is T.Daribum, and Board Directors are Hideo Sawada, Uehara Etsuto, Ts.Baatarsaikhan, D.Khulan, John Law, Hans Aart Jongejans, and A.Tamir, who are experienced international and Mongolian banking and finance professionals. The chairperson and members of the Board of Directors do not serve as the Bank's Executive Management.

The Board of Directors operates under, implements and complies with the Banking Law, the Company Law, the Bank of Mongolia's regulations and instructions, the Khan Bank Charter, the Corporate Governance Procedures, the Corporate Governance Code, the Board Operational Procedure of the Bank, and other relevant legal documents.



Table 20. Information of the Board members

No	Names	Position
1	T.Daribum	Board Chairperson Independent Director
2	D.Khulan	Board Deputy Chairperson Board Director
3	Hideo Sawada	Board Director
4	Uehara Etsuto	Board Director
5	Ts.Baatarsaikhan	Board Director
6	John Law	Board Director
7	A.Tamir	Independent Director
8	Hans Aart Jongejans	Independent Director

#### 1.7.4. Board committees

The Board has four committees in total: the Audit Committee, the Risk Committee, the Corporate Governance, the Remuneration Committee, and the Human Resources Committee, each governed by specific charters approved by the Board. These charters include election and dismissal of committee members, the powers and responsibilities of the committees, and the charters are in line with the Company Law, the Banking Law, and the Bank of Mongolia's regulations and other relevant regulations.

##### Audit Committee

The Audit Committee regularly monitors the Bank's financial condition and makes recommendations on the effectiveness and reliability of accounting, compliance, enforcement, and other oversight mechanisms. It also oversees the Bank's external and internal auditor's independence and performance.

The Audit Committee consists of the following members.

Audit Committee	Chairperson:	Tamir A.	Independent board director
	Members:	Khulan D.	Board Deputy Chairperson
		Hans Aart Jongenjans	Independent board director

##### Risk Committee

The Risk Committee is responsible to properly manage the Bank's risk. It makes recommendations based on the risk growth and the risk threshold figures and reports directly to the Board of Directors to identify potential threats to the Bank.

The Risk Committee consists of the following members.

Risk Management Committee	Chairperson:	Hans Aart Jongenjans	Independent board director
	Members:	Uehara Etsuto	Board director
		Ts.Baatarsaikhan	Board director

##### Corporate Governance Committee

The Corporate Governance Committee is responsible for developing the corporate governance principles and code of conduct aimed to develop good and healthy corporate governance culture, to make relevant

recommendations to the Board, to identify and propose the individuals who meet the requirements of Board Director to the Board for nomination, to ensure efficient, proactive and responsible communications with shareholders and other interested parties of the Bank and monitoring the Bank's corporate governance strategies on environmental and social affairs, its performance and reporting.

The Corporate Governance Committee consists of the following members.

Corporate Governance Committee	Chairperson:	Daribum T.	Board Chairperson
	Members:	Khulan D.	Board Deputy Chairperson
		Uehara Etsuto	Board director
		John Law	Board director

### Human Resources Committee

The Human Resources Committee is responsible for assisting the Board of Directors in guiding and managing the Bank's human resources and talent management policies and sound banking culture. Furthermore, it is also responsible for supporting the Bank to achieve business objectives and develop the business sustainably.

The Human Resources Committee consists of the following members.

Human Resources Committee	Chairperson:	Khulan D.	Board Deputy Chairperson
	Members:	Daribum T.	Board Chairperson
		Uehara Etsuto	Board director
		John Law	Board director

## 1.7.5. Executive management

The Bank's executive management is carried out by the CEO, who is appointed by the Board of Directors. The CEO of KHAN Bank manages and supervises the day-to-day operations of the Bank within the authority set by the Board of Directors. In addition, the Chief Executive Officer ensures the proper implementation of decisions and resolutions of shareholders and the Board of Directors. An Executive Management Committee is responsible for assisting the CEO in its day-to-day and operational activities.

Table 21. Functions of Executive Management Committee

Job position	Main duties and responsibilities	Supervising departments, units, and officers
<b>Chief Executive Officer (CEO)</b>	To define the bank's long-term, mid-term and short-term - outlooks, strategies, and policies and manage daily - operations of the bank together with Deputy CEO and Vice-Presidents for specific areas.	Deputy CEO Vice Presidents /Risk, Information Technology, Operations, Human Resources, Finance & Administration, Compliance/ and the departments under their management - Legal Department - CEO Office
<b>Deputy CEO</b>	To support the CEO to define the policy and strategy to - maintain the Bank's profitability at the highest possible level and strengthen the Bank's position as the leader on - the market. To provide integrated management to the	Vice President Retail Distributions and relevant departments and units Vice President Corporate Banking and relevant departments

	Bank's business operations and identify its business development outlook and approaches.	- Vice President Business Development and relevant departments - SME Director and relevant departments
<b>Vice President Retail Distribution</b>	To define policies and strategies to ensure the profitability of Retail banking is maintained at the highest possible level and strengthen the leading position on the market. To ensure the Bank's business growth, reputation, and Retail banking operations comply with international standards and customer satisfaction is at the maximum level, exercise innovations and improvements, and ensure its implementations.	- Retail Bank UB - Retail Bank Rural - Branch Operations Support Department - Digital Sales Department - Customer Experience Department - Contact Center - Collections Department
<b>Vice President Business Development</b>	To develop and implement vision, goal, objective, policy, plan, and strategy aimed to ensure high performance of business growth, reputation, profitability, and customer satisfaction of the Bank. To develop projects and programs to define and maintain the vision, brand, and image of the Bank, ensure successful performance of banking operations as adjusted to the market competition, and implement corporate social responsibility of the Bank.	- Marketing and Public Relations Department - Business Relations Department - Business Transformation Department - Digital and ATM Channel Department - Card and Merchant Business Department - Private Banking Department - Product Management Department - Insurance Unit
<b>Vice President Corporate (Wholesale) Banking</b>	To provide integrated management to wholesale banking operations, to identify future business development outlook, to define outlook, policies and strategies to ensure profitability of wholesale banking operations at maximum possible level and to occupy and strengthen the leading position on the market.	- Corporate Banking Department - Corporate Banking Support Unit - Structured Finance Department - Treasury Department - International Banking Department - Custody Services Department
<b>Vice President Chief Risk Officer</b>	To establish, implement and strengthen comprehensive risk management policy and culture as per international standards. To be responsible for strategy and functions of the risk management system to ensure the risk is at minimum level for Bank, and provide the departments under his supervision the comprehensive management to maintain loan portfolio quality at appropriate level, to reduce NPL, define RAS, meet and improve prudential ratios and mitigate risks.	- Credit Policy Regulation Department - Corporate Credit Risk Department - Retail Credit Risk Department - Operational Risk Department - Market Risk Department - Special Asset Department - Information Security Department
<b>Vice President Chief Information Officer</b>	To define strategies and policies to introduce and implement projects and programs to ensure digital transition, growth and sustainability of the Bank in line with rapid growth of information technology and to apply control on implementation of it. To ensure security and reliability of the information technology, develop necessary policies and ensure its implementation. To strengthen competitiveness of the Bank in the information technology sector.	- IT Delivery Services Department - IT Business Governance Department - IT Architecture & Data Department - IT Enterprise Platform Management Department - IT Production & Service Management Department - IT End User Services Department - IT Automation & Engineering Department

<b>Vice President Operations</b>	To manage process improvement to apply control on - Card, ATM, digital bank, account, payment & settlement - and asset management, to prevent from any breach or - risk, to ensure secure, continuous and normal operations - and to support business improvement. To define and - ensure implementation of operational model to secure beneficial, optimal and risk-free business operations, top- class customer satisfaction and to strengthen the bank's reputation.	Card Operations Department Account Administration Department Process Improvement Department Payment and Settlement Department Cash and ATM Operations Department
<b>Vice President Human Resources</b>	To manage and guide human resources management - comprehensively in compliance with international standards within the scope of making valuable - contribution to competitiveness, sustainability and profitability of the Bank, to establish positive corporate - culture, to ensure employee satisfaction and active engagement as well as talent efficiency and stability. To manage all employment relations operations within scope of the relevant legislation, to develop and implement relevant rules, procedures and legal acts, to define and manage employee training and career development policy.	Human Resources Management Department Human Resources Operations Department Learning and Development Department
<b>Vice President Finance and Admin</b>	To define policies and strategies to plan, manage, - implement and continuously improve financial - management at the Bank based on international standards, Mongolian laws and regulatory acts. To - provide integrated management to financial and budget - planning and reporting operations, to define and - introduce cost-efficient and beneficial financial activities. To introduce efficient financial control system, draft major investment plans and make the most efficient purchases. To provide management and orientation to ensure the Bank's security.	Financial Management Department Financial Analysis and Reporting Department Property Management Department Vendor Management Department Physical Security Department
<b>Vice President Compliance</b>	To ensure compliance of the Bank's operations with - international practices, Mongolian legislation, regulations, rules and guidelines of regulatory bodies and the standards applicable for the banking sector. To prevent Bank from risks of money laundering, terrorism financing, financial crimes and other relevant compliance risks, to ensure implementation of such activities, to define and implement compliance policies and strategies.	- Compliance Department
<b>Chief Internal Auditor</b>	To support operations and provide the Board and - Executive Management with realistic opinion and - recommendations on the Bank's risk management, - internal control, governance, all the business policies, operations and systems through ensuring independence	Branch Audit Department Head Office Audit Department IT Audit Department

of the Internal Audit of the Bank and manage the operations at high professional level.

<b>Corporate Secretary</b>	To support achieved the objectives set with the purpose - of strengthening the corporate governance. To ensure - smooth cooperation between the Shareholders' meeting, the Board, the Executive Management and other stakeholders and regulate the relations and information flow between the parties.	Corporate governance officer Senior translator
----------------------------	--	---

### 1.7.6. Implementation of corporate governance principles of the Bank

The "Regulation on Implementation of Corporate Governance Principles for Banks" was approved by the decree No. A-151 of Governor of the Bank of Mongolia on September 30, 2014. This regulation regulates the activities of the Bank's shareholders meeting, Board of Directors, and executive management in the interests of the bank's shareholders, customers, depositors, and affiliates, thus improving the Bank's sound governance system.

In accordance with the Banking Law and the Regulation on Implementation of Corporate Governance Principles for Banks of BOM, KHAN Bank evaluates its corporate governance on an annual basis and gets it validated by BOM. Brief summary of the corporate governance self-evaluation for last 5 years is provided below:

- ✓ BOM evaluated the corporate governance of the Bank as "Good" or rated 91.5 as of 30 April, 2016.
- ✓ BOM evaluated the corporate governance of the Bank as "Good" or rated 94 as of 30 April, 2017.
- ✓ BOM evaluated the corporate governance of the Bank as "Good" or rated 95 as of 30 April, 2018.
- ✓ BOM has not evaluated the corporate governance of the Bank as of 30 April, 2019, but required to appoint director(s) of the Board immediately and make amendment to the Charter of the Bank.
- ✓ BOM evaluated the corporate governance of the Bank as "Average" or rated 65.0 as of 30 April, 2020. According to the directions given by the BOM evaluation, KHAN Bank has taken necessary actions and conducted corporate governance self-evaluation for 2021 and submitted the report to BOM on 30 April, 2021, which is evaluated by the BOM as "Good" or rated 82.5.

### 1.7.7. Principles of corporate governance

Banks in the form of joint stock companies are required to implement corporate governance in accordance with the Company Law, the Banking Law, the Corporate Governance Code, and the Bank's Good Governance Principles. The Bank has drafted the Banking Governance Principle in accordance with the above legislation, which is in accordance with Article 76.1.13 of the Company Law and Article 31.3.7 of the Banking Law, the Banking Governance Code is required to be approved by the Bank's Board of Directors. The Banking Governance Code consists of six main sections: Board Governance and Supervision System, Shareholder Rights and Relationships, Stakeholder Interests, disclosure and ensure transparency, and Banking culture. The Bank's corporate governance policies and operation are mainly outlined in the following areas, Specifically:

- ✓ Board governance;
- ✓ Monitoring Environment;
- ✓ Shareholder Rights and Relationships;
- ✓ Transparency and Information.

The Banking Governance Code defines the roles of the Board of Directors, its members, the Board of Directors, the Chairman of the Board of Directors and the Secretary of the Board of Directors. section. Issues such as education, qualifications, skills, experience requirements and gender balance of board members will be regulated in detail by specific policies and procedures. to be posted on the website. In addition, the Banking Governance Code regulates the Bank's risk management, internal control, compliance, external audit, information security and protection of privacy information, transparency of reporting and information, and basic principles related to protecting the interests of shareholders and stakeholders. 9 (nine) principles set out in the Corporate Governance Code by setting out the Bank's guidelines for corporate culture and remuneration system.

According to the Banking Governance Code, the roles of the Board of Directors, its members, committees under the Board, the Chairmain of the Board of Directors and the Secretary of the Board of Directors have been defined, and as charter of the Bank, operation procedure of the Board of Directors the roles shall be regulated detailed in specific procedures, which was complied in Article 1.1 of Corporate Governance Code.

Issues such as education, qualifications, skills, experience requirements and gender balance of the board members will be regulated in detail by specific policies and procedures, and evaluate annually the implementation of the objectives set out in the policies and procedures, and it should be reported on annual report and posted on the website.

In addition, as the main 9 principles in the Corporate Governance Code, the Banking Governance Code reflected the Bank's risk management, internal control, compliance, external audit, information security and protection of confidential information, disclosure and transparency, and basic principles related to protecting the interests of shareholders and stakeholders.





## 1.8. Authorized officials

Table 22. introduction of Board Directors'

### BOARD OF DIRECTORS



**Daribum T.**  
Independent Director  
Board Chairperson

*| Chairperson of the Corporate Governance Committee, Member of the Human Resources Committee |*

Ms. Daribum Tudev, a strong finance professional with international experience in risk management, analytics, accounting, venture capital, securities, and bonds with a demonstrated history of working in the banking and financial services industry, has been appointed as an Independent Director of the Board of Directors of KHAN Bank LLC since August 2020.

She has previously employed for over 13 years at TD Bank Group (the second-largest bank in Canada and sixth-largest bank in North America), headquartered in Toronto, Canada. She has graduated from Moscow Finance Institute with Bachelor's degree in Arts and Economics and earned Master's degree in Finance from Seattle University, USA as well as CPA, CMA degrees from Institute of Chartered Accountants of Ontario, Canada.



**KHULAN D.**  
Board Director  
Board Deputy Chairperson

*| Chairperson of Human Resources Committee; Member of Audit Committee and Corporate Governance Committee |*

Ms. Khulan D. is an individual shareholder of KHAN Bank. She has been a Board director since March 2003. She is the Executive Vice President of Tavan Bogd Group and co-founder of Tavan Bogd Trade LLC. She graduated with a bachelor's degree in International economics from Moscow Finance University, Moscow, Russia and received a master's degree in business administration from the National University of Mongolia. She also attended various professional and specialized trainings in Japan. She holds vast knowledge and experience in banking and financial sector having previously worked for the Mongolian Ministry of Finance and Trade and Development Bank of Mongolia etc.



**HIDEO SAWADA**  
Board Director

Mr. Sawada has been the Chairman of KHAN Bank's Board of Directors from March 2003 until 2021. He is the Chairman and Representative Director of HS Holdings Co., Ltd., the Bank's shareholder. He is also a founder and Chairman, Representative Director, CEO of H.I.S Co., Ltd., board member of HS Securities Co., Ltd., etc.



**UEHARA ETSUTO**  
Board Director

*| Member of Risk Committee, Human Resources Committee, and Corporate Governance Committee |*

Mr. Uehara is a regular director on the Board of Directors at the Bank, representing HS Holdings Co., Ltd., where he is a President & Representative Director. He received a B.A. in Economics from the Josai University of Japan. He has previously served in various executive positions at JSC Solid Bank, Gaitame.com Co., Ltd., Heiwa Seimei Insurance Company Limited etc.



**BAATARSAIKHAN Ts.**  
Board Director

*| Member of Risk Committee |*

Mr. Baatarsaikhan Ts. is a Board member who represents Tavan Bogd Trade LLC and has been Director of the Bank since March 2009. Mr. Baatarsaikhan Ts. is a founder of Tavan Bogd Trade LLC and the President of Tavan Bogd Group. Mr. Baatarsaikhan Ts. graduated from the Mongolian Polytechnic University and the University of Electro-Communications, Tokyo, Japan. Previously, he held the position of Managing Director at Japanese-Mongolian joint "Altai" LLC and was a Vice-President at MIAT Mongolian Airlines, Mongolia's national airline.



**JOHN LAW**  
Board Director

*| Member of Human Resources Committee, and Corporate Governance Committee |*

Mr. John Law has vast experience in corporate and investment banking, and has more than 30 years of experience in the financial sector. He served as a Principal Banking Specialist of Global Financial Markets at IFC and held several top managerial positions for the Asia-Pacific region at Citibank and J.P. Morgan & Co. Mr. Law holds an MBA from Indiana University, Bloomington, IN, USA.



**TAMIR A.**  
Independent Board Director

*| Chairman of Audit Committee |*

Mr. Tamir A., a certified tax advisor, was appointed as an Independent Director of the Board of Directors of Khan Bank in July 2020. He is the founder and CEO of Integrated Financial Services LLC which provides consulting services to local and foreign companies in accounting, internal and external financial reporting, and business planning etc. and Vice-President of the Asia Oceania Tax Consultants' Association (AOTCA). Mr. Tamir A. possesses more than 26 years of experience of working in diverse financial positions with multiple government, private and international organizations. He received his Master's degree in Economics from the Moscow State University of Economics, Statistics and Informatics and diploma in Economics of Development from the Australian National University.



**HANS AART JONGEJANS**  
Independent Board Director

*| Chairman of Risk Committee; Member of Audit Committee |*

Mr. Aart Jongejans was appointed as an Independent Director of the Board of Directors of Khan Bank in July 2020. He has a 44-year banking career in risk management. Mr. Aart Jongejans successfully graduated from the Banking and Finance Institute of the Kingdom of Netherlands in 1975 and he has previously served in various executive positions at ABN AMRO (the third-largest bank in the Netherlands), BNP Paribas Bank, Saudi Hollandi Bank (renamed into Alawwal Bank), etc.

## EXECUTIVE MANAGEMENT

Chief Executive Officer (CEO) of Khan Bank manages and control daily operations of the Bank within scope of the authority approved by the Board of Directors. CEO to ensure implementation of decisions and resolutions of shareholders and the Board of Directors. The Executive Management Committee is obliged to provide assistance to CEO's daily and immediate activities.

Table 23. Executive management committee members: Introduction



**MUNKHTUYA R.**  
CEO

Ms. Munkhtuya R. has been appointed as Chief Executive Officer since 28 December, 2020. Been working in the finance industry for 27 years, including accountant of Mongol Daatgal (Mongol Insurance) Bank and Sergeen Bosgolt (Reconstruction) Bank in 1994-2000, Ms. Munkhtuya R. began her professional journey at Khan Bank as Chief Accountant in 2000-2005, advanced to Director of Finance in 2005-2008, Deputy CEO in 2008-2010, and Vice President of Corporate Banking in 2010-2012. As an accomplished banking professional with extensive experience, she held the positions of First Deputy CEO and Deputy CEO of the Bank from 2012 to 2020.

She is a graduate of the University of Finance and Economics of Mongolia in banking and finance and holds a master's degree in economics and banking from the National University of Mongolia. She earned an MBA from Handong Global University in South Korea in 2012.



**ERDENEDELGER B.**  
Deputy CEO

Ms. Erdenedelger B. has been appointed as Deputy CEO since 08 January, 2021.

Starting her professional career as an economist at the Bank of Mongolia in 1994, Ms. Erdenedelger B. joined Khan Bank in 2010 as the Head of the Treasury Department, advanced to Director of Treasury and Investment Banking in 2012 and had held the position of Vice President of Corporate Banking since 2018 till the latest promotion. She has successfully managed the Corporate Banking activities of the Bank through the delivery of a full range of banking and financial services including short and long-term financing to the major corporate enterprises and companies operating in Mongolia.

Ms. Erdenedelger B. holds a bachelor's degree in banking and finance from the University of Finance and Economics of Mongolia, a master's degree in economics from the National University of Mongolia, and a master's degree in Public Administration from Indiana University in Bloomington, USA, in 2003.



**BAYANBAT. B.**  
Vice President Business  
Development

Mr. Bayanbat B. has been appointed as Vice President of Business Development since 12 April, 2021. He joined Khan Bank in 2011 as an Information Technology Auditor and was promoted to Senior Information Technology Auditor in 2014, and became head of the Information Technology Audit Department in 2018.

Mr. Bayanbat B. earned a bachelor of science degree in information technology engineering from the Mongolian University of Science and Technology in 2009.



**MUNKHBAYAR G.**  
Vice President Operations

Ms. Munkhbayar G. started her career at Khan Bank as Head of the Financial Management Department in 2007 and continued working as Deputy Director of Finance and Director of Finance (Nov, 2010) before appointment to Vice President Operations in February, 2018.

Ms. Munkhbayar G. graduated the Institute of Finance and Economics with a degree in Banking management and the National University of Mongolia with a degree in English linguistics.



**SACHIN NAIR**

Vice President CIO

Sachin Nair, Indian national, has been working as Chief Information Officer since 26 August, 2019.

Sachin Nair is a technology professional with over 25 years of extensive experience working in various capacities within JP Morgan Chase, Omnitech Services Ltd based in Japan and Hong Kong and thereafter building and running Arges Global services organization spanning in 8 countries across the globe, working with BFSI and non BFSI providing leadership for drive Process Automation, Technology Modernization, Information Security and other technology services.

Mr. Sachin Nair holds a bachelor degree in Computer Engineering from Pune University, India.



**ENKHBAATAR D.**

Vice President Chief Risk Officer

Mr. Enkhbaatar D. started his current job position as Chief Risk Officer in September, 2020.

He joined KHAN Bank as an officer of the Credit Department in 1999 and then he worked in diverse positions such as loan officer, Branch supervision officer, Senior officer of Rural operations, Branch manager, Head of UB Credit Department, Chief Credit and Risk Executive, Wholesale Banking Executive, Director of Internal Auditing (2010) and Chief Internal Audit (2018).

He holds a Bachelor's degree in Banking management from the University of Finance and Economics, and received a MBA from Handong Global University, South Korea.



**ARIUNBAT D.**

Vice President Retail Distributions

Mr. Ariunbat D. has been appointed as Vice President Retail Distributions since 02 April, 2020. He started his banking career in 2003 as a teller, and then as a senior loan officer, sub-branch manager, Branch manager and in 2013 was promoted as a Head of business Relations Division, in 2014 as Director of Retail Bank Ulaanbaatar, and in 2019 as a Strategic project leader.

Mr. Ariunbat D. holds a Bachelor degree in Economics and Statistics from Institute of Commerce and Business, completed MPA program of University of Purdue, USA.



**UUGANBAYAR T.**

Vice President Corporate Banking

Mr. Uuganbayar T. has been appointed as Vice President Corporate Banking since 01 February, 2021. He joined KHAN Bank in 2004 as an information research officer and has held leadership roles including dealer of the Treasury Department in 2008, Head of the Treasury Department in 2012, and Head of the Corporate Banking Department in 2020.

Mr. Uuganbayar T. holds a Bachelor of Arts in Banking from the National University of Mongolia and a Master of Science in Banking and Finance from Queen Mary University of London, the United Kingdom.



**DUGARBAATAR D.**  
Chief Internal Auditor

Mr. Dugarbaatar D. assumed his current job position as Chief Internal Auditor in September, 2020.

He joined Khan Bank in 2007 as an auditor of Internal Auditing Department and then he worked in diverse positions such as specialist and senior specialist of Risk Management Department, senior auditor and Head of Internal Audit Department, Head of Property Management Department (2018) and Head of Corporate Banking Department (2019).

He holds a Bachelor's degree in International Economist from Institute of Economics and Business, and a Master's degree in Financial management from the National University of Mongolia.



**GANBYAMBA Sh.**  
Vice President Human  
Resources

Ms. Ganbyamba Sh. joined Khan Bank in 2007 as Head of Human Resources Development Division and a Director of Human Resources in 2016 and assumed her current job position as Vice President Human Resources in February, 2018.

She holds Bachelor's and Master's degrees from the Institute of Foreign Languages having completed the studies in 1993 and 1996 respectively.



**ULZII-AYUSH Sh.**  
Vice President Finance,  
Administration

Ms. Ulzii-Ayush has been appointed as Vice President of Finance and Administration since 01 February, 2021. She joined Khan Bank in 2001 as an asset accountant and was later promoted to Senior Specialist of the Financial Management Department in 2003, Head of the Financial Analysis Department in 2004, and Head of the Financial Management Department in 2006.

Ms. Ulzii-Ayush holds a bachelor's degree in banking management from the National University of Mongolia (2000) and MBA from the same university in 2007.



**ARIUNTULGA O.**  
Corporate Secretary

Mr. Ariuntulga O. has been appointed as Corporate Secretary since September, 2019.

Mr. Ariuntulga O. holds Bachelor's degree in International Law from the Moscow State Institute of International Relations /MGIMO University/ and a Master's degree in Laws from the National University of Mongolia.

Until his employment in Khan Bank in 2018 as a Legal Advisor at the Legal Department he worked as a specialist in the International Law and Treaty Department of the Ministry of Foreign Affairs, legal associate at "Mongol Advocates" LLP and as well as working as an Associate and a Legal advisor to the Member of the Parliament of Mongolia.

### Information on the shares held by the authorized official<sup>3</sup>

Table 24. Information on the shares held by the authorized official

Authorized officers	Position	Number of owned shares
D.Khulan	Deputy Chairperson of the Board of Directors	252,738,000
R.Munkhtuya	Chief Executive Office	1,660,340
B.Erdenedelger	Deputy Chief Executive Officer	1,400,000
G.Munkhbayar	Vice President, Operations	740,880
D.Ariunbat	Vice President, Retail Bank Distribution	562,570
D.Enkhbaatar	Vice President, Chief Risk Officer	448,370
Sh.Ganbyamba	Vice President, Human Resources	360,000
Sh.Ulzii-Auysh	Vice President, Finance and Administration	192,990
D.Dugarbaatar	Chief Internal Auditor	177,220
T.Uuganbayar	Vice President, Corporate banking	96,190
Sachin Nair	Vice President, Chief Information Officer	90,000
B.Bayanbat	Vice President, Business Development	81,050
O.Ariuntulga	Corporate Secretary	21,000

<sup>3</sup> Expressed as after stock split approved by the Bank's Shareholders' meeting dated March 14, 2022.

## 1.9. Contracts and agreements

KhanLex Partners LLP and MGL Attorneys LLP acted as legal advisors in the initial public offering of the issuer's common shares following the "Legal Services Agreement" No. 310 entered into with the Bank on March 1, 2022.

By Article 10.5.7 of the Securities Market Law and Article 3.1.5 of the Securities Registration Regulation of FRC, the law firm issued whether agreements with obligations in the amount equal to or more than five percent of the Issuer's share capital, material, and conflict-of-interest transactions made by the Issuer in the last three years are following applicable laws and regulations.

### **Agreements with obligations in the amount equal to or more than five percent of the Issuer's share capital**

The amount equal to or more than five percent of the Issuer's share capital is MNT 8,604,891,000. Bank loan and collateral agreements are standard agreements based on an approved format. They are required to maintain the confidentiality of customer information under Article 7.2 of the Banking Law and the Bank Secrecy Regulations. The three loan agreements and their collateral agreements are reviewed, and they shall be by the relevant legislation. Specifically:

- The Bank included the provisions to be included in loan agreements specified in Article 20.2 of the Law on Deposit, money transfer, and loan activities of banks and authorized legal entities in the loan agreements with the amount equal to or more than five percent of the Bank's share capital and the provisions are within the limits set forth in Article 17.3.1 of the Banking Law.
- If the borrower fails to repay the loan within the time specified in the contract, penalty interest shall be calculated and the amount of the penalty interest is in accordance with Article 452.2 of the Civil Code stating "... if the loan is not repaid within the period specified in the agreement, the agreement may stipulate that the borrower shall pay a penalty interest not exceeding twenty percent of the interest rate specified in the agreement."
- The provisions of the immovable and movable property pledge agreements entered into to secure the performance of the loan agreement are in accordance with the Civil Code, the Law on Pledge of movable and intangible property, the Law on Pledge of immovable property and other legislation. There are no grounds to invalidate the transaction or consider the transaction void according to Articles 56 to 60 of the Civil Code.

### **The conflict-of-interest transactions**

Article 89.1 of the Company Law clearly states: "If a shareholder who owns 20 percent or more of the company's ordinary shares, alone or jointly with an affiliated person, an authorized official of a company, or an affiliated person enters into the following relationship with the company they work or own, they shall be considered as a conflict-of-interest person with the company or its subsidiaries or affiliates".

The Bank has entered into a total of 538 conflict-of-interest transactions in the last three years, of which 289 are in effect as of the date of this Opinion.

Article 89.3 of the Company Law lists conditions that the procedure for entering into conflict-of-interest transactions set forth in Chapter 12 of the Company Law does not apply. Article 89.4 of the law states *"If the number of shareholders of a limited liability company is no more than 10, the company's charter may specify other cases than those specified in Article 89.3 of this law."* In other words, depending on the nature of its operations, a company may specify certain cases that are exempt from the procedures set forth in Chapter 12 of the Company Law when entering into a conflict-of-interest transaction.

According to this provision, the Bank's charter specifies additional conditions that are exempt from the procedure for entering into a conflict-of-interest transaction, and the Law firm concludes that the conflict-of-interest agreements and transactions entered into in accordance with its charter are in accordance with applicable laws.

#### **The material transactions**

Material transactions are governed by Article 87 of the Company Law and Article 87.1.1 states that "a transaction or several transactions directly connected with each other /except for transactions in respect of a daily ordinary course of business/ in connection with the sale, purchase, disposition or pledge of a property or property rights with market value more than 25% of the total amount of assets as shown on the most recent balance sheet of a company prior to the conclusion of such transaction"; and Article 87.1.2 states that "the issuance, or several issuances directly connected with each other, of common shares, certificates with the right to purchase of common shares or securities convertible into common shares where the number of such common shares exceeds 25% of the common shares issued before such transaction".

The Bank has not entered into a material transaction (i.e., a contract for MNT 2.2 trillion to 3.3 trillion) as defined in Article 87.1 of the Company Law as of the date of the Legal Opinion.





## 1.10. Financial information of the Issuer

Khan Bank is leading the banking sector in terms of total assets, total equity, gross loan portfolio, total customer deposits, net profit and other financial indicators.

Since its establishment, the Bank's financial performance is gradually increasing and as at 31 December 2021, the Bank's total asset reached to MNT 13.5 trillion, net loan portfolio reached to MNT 6.6 trillion, total customer deposits reached to MNT 10.2 trillion, total equity reached to MNT 1.28 trillion.

Khan Bank has been having its annual and quarterly financial statements audited and reviewed by internationally well-known auditing firms.

In accordance with the Article 38.1 of the Banking Law of Mongolia, the Bank publishes its quarterly and annual financial statements on the Bank's official website as well as on daily newspapers within the timeframe designated in the law.

This prospectus and its annexes include the Bank's financial statements of the last three years, consisting statements of financial position as at 31 December 2021, 31 December 2020 and 31 December 2019 and statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended and notes to these financial statements, including a summary of significant accounting policies.



### 1.10.1. Statements of financial position

Table 25. Statements of financial position

	(in thousands of MNT)		
	2021	2020	2019
<b>Assets:</b>			
Cash and cash equivalents	4,526,979,979	4,827,975,047	3,361,216,170
Mandatory reserves with Bank of Mongolia	809,081,732	743,335,598	749,980,745
Due from banks	-	85,400,721	119,455,256
Derivative financial instruments	27,086,528	82,094,281	85,050,250
Loans and advances to customers	6,589,298,799	4,925,483,235	4,629,008,689
Financial assets at fair value through profit or loss	149,905,024	113,040,064	97,851,964
Debt instruments at fair value through other comprehensive income	206,007,659	201,033,487	287,225,467
Equity instruments at fair value through other comprehensive income	3,157,209	3,148,784	3,159,315
Debt instruments at amortized cost	553,088,798	529,202,397	348,912,819
Investments in associates	301,888	301,888	301,888
Other assets	78,094,830	76,142,085	51,048,206
Properties and equipment	455,595,092	465,928,170	405,803,192
Intangible assets	54,764,803	50,718,804	41,271,652
Rights-of-use assets	10,086,653	7,362,765	14,068,338
<b>TOTAL ASSETS</b>	<b>13,463,448,994</b>	<b>12,111,167,326</b>	<b>10,194,353,951</b>
<b>Liabilities:</b>			
Due to banks	35,854,280	25,825,049	109,064,048
Repurchase agreements	620,802,675	184,890,799	197,870,997
Due to customers	10,211,450,727	9,370,844,845	7,217,771,673
Derivative financial instruments	319,756	206,964	219,478
Borrowed funds	1,191,916,946	1,173,586,423	1,308,695,905
Sub-ordinated debt	-	-	56,316,854
Other liabilities	100,761,094	105,019,286	80,254,174
Lease liabilities	11,085,695	7,960,407	14,905,332
Current income tax liabilities	2,167,852	6,155,494	9,998,555
Deferred tax liabilities	4,579,593	7,467,039	5,760,791
<b>TOTAL LIABILITIES</b>	<b>12,178,938,618</b>	<b>10,881,956,306</b>	<b>9,000,857,807</b>
<b>Equity:</b>			
Ordinary shares	172,097,820	58,071,253	52,792,048
Treasury shares	-	(7,589,226)	(2,183,728)
Other reserves	94,278,825	112,569,423	44,958,724
Retained earnings	1,018,133,731	1,066,159,570	1,097,929,100
<b>TOTAL EQUITY</b>	<b>1,284,510,376</b>	<b>1,229,211,020</b>	<b>1,193,496,144</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>13,463,448,994</b>	<b>12,111,167,326</b>	<b>10,194,353,951</b>

## 1.10.2. Statements of profit or loss and other comprehensive income

Table 26. Statements of profit or loss and other comprehensive income

	(in thousands of MNT)		
	2021	2020	2019
Interest income calculated using the effective interest method	1,139,951,636	1,070,069,841	1,086,791,281
Other interest and similar income	38,817,302	18,944,624	13,551,084
Interest and similar expenses using the effective interest method	(544,191,982)	(656,553,501)	(658,993,221)
<b>Net interest income</b>	<b>634,576,956</b>	<b>432,460,964</b>	<b>441,349,144</b>
Fee and commission income	212,086,407	159,625,125	141,452,517
Fee and commission expenses	(17,477,524)	(12,307,510)	(11,695,374)
<b>Net fee and commission income</b>	<b>194,608,883</b>	<b>147,317,615</b>	<b>129,757,143</b>
Gains from trading in foreign currencies	21,286,565	13,860,554	16,663,155
Losses from financial derivatives	(202,377)	(4,224,878)	(2,687,477)
Foreign exchange translation (loss)/gain	(1,696,325)	12,172,561	1,414,192
Other operating (expense)/income	(6,616,194)	(3,854,538)	1,597,981
<b>Total operating income</b>	<b>841,957,508</b>	<b>597,732,278</b>	<b>588,094,138</b>
Allowance for impairment losses	(87,819,440)	(65,431,570)	(37,233,902)
<b>Net operating income</b>	<b>754,138,068</b>	<b>532,300,708</b>	<b>550,860,236</b>
Operating expenses	(367,578,985)	(321,161,426)	(295,805,342)
<b>Profit before tax</b>	<b>386,559,083</b>	<b>211,139,282</b>	<b>255,054,894</b>
Income tax expense	(95,030,000)	(49,920,000)	(63,493,395)
<b>Profit for the year</b>	<b>291,529,083</b>	<b>161,219,282</b>	<b>191,561,499</b>
<b>Earnings per share</b>			
Basic, profit for the year attributable to ordinary equity holders	1.69	0.87	1.01
Diluted, profit for the year attributable to ordinary equity holders	1.69	0.87	1.01
<b>Other comprehensive income (net of tax):</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Revaluation (losses)/gain on debt instruments at fair value through other comprehensive income	(7,582,061)	(3,617,499)	15,370,459
Cash flow hedge reserve movement	(8,461,169)	7,325,074	16,389,171
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Revaluation gain/(losses) on equity instruments at fair value through other comprehensive income	6,315	(7,898)	39,492
Revaluation of premises	-	64,792,320	-
<b>Other comprehensive (loss)/income</b>	<b>(16,036,915)</b>	<b>68,491,997</b>	<b>31,799,122</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>275,492,168</b>	<b>229,711,279</b>	<b>223,360,621</b>

### 1.10.3. Statements of cash flows

Table 27. Statements of cash flows

	(in thousands of MNT)		
	2021	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Profit before tax</b>	386,559,083	211,139,282	255,054,894
Adjustments to reconcile profit before tax to net cash flow:			
Changes in fair value of financial derivatives	43,924,483	42,849,196	41,728,137
Expected credit loss (ECL) expenses	87,819,440	65,431,570	37,233,902
Fair value changes of unquoted investment	2,327,236	-	-
Depreciation of property and equipment	54,368,851	52,901,548	40,675,543
Amortization of intangible assets	17,703,043	10,897,441	11,667,444
Depreciation of rights of use assets	7,511,435	7,171,432	6,382,833
Property and equipment written-off	1,022,560	544,999	2,450,178
Intangible assets written-off	-	1,513	2,646,277
(Gain)/loss on disposal of property and equipment	(10,099)	47,053	(24,254)
Loss on disposal of foreclosed properties	120,302	-	-
(Gain)/loss on disposal of debt instruments at fair value through other comprehensive income	(2,252,900)	3,438,877	-
Net loss on revaluation of premises	-	2,582,396	-
Accretion interest on lease liability	1,412,573	1,780,891	2,469,685
Interest expense on borrowings	41,492,260	62,477,557	101,944,757
Unrealized foreign exchange loss/(gain)	1,234,391	(25,814,813)	(840,727)
Net modification loss	5,576,148	6,070,711	-
Interest amortisation from modification loss	(8,492,399)	-	-
Movement on cash flow hedge reserve	(169,896)	4,282,832	10,625,804
Non-cash items arising from financing activities	(2,700,894)	2,237,148	1,145,738
<b>Operating profit before working capital changes</b>	<b>637,445,617</b>	<b>448,039,633</b>	<b>513,160,211</b>
<i>Changes in operating assets:</i>			
Statutory deposits with BoM	(70,264,098)	14,993,156	(92,530,086)
Due from banks	87,348,116	33,667,708	173,421,344
Loans and advances to customers	(1,724,922,131)	(356,504,817)	(484,494,318)
Other assets	(21,139,465)	(29,119,384)	21,618,414
Prepayment of right of use assets	-	(465,859)	(803,505)
<i>Changes in operating liabilities:</i>			
Due to banks	11,975,550	(86,934,454)	(149,684,024)

Repurchase agreements	435,911,876	(12,980,198)	95,466,143
Due to customers	839,944,157	2,151,881,534	1,019,590,365
Other liabilities	(25,539,724)	22,415,857	15,932,306
<b>Cash generated from operations</b>	<b>170,759,898</b>	<b>2,184,993,176</b>	<b>1,111,676,850</b>
Interest paid	(45,969,574)	(76,395,530)	(103,077,993)
Interest portion of the lease payment	(1,412,573)	(1,780,891)	(2,469,685)
Income tax paid	(96,559,450)	(53,290,038)	(58,571,535)
<b>Net cash flows generated from operating activities</b>	<b>26,818,301</b>	<b>2,053,526,717</b>	<b>947,557,637</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of financial investments	(626,934,969)	(1,274,340,337)	(721,075,756)
Proceeds from disposal of financial investments	546,817,503	1,185,496,823	884,559,126
Proceeds from disposal of property and equipment	693,349	310,907	357,304
Purchase of property and equipment	(45,741,583)	(51,719,561)	(99,279,689)
Purchase of intangible assets	(21,749,042)	(20,346,106)	(26,830,336)
<b>Net cash flows (used in)/generated from investing activities</b>	<b>(146,914,742)</b>	<b>(160,598,274)</b>	<b>37,730,649</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowed funds	715,271,479	299,473,115	806,171,334
Repayment of borrowed funds	(688,946,113)	(469,563,774)	(905,461,383)
Net repayment of subordinated debt	-	(55,339,500)	(105,270,800)
Dividend paid	(200,000,000)	-	-
Repurchase of shares	-	(193,996,403)	-
Principle portion of lease payment	(7,110,035)	(6,944,925)	(4,104,944)
<b>Net cash flows used in financing activities</b>	<b>(180,784,669)</b>	<b>(426,371,487)</b>	<b>(208,665,793)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(300,881,110)</b>	<b>1,466,556,956</b>	<b>776,622,493</b>
Cash and cash equivalents brought forward	4,829,214,865	3,362,657,909	2,586,035,416
<b>Cash and cash equivalents carried forward</b>	<b>4,528,333,755</b>	<b>4,829,214,865</b>	<b>3,362,657,909</b>

#### 1.10.4. Statements of changes in equity

Table 28. Statements of changes in equity

(in thousands of MNT)

	Ordinary shares	Treasury shares	Other reserve	Retained earnings	Total equity
<b>At 1 January 2019</b>	<b>52,792,048</b>	<b>(28,613,934)</b>	<b>13,953,554</b>	<b>926,281,068</b>	<b>964,412,736</b>
Profit for the year	-	-	-	191,561,499	191,561,499
Other comprehensive income	-	-	31,799,122	-	31,799,122
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>31,799,122</b>	<b>191,561,499</b>	<b>223,360,621</b>
Transfer	-	20,707,419	-	(20,707,419)	-
Reversal of deferred tax liability	-	5,722,787	-	-	5,722,787
Realized revaluation reserve	-	-	(793,952)	793,952	-
<b>At 31 December 2019</b>	<b>52,792,048</b>	<b>(2,183,728)</b>	<b>44,958,724</b>	<b>1,097,929,100</b>	<b>1,193,496,144</b>
<b>At 1 January 2020</b>	<b>52,792,048</b>	<b>(2,183,728)</b>	<b>44,958,724</b>	<b>1,097,929,100</b>	<b>1,193,496,144</b>
Profit for the year	-	-	-	161,219,282	161,219,282
Other comprehensive income	-	-	68,491,997	-	68,491,997
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>68,491,997</b>	<b>161,219,282</b>	<b>229,711,279</b>
Changes in equity	5,279,205	(5,405,498)	-	(193,870,110)	(193,996,403)
Realized revaluation reserve	-	-	(881,298)	881,298	-
<b>At 31 December 2020</b>	<b>58,071,253</b>	<b>(7,589,226)</b>	<b>112,569,423</b>	<b>1,066,159,570</b>	<b>1,229,211,020</b>
<b>At 31 December 2020</b>	<b>58,071,253</b>	<b>(7,589,226)</b>	<b>112,569,423</b>	<b>1,066,159,570</b>	<b>1,229,211,020</b>
Profit for the year	-	-	-	291,529,083	291,529,083
Other comprehensive income	-	-	(16,036,915)	-	(16,036,915)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(16,036,915)</b>	<b>291,529,083</b>	<b>275,492,168</b>
Changes in equity	114,026,567	7,589,226	-	(141,808,605)	(20,192,812)
Dividend	-	-	-	(200,000,000)	(200,000,000)
Realized revaluation reserve	-	-	(2,253,683)	2,253,683	-
<b>At 31 December 2021</b>	<b>172,097,820</b>	<b>-</b>	<b>94,278,825</b>	<b>1,018,133,731</b>	<b>1,284,510,376</b>

### **1.10.5. Audit opinion**

HAN Bank has been having its annual and quarterly financial statements audited by internationally well-known auditing firms since 2000.

In those 21 years, there were no significant adjustment made to the financial statements and unqualified audit opinions were issued by the external auditors on the financial statements of the Bank, stating that the Bank's financial statements present fairly in all material respects

As the Article 8.1 of Auditing Law of Mongolia stipulates that "Any audit entity shall be prohibited from providing audit services in accordance with Articles 9.1.1, 9.1.2 and 9.1.3 of this Auditing law, to any legal entity for more than five consecutive years", the following audit firms were contracted with the Bank to provide external, independent audit services throughout the years:

- 3-year agreement with PwC Mongolia covering 2011, 2012 and 2013;
- 3-year agreement with PwC Russia covering 2014, 2015 and 2016;
- 3-year agreement covering 2017, 2018 and 2019; 2-year agreement covering 2020 and 2021, totaling 5-year contract with E&Y Mongolia.

This prospectus and its annexes include the Bank's financial statements of the last three years, consisting statement of financial position as at 31 December 2021, 31 December 2020 and 31 December 2019 and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies, which are audited by Ernst & Young Mongolia audit LLC and issued an unqualified audit opinions stating the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, 2020 and 2021, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

As part of the engagement letter of financial statement audit service, no. EYMA/LOE-21/AC/MB/UA/KB/24, dated 23 April 2021, the auditor has issued its audit opinion on the financial statements for the year ending 31 December 2021. In addition to that, the auditor has issued declaration of no conflict of interest with the Issuer.

As per Article 38.1 of the Banking Law of Mongolia:

"The bank shall publicly disclose its quarterly financial statements that meet the requirements outlined in 37.2 of this Law in the first month of the quarter after reporting period, and audited annual financial statements in the first quarter of year after reporting period". In accordance with this clause, the Bank publishes its quarterly and annual financial statements on the Bank's official website within the timeframe designated in the law. Annual financial statements are also published on daily newspapers of Mongolia.

Refer to Annex 17 for the full set of financial statements for the years ending 31 December 2019, 2020 and 2021.

## 1.10.6. Financial analysis and financial ratios

Table 29. Financial ratios for the last 3 years

	2021	2020	2019
Return on assets (1)	2.3%	1.4%	2.0%
Return on equity (2)	23.2%	13.3%	17.8%
CAR (3)	15.6%	18.8%	21.6%
Tier 1 (4)	15.6%	18.1%	20.2%
Loan to deposit ratio (5)	58.2%	49.2%	55.9%
Liquidity ratio (6)	47.4%	58.0%	53.1%
Cost to income ratio (7)	43.7%	53.7%	50.3%
Net interest margin (8)	5.2%	4.1%	4.9%
Non-interest margin (9)	15.0%	13.2%	11.8%
NPL ratio (10)	5.3%	6.8%	6.2%
Provision coverage (LLP/total loan) (11)	6.1%	6.9%	6.3%
NPL provision coverage (LLP/NPL) (12)	115.7%	101.9%	101.4%

(1) Net profit after tax to average total assets of last 2 years end

(2) Net profit after tax to average total equity of last 2 years end

(3) Total equity to Risk weighted assets

Total equity includes ordinary shares, retained earnings, reserves and other adjustments (Revaluation reserve on properties are excluded from capital ratios starting 2019 in accordance with Bank of Mongolia regulations). The ratio to decrease by 140 bps if an adjustment to the total equity of the Bank as at Mar 31, 2022 made in accordance with Article 36.3 of Banking law of Mongolia

(4) Tier 1 capital to Risk weighted assets.

Tier 1 capital includes ordinary shares, retained earnings, reserves and other adjustments (Revaluation reserve on properties are excluded from capital ratios starting 2019 in accordance with Bank of Mongolia regulations).

(5) Total loan portfolio to total deposits

Total deposits includes current accounts, demand and term deposits of customers, borrowed funds, placements from other banks and financial institutions and repurchase agreements.

(6) Liquid assets (cash on hand, placements in Bank of Mongolia and other banks and financial institutions, investment securities, other assets and adjustments)/ total liabilities (total deposits, other liabilities and adjustment).

(7) Total operating expenses/total operating income. Total operating income includes net interest income and non-interest income

(8) Net interest income/Average balance of interest earning assets of last 2 years end.

Interest earning assets include loans and advances to customers, cash and cash equivalents, debt instruments measured at FVOCI, placement in other banks and financial institutions and residential mortgage backed securities.

(9) Non-interest income to total revenue. Total revenue is consists of interest income and non-interest income.

(10) NPL portfolio (as per IFRS rule) to total loan portfolio

(11) LLP (as per IFRS rule) to total loan

(12) LLP (as per IFRS rule) to NPL portfolio

### 1.10.6.1. Profitability

Khan Bank's net profit increased by an average of 19.3% annually for the preceding 3 years. As the end of reporting period ended December 31, 2019, our net profit amounted to MNT 191.6 billion ( 11.7% increase



from 2018), MNT 161.2 billion in 2020 (15.8% decrease from 2019), and MNT 291.5 billion (80.8% increase from 2020) respectively.

Profit growth in 2021 was driven by notable credit growth and suspension of interests on current accounts and demand deposits under the Law on prevention and relief of COVID-19 pandemic. While profit decline in 2020 resulted in from one-time state repayment for the pension-backed loan of a citizen in January and lowering of the policy interest rate set by the Bank of Mongolia.

Khan Bank's ROE and ROA average for the past 3 years stands at 18.1% and 1.9%, respectively. Thus, subsequently enabling the Bank to lead the banking sector with its high ROE.

Table 30. Profitability for the past 3 years

(in millions of MNT)

	2021		2020		2019	
	Amount	Growth	Amount	Growth	Amount	Growth
Net interest income	634,577.0	46.7%	432,461.0	-2.0%	441,349.1	14.0%
Net fee and commission income	194,608.9	32.1%	147,317.6	13.5%	129,757.1	35.0%
Other income	12,771.7	-28.9%	17,953.7	5.7%	16,987.9	186.4%
Operating expenses	367,579.0	14.5%	321,161.4	8.6%	295,805.3	20.6%
Profit for the year	291,529.1	80.8%	161,219.3	-15.8%	191,561.5	11.7%

Figure 4. Total operating income (in millions of MNT)

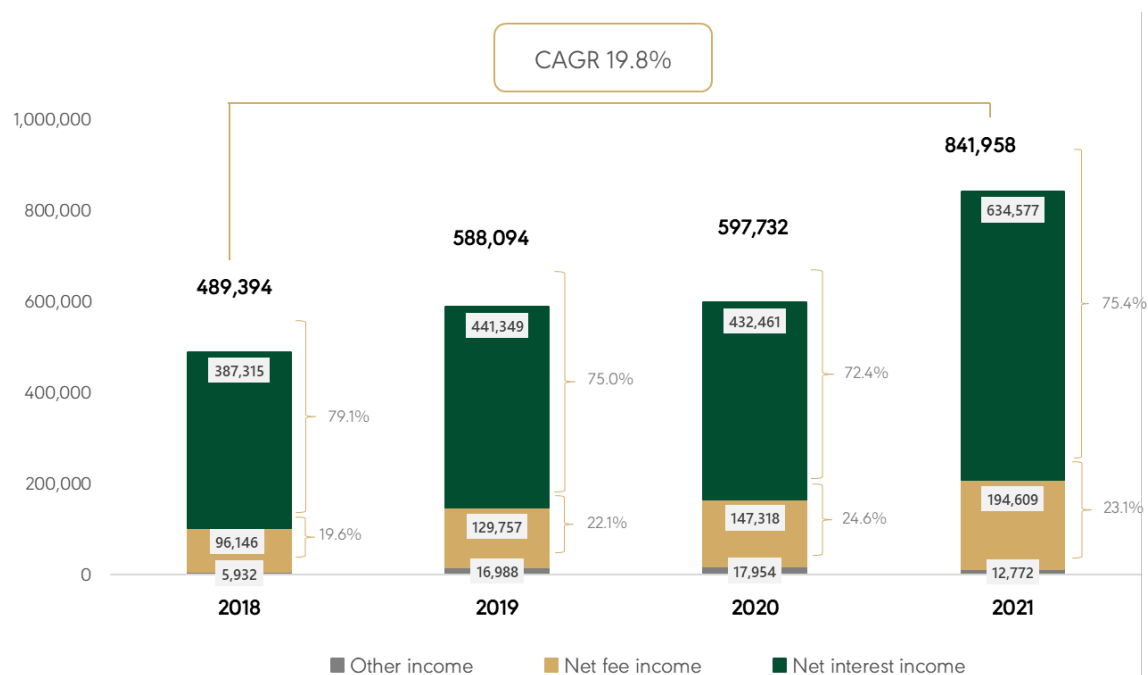
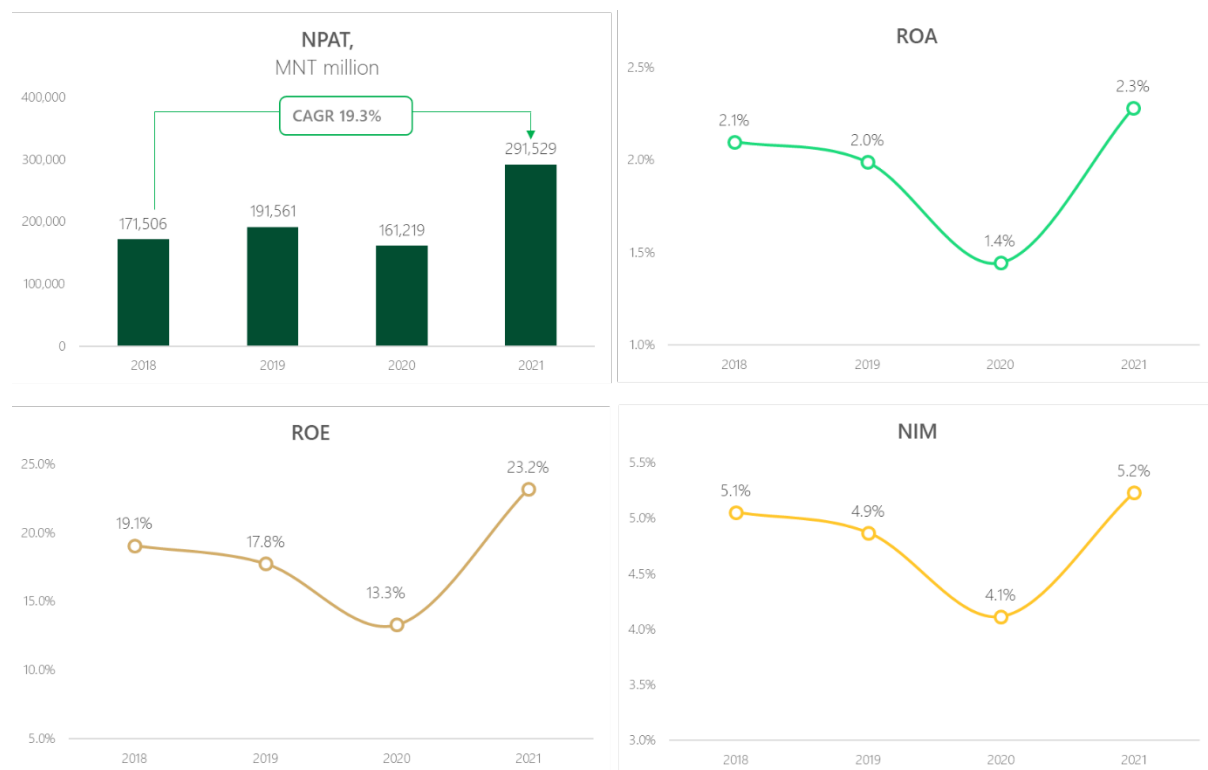


Figure 5. Profitability ratio



#### 1.10.6.2. Growth indicators

Khan Bank's assets, loans, and deposits have been growing steadily and consistently, with its assets growing at an average annual rate<sup>4</sup> of 14.1% over the past 3 years and making the total assets reach a staggering MNT 13,463.4 billion by the end of 2021.

Total outstanding loans have continuously increased by an average of 16.4% per annum to MNT 7.0 trillion. Traditionally, the loan portfolio mostly consisted of consumer loans, however, in the last three years, business loan growth has increased by more than 46% annually, resulting in an increase of market share of total loan portfolio from 25.8% to 33.6%.

Table 31. Information on the total loan portfolio

(in millions of MNT)

Segments	Year end			2021/2020 Change		2020/2019 Change	
	2021	2020	2019	%	Amount	%	Amount
Business loans	3,978,648	2,725,301	1,839,333	46.0%	1,253,347	48.2%	885,967
Consumer loans	2,445,045	2,151,282	2,759,514	13.7%	293,763	-22.0%	(608,232)
Agricultural loans	593,944	413,440	341,688	43.7%	180,504	21.0%	71,753
<b>Total</b>	<b>7,017,637</b>	<b>5,290,023</b>	<b>4,940,535</b>	<b>32.7%</b>	<b>1,727,613</b>	<b>7.1%</b>	<b>349,488</b>

<sup>4</sup> Annual average rate calculated as CAGR

Total deposits have grown at an average annual rate of 15.3% from 2019 to 2021. 85% of total deposits were consists of current deposits, and 15.3% were of borrowings and loans from banks and financial institutions.

Customer deposits/due to customers increased by 16.5% in 2019, 29.8% in 2020, and 9.0% in 2021, respectively.

Table 32. Information on the total deposit

(in millions of MNT)

	As at the end of:			2021/2020	2020/2019
	2021	2020	2019	Change	Change
				%	%
Due to other banks and financial institutions	35,854	25,825	109,064	38.8%	-76.3%
Repurchase agreements	620,803	184,891	197,871	235.8%	-6.6%
Customer deposits	10,211,451	9,370,845	7,217,772	9.0%	29.8%
Borrowed funds	1,191,917	1,173,586	1,308,696	1.6%	-10.3%
<b>Total deposits</b>	<b>12,060,025</b>	<b>10,755,147</b>	<b>8,833,403</b>	<b>12.1%</b>	<b>21.8%</b>

Figure 6. Growth dynamic



### 1.11. Compliance with the Bank of Mongolia's prudential ratios

A commercial bank is obliged to comply with the criteria and limitations set forth in the Banking Law and the regulations on prudential ratios approved by the Bank of Mongolia in its daily operation. For instance:

- Banking law of Mongolia's Article 16 and 17;

- “Regulation on determining, maintaining, reporting and monitoring the limitations set on banking operations” approved by the Governor of the Bank of Mongolia’s decree A-36 dated February 12, 2019;
- “Regulation on setting and monitoring prudential ratios to banking operation” approved by the Governor of the Bank of Mongolia’s decree A-138 dated May 23, 2019;
- “Regulation on asset classification, provisioning and its disbursements” approved by the joint decree of the Governor of the Bank of Mongolia and Finance Minister A-155/134 dated June 10, 2019.

Khan Bank consistently complies with the above-mentioned laws and regulations. The table below shows the Bank’s compliance with the Bank of Mongolia’s prudential ratios over the past 3 years.

Table 33. Capital adequacy ratio

Nº	Prudential ratio	Article as per the Regulation	Requirement	Performance 2021	Performance 2020	Performance 2019
1	Leverage ratio	2.5	>4%	8.53%	8.96%	11.05%
2	Total CAR	2.5	>12.0%	15.60%	18.91%	21.70%
3	Tier 1	2.5	>9.0%	15.60%	18.16%	20.23%

Table 34. Liquidity ratio

Nº	Prudential ratio	Article as per the Regulation	Requirement	Performance 2021	Performance 2020	Performance 2019
1	Liquidity ratio	3.2	>25%	46.87%	57.21%	52.10%
2	Mandatory reserve requirement ratio	Regulation on mandatory reserve, Banking law 16.1	>18.0% in currency, >6.5% in MNT	8.39%	11.63%	13.11%

Table 35. Net open position limit

Nº	Prudential ratio	Article as per the Regulation	Requirement	Performance 2021	Performance 2020	Performance 2019
1	FX open position to total equity (per each currency)	4.2	±15%>	-1.87%	-5.05%	7.26%
2	FX open position to total equity (total)	4.3	±30%>	-2.16%	-5.05%	7.67%

Table 36. Concentration risk limit

Nº	Prudential ratio	Article as per the Regulation	Requirement	Performance 2021	Performance 2020	Performance 2019
1	Current accounts and deposits of top 10 customers shall not exceed 25% of total assets	5.3	<25%	4.38%	7.40%	Effective since 2020.01.01
2	Loans and advances to substantial lender (more than 5% of total equity)/total equity	5.1	<300%	25.88%	55.86%	Effective since 2020.01.01
3	Property and equipment owned by the Bank shall not exceed 8% of total assets	5.2	<8%	3.36%	3.83%	3.97%



4	Loans and advances to customers, guarantees and other arrangements issued to related party shall not exceed 20% of total equity	5.6; Banking law 17.1	<20%	8.00%	18.03%	7.18%
5	Total guarantees issued by the Bank shall not exceed its total equity	5.6; Banking law 17.2	-	8.90%	12.84%	12.66%
6	Loans and advances to single related party/total equity	5.6; Banking law 17.3	<5%	0.75%	3.92%	4.49%
7	Loans and advances to all related parties/total equity	5.6; Banking law 17.3	<20%	0.88%	4.05%	5.08%
8	Total investments purchased by the Bank (except for cases under Article 17.5 of Banking law) shall not exceed 20% of total equity	5.6; Banking law 17.4	<20%	3.15%	2.62%	0%
9	Total equity investment made by the Bank (except for cases under Article 17.5 of Banking law) shall not exceed 10% of total equity of the investee	5.6; Banking law 17.4	<10%	2.05%	10.00%	15.00%
10	Total investment that can be made to asset backed securities shall not exceed 50% of total equity	5.6; Banking law 17.5	<50%	10.18%	8.53%	7.38%

## 2. ISSUER'S BUSINESS ANALYSIS

### 2.1. Macroeconomic outlook of Mongolia

#### 2.1.1. Economic situation

##### 2.1.1.1. Economic indicators

##### Global macroeconomic environment

In 2020 countries faced major economic crises across the board due to the worldwide disruptions caused by COVID-19 pandemic. . In response thereto, governments, in cooperation with Central banks, have pumped large amounts of money into the market through traditional and non-traditional methods in order to stimulate the economy. For instance, central banks have lowered their policy rates to historic lows, significantly increased their direct and indirect purchases of assets from the market, and governments have expanded spending by increasing recurrent transfers, or benefits and allowances, and implemented tax adjustment measures. As result of these measures, the global market has showed signs of recovery starting from the second half of 2020, major stock market indices have reached their historic highs, and investor confidence has shown a compelling increase. While steadfast vaccination efforts, rolled out from 2021, predominantly in developed countries, have served as propellant to rapid recovery from the economic downturn; growth was uneven due to lower vaccination rates in low-income countries.

Although global economic growth is expected to recover to 5.5% in 2021, due to the continuing outbreak of the COVID-19 virus, declining fiscal support and supply disruptions global economic growth is expected to slow to 4.1% in 2022. The outlook for the global economy looks bleak in the short term, with global inflation higher than previously expected, especially due to shortages of food, energy and other basic necessities caused by the new wave of pandemic. As the expected demand declines and macroeconomic stimulus remains weak, global economic growth is expected to slow to 3.2 percent in 2023. Although production and investment in developed countries are expected to reach pre-pandemic levels by the end of 2022, the situation remains challenging for developing and least developed countries. For instance, in some developing and poor countries, low vaccination rate, tightening fiscal and monetary policies driven by rising inflation, and the effects of the pandemic are expected to make it arduous for these countries' economic output to return to the normal level. Risks such as the economic crisis caused by the Omicron variant of the COVID-19, further supply shortages, uncertainty of inflation expectations, financial pressures, natural disasters, and weakening long-term growth incentives cast a shadow over the economic outlook. Moreover, due to the tension between Russia and Ukraine, increasing geopolitical risks, and economic sanctions against Russia, our northern neighbor, a risk of slow global growth and raising commodity prices remain imminent.

Figure 7. Economic output and its deviation from the COVID-19 pandemic expectation (January 2020 as base rate)

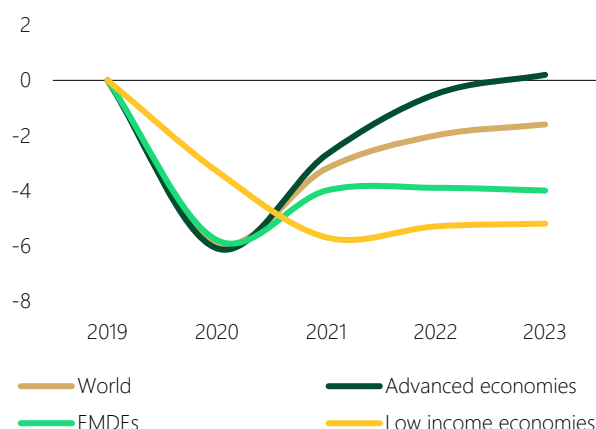
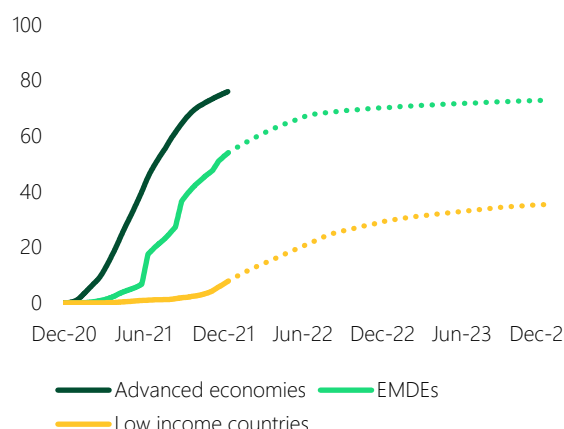


Figure 8. Vaccination rate (per 100 people)



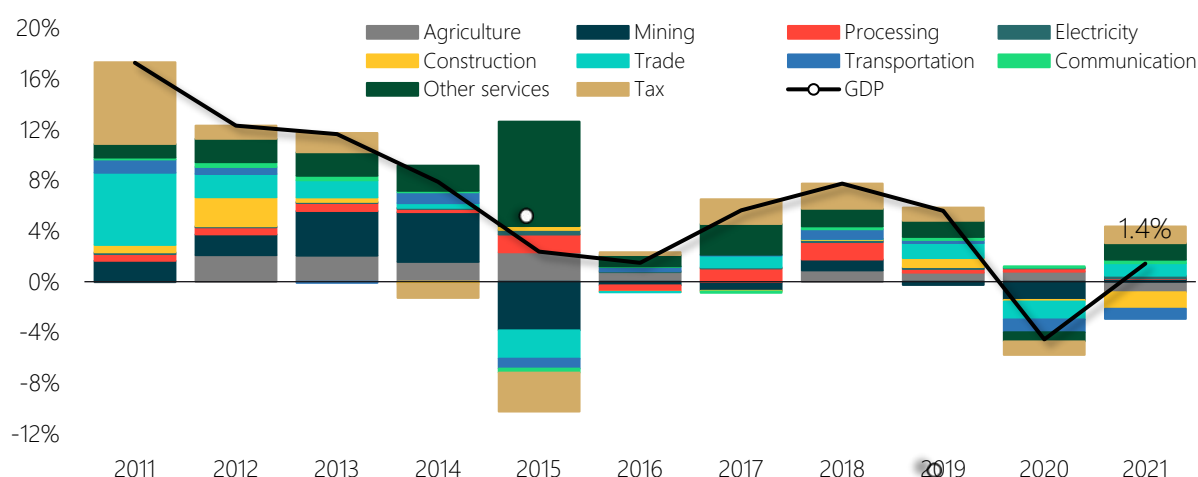
Source: World bank

## Macroeconomic environment of Mongolia

### Economic growth

The period of global commodity super cycle, 2010-2013, was the most favorable period for Mongolia's economy; and the country's business cycle follows the commodity price cycle in comparison with other countries with diverse economy. The positive changes in the state budget performance, improvement in the macroeconomic policy coherence, relatively high commodity prices, and a sharp increase in private investments have created favorable economic condition starting 2017 till 2020. However, an abrupt drop in commodity prices caused by the low demand during COVID-19 pandemic, countrywide lockdown, and especially, the border closure with China have affected the economic growth to plummet to its historic lowest since 1990, falling by 4.6%.

Figure 9. Mongolia's economic growth breakdown by sectors



Source: ISO

Sharp contraction of the mining sector and domestic lockdown have also had an indirect negative impact on transportation, warehousing and processing sectors. Consequently, as a result of factors such as rising commodity prices following a surge of global financial market, the base year effect, implementation of

Government's MNT 10 trillion comprehensive program, and as well as easing of monetary policy, the real GDP grew by 14.8% in the first quarter of 2021, coming second to China in the region. The mining sector grew by 44% in the first quarter of 2021 compared to the same period of the previous year, while in the second quarter the sector's growth slowed to 9% percent as the capacity of the Gashuunsukhait-Gantsmod port, the main export route, has experienced a robust decrease due to the high domestic spread of COVID-19. Therefore, coal exports were halted in the third quarter of 2021, causing the mining sector to shrink by -14%. As a result, real GDP in 2021 increased by only 1.4% from the previous year.

It is crucial to use rail instead of trucks to revamp traffic jams at border crossings. Major strategically significant railway projects under construction in Mongolia, such as the 1) Tavan Tolgoi-Gashuunsukhait 2) Tavan Tolgoi-Zuunbayan railway projects, are expected to be commissioned in the near future.

- Tavantolgoi-Gashuunsukhait railway project<sup>5</sup>:
  - The Government has announced its intention to commission 258.4 km of the Tavan Tolgoi-Gashuunsukhait railroad in July 2022. During the first two years of operation, 10 million tons of coal will be transported annually for testing. After that, the Tavan Tolgoi's group deposits will increase production by 2-3 times and will have the transportation capacity to export 30 million tons of coking and thermal coal per year. As a result, Mongolia will be able to export its natural resources at competitive prices to international markets through Chinese ports such as Huanghua, Tianjin, Qingdao and Jinzhou. It is also estimated that transporting coal by rail will reduce transportation costs by four times, from USD 32 to USD 8 per ton, compared to road transport, and will significantly reduce grazing, dust, noise, soil and air pollution, and create about 2,000 permanent jobs.
  - As of December 23, 2021, it is announced to public that the railroad construction performance of Tavan Tolgoi-Gashuunsukhait was at 73 percent, the 1st class, no intersection road has built and total of 230 km of railroad is ready for utilization.
- Tavantolgoi-Zuunbayan railway project<sup>6</sup>:
  - The Tavan Tolgoi-Zuunbayan railway is planned to be fully operational in the second quarter of 2022 and has a capacity of 15 million tons of freight per year (of which 10 million tons can be coal). The railway is expected to contribute to the export of coking coal from the Tavan Tolgoi mine, increase the transportation and export of mining and industrial products, and support the social and economic development of the region.
  - The Ministry of Road, Transport and Development of Mongolia announced that as of March 10<sup>th</sup> 2022, the construction phase of the horizontal axis, 416.1km-long railroad en-route Tavantolgoi-Zuunbayan is completed and test ride is successfully launched. The Ministry further informs that as per agreement between "Mongolian Railway" SOJSC and "Oyu Tolgoi" LLC, 3,200 tons of copper concentrate is loaded in 50 wagons and ready for export on March 5, 2022.

According to the latest projection of the international analysts, Mongolia's economy is expected to grow by an average of 5.9% in 2022.

- The International Monetary Fund forecasts that Mongolia's economic growth will increase in 2022-2023 based on the recovery of coal exports, an increase in copper exports with the commissioning

<sup>5</sup> The Bank of Mongolia and the Government's Monetary Policy Guideline for 2022

<sup>6</sup> Erdenes-TavanTolgoi JSC, ETT-Bond disbursement report as of October 5, 2021





of the second phase of the Oyu Tolgoi copper mine, and an improvement in the import environment after the completion of the Oyu Tolgoi project.

- The Asian Development Bank (ADB) expects Mongolia's economic growth in 2022 to be higher than in the previous year, based on forecasts that the vaccination program will improve the pandemic situation, logistics problems that hinder exports will be solved, and domestic demand will increase.
- The World Bank forecasts that Mongolia's economy will grow by 5.1% in 2022, based on policy measures to support the domestic economy, a positive global economic outlook, and effective vaccination.

Nevertheless, according to the international experts Mongolia's economic outlook will depend on risk factors such as the outbreak of new variants of pandemic domestically, halts at Chinese border crossings, fluctuations in commodity prices, and delays in the development of the Oyu Tolgoi underground mine.

Table 37. Mongolian economic growth projection

Organization	Updated date	2021	2022	2023
World Bank	2022.01	3.50%	5.10%	6.20%
IMF	2021.11	4.50%	7.00%	6.10%
ADB	2021.09	4.60%	6.00%	
BOM	2021.09	4%	5.50%	5.60%

### Exchange rate

Starting from the second half of 2019, the Bank of Mongolia has considerably increased its participation in the foreign exchange market by directly purchasing foreign currency from large mining companies engaged in export activities as a measure to stabilize the USD/MNT rate through intervention. In 2021, the Bank of Mongolia sold a total of USD 3.7 billion to commercial banks through foreign exchange auctions, as a result of which the USD/MNT exchange rate has been stable at around 2,850 since October 2020. If the main commodity prices in the international market remains stable, if the pandemic spread slows as a result of vaccination efforts, if border restrictions ease, and if the export volume increases, it is viable to keep the exchange rate stable in the future. Contrarily, as the Government and the Bank of Mongolia continue to implement loose fiscal and monetary policies, and as the economy recovers under the MNT 10 billion comprehensive plan, the demand for USD is likely to escalate, exposing the risk of USD appreciation. The risk of sharp MNT depreciation is still at large as there are possibilities of commodity price fall in the market, new variant of COVID-19 virus mutation, prolonged border restrictions, and drop in exports.

Figure 10. USD/MNT rate change and daily fluctuations

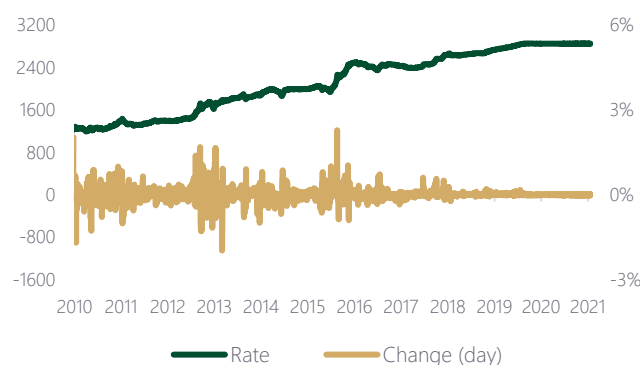
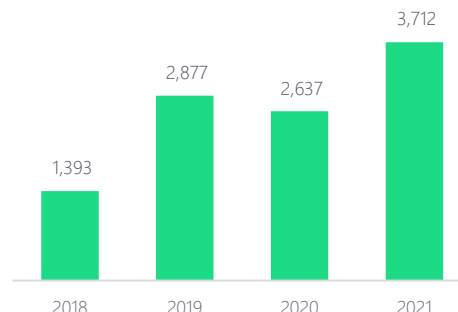


Figure 11. The Bank of Mongolia's intervention amount (USD million)



Source: The Bank of Mongolia

In the domestic market, the supply of US dollars is generated by a small number of large mining and export enterprises, while demand is generated by all import enterprises, individuals, and other market participants. Moreover, policymakers' implementation of certain policy measures such as increasing the percentage of required reserve for USD sources, requiring to make payments only in MNT, the domestic currency within the territory, not insuring foreign currency deposits, and setting a high percentage of asset risk weight to foreign currency credit have contributed to the deceleration of dollarization in the domestic market.

### *Commodity market*

Mongolia's main export revenue generates from copper, coal, gold, crude oil and iron ore. Hence, the commodity price cycle, global supply and demand, and oil-related political decisions are of great importance for the domestic economy. The COVID-19 pandemic has hit both demand and supply of commodity, and international commodity prices have fluctuated at an unprecedented rate over the past two years.

Since the second half of 2020, as a result of measures taken by governments and central banks, infrastructure construction increased and industrial sectors experienced a boost, which led to commodity market prices' growth cycle. For example, China's industrial output, which accounts for half of global coal demand and 54%<sup>7</sup> of copper demand, rose by 4.3% in December 2021 from a year earlier; while the manufacturing confidence index has been continuously kept above 50% since March 2020. Such factors had a positive effect on the commodity market.

In 2021 the total foreign trade turnover increased by 25% or USD 3,225 million compared to the same period of the previous year reaching USD 16,096 million. This is resultant from exports increase by 22% or USD 1,671 million and imports increase by 29% or USD 1,555 million. During the reporting period, the trade balance increased by USD 116 million compared to the same period of the previous year, reaching a surplus of USD 2,399 million.

*Exports:* According to the results of 2021, exports increased by 22% or USD 1,671 million compared to the same period of the previous year, reaching USD 9,247 million. Growth in exports was mainly driven by growth in mining exports. In particular, mining sector products accounted for 19 percentage points of the total exports increase of 22%, industrial products for 2 percentage points, and livestock products for 1 percentage points, respectively.

Table 38. 2021 exports by preliminary results (USD million)

Product	2021*		2020		2019		2021/2020	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Coal, mil. tonnes	16.1	2 779	28.7	2 127	36.6	3 079	56.3	130.7
Copper concentrate, thou. tonnes	1 283	2 900	1 395	1 778	1 404	1 796	91.9	163.1
Iron ore concentrate, mil. tonnes	7.1	952	8.2	640	8.4	576	86.6	148.8
Crude oil, mil. barrels	4.3	273	4.1	151	6.5	367	106.8	181.2
Gold, tonnes	17.2	1 005	30.5	1 788	9.1	418	56.6	56.2

Source: ISO

Comparing 2021's performance with 2020's, mining exports fell by USD 3,464 million due to changes in volume and increased by USD 4,934 million due to price changes.

*Imports:* In 2021, imports increased by 29% or USD 1,555 million compared to the same period of the previous year and reached USD 6,849 million. Increase of 12 percentage points of consumer goods, 9 percentage

<sup>7</sup> Eia.gov: U.S. Energy Information Administration

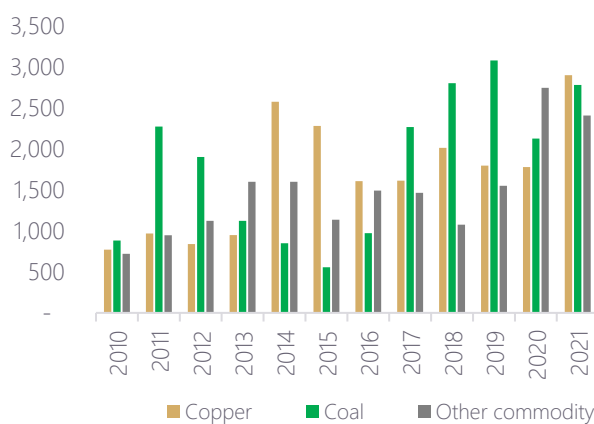
points of capital expenditures, 6 percentage points of petroleum products, and 2 percentage points of imports of industrial inputs contributed to the total import growth.

Compared to the same period of the previous year, total imports in 2021 increased by USD 1,555 million. These include increases in:

- Imports of consumer goods by USD 642 million;
- Import of capital expenditures or machinery and equipment by USD 475 million;
- Imports of petroleum products by USD 315 million;
- Imports of industrial products by USD 127 million.

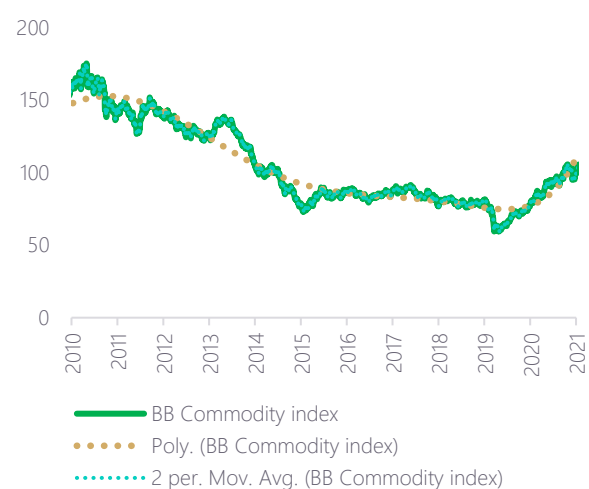
If major central banks tighten their monetary policies in response to rising global inflation, there is still a high risk of slowed down cycle of commodity prices and shift into a cycle of recession.

Figure 12. Mongolia's main commodity prices



Source: ISO

Figure 13. Commodity price index of Bloomberg



Source: Bloomberg terminal

### Gold market

In addition to being a commodity, gold is an investment tool, and when the international financial market bears higher risk and geopolitical issues escalate, investors and central banks' investment in gold intensifies. Gold prices fluctuated between USD 1,000 and USD 1,400 between 2015 and 2019, but experienced a sharp hike during the COVID-19 pandemic in 2020, reaching a record high of USD 2,070 in August 2020. The US Federal Reserve's premature cuts in assets on the stock market and expectations to raise interest rates three to four times in 2022, depending on inflation, have pushed gold prices lower. On the other hand, gold prices are likely to fluctuate in the short to medium term due to global high inflation rate and geopolitical issues such as the Ukraine-Russia conflict.

### Copper market

Due to the international market shocks inflicted by the pandemic, copper prices plummeted to USD 4,300 per ton in March 2020, but have accelerated since then, reaching a historic high of USD 10,600 in June 2021. Factors such as, China's infrastructure construction activation, abrupt increase of environmentally friendly green development around the world, boom of electric cars, and possible increase of copper royalty in Chile, the main copper concentrate producer, have pushed the copper prices higher. The copper price growth is expected to slow down, considering the global copper suppliers are expected to increase their output until

the second half of 2022, and the World Bank's forecast of global GDP growth to 4.4 percent in 2022 and 3.8 percent in 2023, respectively.

### *Crude oil market*

Even though the crude oil was the most affected commodity by the COVID-19 pandemic, it quickly recovered from the fall and experienced a steady rise throughout 2021. The main reasons for the rise were expanded OPEC members' agreement to sharply cut output in response to falling prices, and crude oil demand increase driven by global economic recovery. In addition to the underlying supply and demand factors, for the oil market, the expanded OPEC members' decision regarding the crude oil output has had a strong impact on the market. In the upcoming period, the spread of new variants of the virus and the possible re-imposition of lockdown will put pressure on oil prices, while in the medium term the risk of political tension (failure of the US-Iran negotiation) and deferral of OPEC's decision to increase the output, are creating an environment for a high price fluctuation. Moreover, oil prices have topped USD 100 per barrel for the first time since 2014, as tensions between Russia and Ukraine escalate and sanctions on Russia are creating expectation of oil supply reduction.

### *Coal market*

In terms of the coal market, the coal was the fastest growing commodity, and the price of high quality coking coal has doubled on the Chinese Dalian Commodity Exchange since the beginning of 2021. This was mainly due to the China's domestic market shortages, which had been exacerbated by China's ongoing coal embargo on Australia and high spread of COVID-19 pandemic in the major coal supplier country, Mongolia. Coal price hike is considered to be temporary driven solely by the shortcoming of supply, thus the risk of price fall remains high.

For instance, Mongolia's export to China is expected to return to normal levels, and sanctions on Australia are also foreseen to be eased. In addition, the indebtedness of Chinese real estate companies poses an indirect risk of reducing demand for steel and lowering coal prices.

### *Market rates and inflation*

Loan interest rates in Mongolia's domestic market have been relatively high compared to other developing countries<sup>8</sup>. This is due to a high funding rate in the domestic market, low efficiency of the financial market, high market risks, and weak transmission of the Central Bank's policy rate swings. Looking at the funding structures of the banks, assets linked to floating rates make up a scanty part compared to the policy rate linked assets. This is the main reason why commercial bank lending rates do not fall in line with policy rates. In 2018, the State Great Khural of Mongolia had passed "Strategy to reduce lending rates 2018-2023" and had set 3 main objectives, including 1) To constitute a stable macroeconomic environment, 2) To improve the transmission effect of the monetary policy rate shifts, 3) To improve commercial banks' risk management structures, profitability, and governance.

In the wake of the COVID-19 pandemic, central banks all around the world have cut their policy rates to record lows in order to decrease funding costs of enterprises, support financial markets, boost consumer spending and investments. Following the same streak, the Bank of Mongolia has revised its policy rate to 6%, opened various channels of non-traditional funding channels<sup>9</sup>, decreased commercial banks' required reserve ratio for MNT from 10.5% to 6%. At the same time, the Parliament of Mongolia also passed a law on Prevention, Combat of COVID-19, and Reduction of Social and Economic Impacts, which also includes a regulation that

---

<sup>8</sup> <https://knoema.com/atlas/topics/Economy/Financial-Sector-Interest-rates/Lending-interest-rate>

<sup>9</sup> Commercial banks have been able to raise funds from the Bank of Mongolia using repo financing instruments by securitizing their normal loans.



is aimed at decreasing the lending rate through lowering the funding cost of the banks. During the effective time of the law banks will not pay interest on current accounts and demand deposits, and only apply ordinary time deposit interest rates on special term deposit accounts. As a result of these measures, as of the end of 2021 compared to the previous year, banking sector's weighted average deposit interest rate decreased by 3.49% to 7.1%, the weighted average credit interest rate decreased by 1.15% to 15.6%, the interest rate of newly attracted deposits in a given month decreased by 3.49% to 5.4%<sup>10</sup>, and the newly issued loan interest rate decreased by 1.29% to 14.5%.

Figure 14. Banking sectors' loan and deposit interest rate

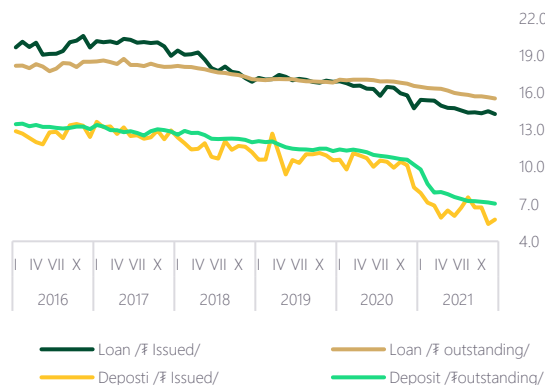
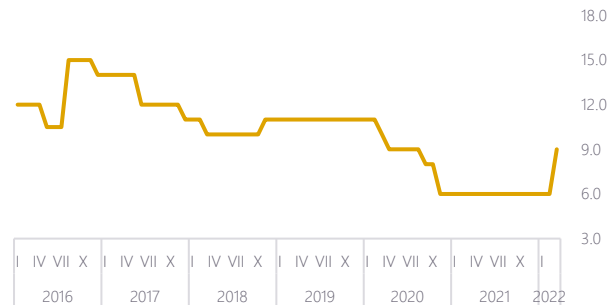


Figure 15. The Bank of Mongolia's policy rate



Source: The Bank of Mongolia

Rising inflation due to global economic recovery, rising commodity prices and rising transportation costs have forced central banks to raise interest rates and move into a contractionary monetary policy cycle. As of December 2021, the inflation rate reached 13.4 percent, which created an environment for the Bank of Mongolia to raise its policy rate by 0.5 basis points to 6.5 percent in January 2022.

The Law on the Central Bank states that the main objective of the Bank of Mongolia is to ensure the stability of the MNT. Within the framework of this objective, the Bank of Mongolia had approved a policy to stabilize consumer price index based inflation in the around medium-term target level the in the "Government's Monetary Policy Guidelines 2022". As part of this policy, the Central bank has stated that it will work with aim to stabilize inflation at around 6% per annum in 2021-2023. Therefore, it is highly probable that the policy rate will be raised systemically during the subsequent sessions of the Monetary Policy Committee in efforts to restrain inflation surpassing the target level. Monetary Policy Committee of the Bank of Mongolia on March 23, 24 of 2022, increased policy rate by 2.5 percentage to 9% as result of discussion on macroeconomic condition, current status of banking and financial sector and foreign and domestic environment at its regular session. The increase at policy rate is related to international situation, indefinite environment of economy, commodity price increase in international market, especially price of crude oil and food supply and expectation of supply chain crises to be continued.

### State budget

Mongolia's State budget has been in deficit throughout the past decade. Increasing the share of capital expenditures has the advantage of supporting the economy in the long run; nevertheless, recurrent expenditures account for the majority of Mongolia's budget expenditures. In addition to the Government spending, its structure has an important impact on macroeconomic and economic growth.

<sup>10</sup> The total deposit interest rate is calculated as 0% for time deposits.

As of 2021, by preliminary results, the total revenue of the General State Budget reached MNT 14.3 trillion, increased by MNT 3.8 trillion (36.5%) from the previous year, and the equilibrated revenue reached MNT 12.7 trillion, increased by MNT 3.2 trillion (34.1%) from the previous year.

Table 39. State budget approved and performance

(in billions of MNT)

Categories,	2022	2021	2021	2020
	Approved	Performance	Approved	Performance
<b>Total revenue</b>	<b>16,415.10</b>	<b>14,255.20</b>	<b>13,731.70</b>	<b>10,402.00</b>
Future heritage fund	643.4	937.9		914.1
Stabilization fund	0	627.9		66.2
<b>Equilibrated revenue</b>	<b>15,771.70</b>	<b>12,689.40</b>	<b>12,056.50</b>	<b>9,421.60</b>
Tax revenue	13,941.30	11,262.80		8,501.80
Non-tax revenue	1,830.40	1,426.60		919.9
<b>Total expenditure</b>	<b>18,158.80</b>	<b>15,598.10</b>	<b>15,748.30</b>	<b>13,960.80</b>
Current expenditure	13,307.30	12,754.40		10,871.60
Capital expenditure	5,116.10	3,047.00		3,051.70
Net credit	-264.6		-351.1	37.6
<b>Total equilibrated balance</b>	<b>-2,387.10</b>	<b>-3,691.80</b>	<b>-2,908.80</b>	<b>-4,539.10</b>

Source: The Ministry of Finance

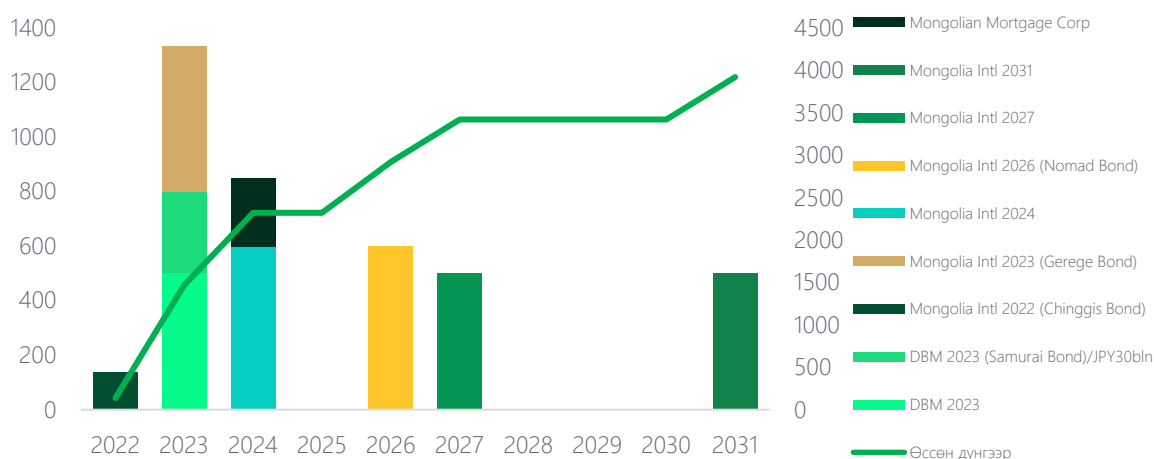
The Budget Framework Statement of the General Budget of Mongolia for 2022 and the Budget Assumptions Law for 2023-2024 envisage that the state budget deficit in 2022 will not exceed 5.1% of GDP, and in 2022 and 2023 it will not exceed 3.6% and 2.8%, respectively.

### Foreign debt

According to the preliminary results of the fourth quarter of 2021, Mongolia's total external debt reached USD 33.19 billion, increasing by USD 828.7 million or 2.56% compared to the same period of the previous year. The Government's external debt decreased by USD 171 million to USD 8.48 billion, the Bank of Mongolia's external debt increased by USD 340 million to USD 2.56 billion, non-deposit sectors' external debt decreased by USD 208 million to USD 8.22 billion, depository organization's external debt increased by USD 0.4 million to USD 1.65 billion, and direct investment or intercompany lending increased by USD 866.9 million to USD 12.27 billion.

The Government of Mongolia has successfully refinanced the USD 799 million Chinggis bond, which was due in 2022 and the USD 800 million Gerege bond that was due in 2023 under the "Century" project. Specifically, the Government successfully issued 6-year, USD 500 million bond at 3.5% interest, , and 10-year, USD 500 million bond at 4.4% interest, , effectively reducing the Government's upcoming external debt pressure by USD 1 billion in 2022 and 2023. Moreover, USD 45.6 million was saved on the interest expenses of these bonds. This is an important milestone in reducing external debt pressures over the next two years, as well as lowering short-term fiscal risk and increasing liquidity. These events underline the high level of confidence of foreign investors in the stability of the Government and the economy of our country.

Figure 16. Bond principal payment timeline



Source: Bloomberg

The outstanding foreign debt due in 2022 stands at USD 137 million, the remaining balance of the Chinggis bond, which reduces the pressure on the Bank of Mongolia's official Foreign Exchange Reserves. In 2023, the highest amount of debt of the next 10 years is due to be repaid. Those are USD 533 million Gerege bond principal payment, a CNY 15 billion swap agreement between the Bank of Mongolia and the People's Bank of China, and JPY 30 billion and USD 500 million principal payment of the Development Bank of Mongolia's Samurai bond. Although the amount of scheduled liabilities to be repaid in 2023 is high, the amount of external liabilities to be repaid in 2022 remains low, presenting an environment conducive to increased Foreign Exchange Reserves, which reached a record high in 2021. In addition, the Oyu Tolgoi underground mine is expected to be operational in the first quarter of 2023 and to reach full capacity in the first half of 2023, which will have a positive impact on the balance of payments.

#### 2.1.1.2. The Government and regulatory initiatives

In 2020, the global economy shrank by 3.4 percent due to the COVID-19 pandemic. Mongolia's economy contracted by 4.6 percent, and recovered in 2021 with a growth of 1.4 percent by the end of the year. The Government continues to implement fiscal and monetary policy measures aimed at overcoming the effects of the pandemic, supporting economic recovery, and promoting inclusive growth.

Fiscal policy measures implemented by the Government of Mongolia

- The Law on Prevention, Combat and Mitigation of Social and Economic Impacts of Coronavirus Pandemic was first passed on April 29, 2020, and amended by the Parliament of Mongolia on January 31<sup>st</sup> of 2022, extending the effective period of the law for the fourth time until December 31<sup>st</sup>, 2022. Pandemic-related preferential regulatory measures have also been extended with the extension of the law.
- The "National Strategy for Reducing Interest Rates 2018-2023" was approved in 2018 and specific objectives were set. The three main objectives are: 1) creating a stable macroeconomic environment, 2) improving transmission effect of monetary policy interest rate shifts, and 3) improving the Banks' governance, risk management capacity and profitability.
- According to the Amendments of the COVID-19 Law on January 29, 2021, during the effective term of the law, interest is not accrued on banks' demand deposits and current accounts.
- Welfare policies such as "Paid mother" and "Children savings" implemented during the pandemic will be gradually continued in the form of retained fund management and within the framework of the

"Children savings" program, it is planned to retain 50 percent of the child allowance from July 1, 2022, 60 percent from 2023, and 70 percent from 2024.

- On February 17, 2021, the Government approved the "MNT 10 trillion comprehensive plan for Health Protection and Economic recovery". The plan calls for the Government to provide preferential financing to companies that have stalled or stagnated due to the COVID-19 pandemic, in order to save jobs, revive major projects and programs of strategic importance, to support the construction sector and to increase access to housing loans, as well as to free up bank's excess liquidity into economic circulation.

Table 40. Government's "Comprehensive plan of MNT 10 trillion to protect citizens' health and recover the economy"

Total funding amount /MNT/	Program
<p>"Employment support loan "</p> <p>MNT 2 trillion (+MNT 1 trillion expected to be provided)</p> <p>funded from banks' excess liquidity with credit guarantee scheme</p>	<p>In order to support and maintain jobs for SMEs and service providers, loans up to MNT 500 million, with 3% per annum interest rate for the borrower, 6% per annum the Government subsidy for a total period of 3 years will be provided. Up to 60% of the total loan may be backed with Credit Guarantee Fund guarantee, with grace period of up to 1 year.</p> <p>Loans to individuals can be up to MNT 50 million, and principal payments can be deferred for up to one year. The loan will be disbursed from the bank's own resources, with 3% of the loan will be from the borrower and 7% from the Government in the form of a subsidy.</p>
<p>"Youth employment support program"</p> <p>MNT 500 billion</p>	<p>To implement a plan to support youth employment with financing of MNT 500 billion. Within the scope of the program, youth will be engaged in two-month training on scholarship that equips them with the required knowledge and skills needed in implementing large-scale projects. Following the training, the participants will receive a certificate alongside priority job placement at entities implementing large-scale projects.</p>
<p>"Mortgage loan"</p> <p>MNT 3 billion</p>	<p>To implement housing program. MNT 3 trillion will be spent on providing land slots for building "Youth I, II, III" apartment complexes in Ulaanbaatar city in the first turn, develop their infrastructures, building the apartments under a uniform blueprint and providing soft mortgage loans. Taking into account the medium-term demand for soft mortgage loans, the 6.0 percent mortgage loan funding will be increased to MNT 1.0 trillion per year enabling inclusion of 14,000 households in the program.</p>
<p>"Financing priority projects and programs"</p> <p>MNT 2 trillion</p>	<p>To implement major scale projects and programs of strategic importance.</p>
<p>"Supporting herders"</p> <p>MNT 200 billion</p>	<p>Individual loan size of up to MNT 50 million, 3% p.a. loan with of 3 years to provide financial support to herders.</p>
<p>"Supporting cashmere production"</p> <p>MNT 200 billion</p>	<p>To support cashmere processing, provide soft loans to enterprises with 3% p.a. 12-month with grace period of up to 6 months.</p>
<p>"Supporting agricultural production"</p> <p>MNT 100 billion</p>	<p>Loan to support agricultural businesses for sustainable operation working capital with 12 month term with up to 6 months grace period and interest rate of 3%</p>
<p>"Repo financing"</p> <p>MNT 2 trillion</p>	<p>To increase the Bank of Mongolia repo financing funds from annual MNT 1 trillion to MNT 2 trillion . Therein, it was reflected to increase the individual loan size to SMEs from MNT 300 million to MNT 500 million, as well as to increase the individual loan size to non-mining export product manufacturers from MNT 1 billion to MNT 3 billion.</p>



### The implementation of the Comprehensive MNT 10 billion plan

As of the end of 2021, 7,883 businesses and 54,830 individuals have been provided with soft loans. 144,000 jobs were saved in businesses partaking in the repo-financing loans for supporting the jobs, and 171,000 jobs were saved in businesses operating in the construction sector as result of indirect effect of the mortgage loan program. Within the scope of the comprehensive plan, 25,400 businesses, business owners and individuals received employment support loans funded by banks, with the Government providing interest subsidy of up to 7 percent p.a. on these loans. In this context, as of December 2021, a total of MNT 64.7 billion was provided in form of interest subsidies.

#### Action Plan of the Government of Mongolia for 2020-2024

- Within the framework of the “E-Mongolia” public prompt service policy, the new version of the “E-Mongolia” electronic system of public services, the “E-Mongolia II” version, will be released and the updated version will include 5 new functions. This version advantageous as it includes 10-12 documents such as ID card, driver's license, and social insurance book in the E-Mongolia system, offering services that are suitable for citizens using artificial intelligence. The digitalization of public services will have a positive impact on documentation, customer identification, and easier and remote delivery of products and services to customers.
- The Urban Redevelopment Project will increase the supply of housing, reconstruct ger areas, intensify the construction of green apartments and new residential areas, reduce air pollution in Ulaanbaatar to 80 percent, and gradually address air pollution in other major cities and towns. The Government's policy to continue the mortgage loan program, reduce interest rates, and increase loan financing is boosting citizen's interest in mortgages. In addition, Khan Bank offers green loan products and services for environmentally friendly business and eco-consumption to its customers within the framework of its social responsibility and sustainable development policy.

### Oyu Tolgoi/ Rio Tinto

On December 16, 2020, Rio Tinto announced that the cost of developing an underground mine would increase by USD 1.45 billion and that the start of sustainable production would be delayed until October 2022. Rio Tinto explained that the significant increase in costs and delays were due to soil conditions or geotechnical estates.

The Government's working group requested for an independent agency review to assess how the underground mine was developed in the past, and what caused the delays and cost overruns. According to the independent review result, this situation was not caused by the geological issues, but in fact, by mismanagement.

The Government has reached an agreement with Rio Tinto to address this issue. On December 30, 2021, the State Great Hural (Parliament) approved a resolution on “Measures to be Taken to ensure benefits to Mongolia from the Oyu Tolgoi gold-copper mine”. The resolution states the following objectives:

1. To write off Mongolia's USD 2.3 billion-debt for its share (34 percent) in the Oyu Tolgoi copper-gold project.
2. To terminate the Oyu Tolgoi Underground Mine Development and Financing Plan, known as ‘Dubai Agreement’ and conduct an independent audit into the financing of the project's underground expansion;
3. The costs required until the first half of 2023, when the underground mine is commissioned, shall be covered by the investors, not incurring additional debts to Erdenes Oyu Tolgoi LLC;



4. To supply electricity for Oyu Tolgoi project from the energy grid of Mongolia
5. To ensure the implementation of tax acts

On January 25, 2022, the parties signed the “Confirmation for debt forbearance and current outstanding balance” and the first blast of the Oyu Tolgoi underground mine was carried out successfully.

#### Monetary Policy measures implemented by the Bank of Mongolia:

The Bank of Mongolia continues to take the necessary measures to reduce the adverse impact of the COVID-19 pandemic on the banking and financial sector in line with international experience, banking and related legislation. Within the framework of the “Monetary Policy Guidelines”, the following measures are being taken to ensure the implementation of the Pandemic Law and to reduce the negative impact of the pandemic on the banking and financial sector.

- The Monetary Policy Committee of the Bank of Mongolia started lowering the policy rate gradually in March 2020, and in November 2020 reduced it to its historical low of 6 percent. However, inflation has risen sharply since the first half of 2021 due to supply disruptions and rising money supply, prompting the Central bank to convene an irregular monetary policy meeting in January 2022 to raise policy rate to 6.5% and regular monetary policy meeting in March 2022 to increase to 9% again.
- The Pandemic Law has again decreed to defer the payment of principal and interest on the Government-subsidized mortgage loan until June 30, 2022, with no interest accrued. Since the beginning of 2020, it has been decided to postpone the repayment three times. As of the end of November 2021, the repayment of MNT 3.1 trillion mortgage loans of 152,078 thousand households have been so deferred. In addition, the Bank of Mongolia and commercial banks provided MNT 935.9 billion in loans to 12.4 thousand households under the mortgage program.
- The repayment period of the deferred consumer loan was extended by up to 12 months, regardless of the debt-to-income ratio and time limits, and the implementation period of the restructuring arrangement was extended until July 1, 2021. Banks restructured the term of consumer loans worth MNT 1.2 trillion attributable to 146.7 thousand borrowers.
- It has been decided to partially extend the preferential temporary regulation of the “The regulation on asset classification and provisioning and its disbursement” until April 1, 2022 according to the predetermined schedule. This leaves banks with the opportunity to change the terms of borrowers' repayments, and to decide for themselves whether to classify faulty loans and to not temporarily deter the credit history. The overdue days for downgrading loan quality category (90 days) have been changed to 75 days from August 2021, 60 days from October 2021, 45 days from December 2021, 30 days starting February 2022, and 15 days starting April 2022 and will gradually shift to normal mode.
- In March and November 2020, the required reserve ratio of MNT was reduced by 4.5 percentage points to 6 percent. This not only supports the bank's liquidity, but also increases the credit funding and has a positive effect on financial intermediation. In order to reduce dollarization, the required foreign exchange reserve ratio was increased by 6 percentage points from 12 percent to 18 percent in December 2019 and December 2021. At the irregular Monetary Policy Meeting in January 2021, the Central bank responded to hiking inflation by raising the required reserve ratio of MNT by 2 percentage points to 8 percent.
- In order to support bank lending, the timeframe for the establishment of capital reserve instruments in the banking system, or the timeframe for the establishment of a capital buffer to protect the bank's risk tolerance, has been changed and postponed to 2022.01.01 (1 percent) and 2022.07.01.



- A total of MNT 1 trillion 55 billion was disbursed to commercial banks through long-term repo financing, of which MNT 796 billion was disbursed to 3,291 businesses with 36,357 employees and individuals as of the end of November 2021.

When providing loans under these measures, banks maintain lending requirements and make independent decisions on whether to grant loans, which prevents medium- and long-term risk accumulation in the financial sector. Deferred loan repayments may reduce the interest of a borrower with a good history to repay the loan, creating a moral hazard, but the bank's decision to restructure the loan independently is reducing this risk.

### 2.1.1.3. Credit rating of Mongolia

Mongolia is rated by top three international credit rating agencies, namely Moody's Investor Services, Fitch Ratings (Fitch) and S&P Global Ratings (S&P).

Moody's has changed the outlook on the Government of Mongolia's issuer ratings to "stable" from "negative" and affirmed the long term "B3" issuer rating on March 16th, 2021. Fitch Ratings has affirmed Mongolia's long-term foreign-currency issuer default rating at "B" with a stable outlook on 25 May 2021 and S&P Global Ratings announced on July 29, 2021 that it has maintained Mongolia's credit rating at "B" and the outlook at "stable".

Table 41. Credit rating of Mongolia

Rating agency	Moody's	Fitch	S&P
Credit rating*	B3	B	B
Outlook	Stable	Stable	Stable

Source: [www.moody's.com](http://www.moody's.com), [www.fitchratings.com](http://www.fitchratings.com), S&P report

\* Fitch and S&P's "B" ratings are one level higher than Moody's' B3 rating.

Moody's highlighted in its credit rating report dated October 25 2021 that its "B3" rating incorporates Mongolia's highly concentrated economic structure, strong economic growth potential in the medium term supported by its vast natural resources and strong export revenue thereof. It further stated that private sector consumption growth has dampened since 2020 due to COVID-19 pandemic; however, the elevated prices of coal and copper, the key export commodities, and strong Chinese demand for commodities is projected to positively impact the overall economic output. Moody's expected Mongolia's real GDP to grow by 7.0% in 2022. The stable outlook reflected stabilizing liquidity and external risks for the foreseeable future following the recent refinancing of maturing external debt repayments due over 2021-2023 supports both liquidity and external positions in the near term, but are partly offset by wider fiscal balances.

S&P highlighted in its rating report dated July 29, 2021 that even though Mongolia's economy shrank in 2020 due to the negative impact of the pandemic, it is expected to recover in the coming years and the growth is expected to reach 7 percent in 2022 thanks to the global economic recovery and rising mineral prices in the international market. Economic outlook in the medium term will be relatively favorable due to foreign direct investment in the mining sector. Furthermore, it was highlighted that the fact that Mongolia successfully extended the CNY 15 billion swap agreement with the People's Bank of China until 2023 and refinanced some its long term debts with relatively attractive concessional foreign financing has reduced the pressure on its foreign exchange reserves.

Fitch highlighted in its credit rating report dated May 25, 2021 that Mongolia's "B" rating incorporates its narrow economic base, vulnerability to external shocks and recurring bouts of political volatility. The stable outlook reflected Fitch's assessment that the economic recovery will continue during the remainder of 2021

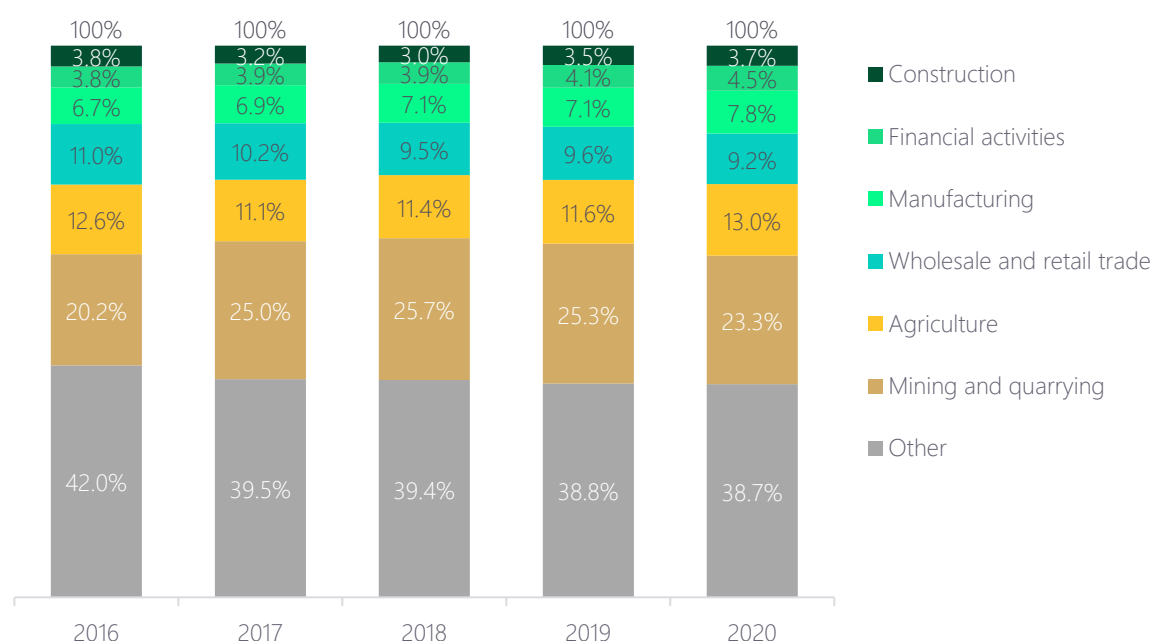
and facilitate a modest decline in the Government debt/GDP ratio, despite temporary economic disruptions associated with a spike in Covid-19 cases since March 2021.

## 2.1.2. The financial sector overview

### 2.1.2.1. The financial sector composition

The Financial sector in Mongolia consists of 11 commercial banks, 534 non-banking financial institutions (NBFIs), 209 credit unions, 15 insurance companies, 58 insurance intermediaries, 314 joint stock companies, 53 securities corporations<sup>11</sup> and 2 stock exchanges operating, as of December 31, 2021.

Figure 17. Share of financial sector in nominal GDP



Source: NSO, Nominal GDP by production approach, by division (sector)

As of December 31, 2021, total assets of financial sector amounted to MNT 50.3 trillion, representing a CAGR of 12.5 percent, from 2016 to 2021. Total assets of financial sector composition is banking sector 81.3 percent, capital market 11.9 percent (by market price), NBFIs 5.4 percent, insurance companies 0.8 percent and credit unions 0.6 percent, respectively.

Table 42. Financial sector composition by total asset (in billion MNT), and share in total market

Sector indicator	2021		2020		2019		2018		2017		2016		CAGR 2016-2021
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
Banking sector	41,012	81.3	36,685	86.6	35,859	87.7	33,053	88.4	28,773	88.3	25,338	90.7	10.1
Capital market	5,983	11.9	3,030	7.2	2,693	6.6	2,512	6.7	2,440	7.5	1,474	5.3	32.3
NBFIs	2,710	5.4	2,007	4.7	1,739	4.2	1,285	3.4	969	3.0	787	2.8	28.1
Insurance	425	0.8	382	0.9	366	0.9	332	0.9	245	0.8	209	0.7	15.3
Credit unions	291	0.6	256	0.6	223	0.5	200	0.5	153	0.5	113	0.4	20.8

<sup>11</sup> Securities corporations include brokers, dealers, underwriters and investment advisor companies.

Total	50,421	100.0	42,360	100.0	40,880	100.0	37,382	100.0%	32,580	100.0%	27,921	100.0	12.5
-------	--------	-------	--------	-------	--------	-------	--------	--------	--------	--------	--------	-------	------

Source: NSO, FRC, Bank of Mongolia

### 2.1.2.2. The banking sector

Banking sector has been performing at sustainable growth rate in the last decade. As of December 31, 2021, eleven commercial banks are operating in the market, and total asset of the banking sector amounted to MNT 41.0 trillion, grew at a CAGR of 10.1 percent, from 2016 to 2021, primarily driven by top banks.

From 2016 to 2021, total loans and customer deposits of banking system grew at a CAGR of 10.9 percent and 18.6 percent, respectively. As of December 31, 2021, in the banking system, total equity amounted to MNT 3.4 trillion, grew at a CAGR of 3.1 percent and net profit after tax performed to MNT 542.0 billion of record high level. Non-performing loan ratio stands are 10.0 percent with expectation to decline in 2021.

Table 43. Key indicators of banking system (in billions of MNT)

	2021	2020	2019	2018	2017	2016	CAGR 2016- 2021
<b>Total assets</b>	<b>41,012</b>	<b>36,685</b>	<b>35,859</b>	<b>33,053</b>	<b>28,773</b>	<b>25,338</b>	<b>10.1%</b>
Loans	21,205	17,476	18,323	17,482	13,658	12,486	11.2%
Customer deposits	25,685	22,434	18,833	17,511	13,488	10,924	18.6%
Equity	3,425	3,059	3,031	3,260	3,150	2,936	3.1%
NPAT	542	265	33	-97	249	176	25.2%
NPL ratio (%)	10.0%	11.8%	10.1%	10.4%	8.5%	8.5%	-

Source: Bank of Mongolia, Banking system balance sheet, (Including the bankrupted banks)

### 2.1.2.3. The non-banking financial sector

#### Non-banking financial institutions (NBFIs)

As of December 31, 2021, total assets of non-banking financial sectors in Mongolia accounted for 18.7 percent of the financial sector. Total assets of NBFIs amounted to MNT 2.7 trillion, representing a CAGR of 28.0 percent, capital market valuation amounted to MNT 6.0 trillion, representing a CAGR of 32.3 percent, total assets of credit unions amounted to MNT 291.2 billion, representing a CAGR of 20.8 percent, from 2016 to 2021. In terms of NBFIs, the NPAT equaled for 38.7 percent of total NPAT of commercial banks.

The table below sets forth the key indicators of NBFIs, capital market and credit unions in the non-banking financial sector.<sup>12</sup>

Table 44. Key indicators of NBFIs, 2016-2021

Year	NBFIs	Total assets, (in millions of MNT)	Borrowers	Total loans	WAIR on MNT loans	NPL ratio	Deposits
2016	518	787,172	66,449	478,175	4.00%	12.4%	30,461
2017	534	969,179	107,442	638,008	3.40%	12.7%	39,218
2018	539	1,284,897	234,080	869,222	3.20%	9.5%	57,607
2019	538	1,730,134	419,854	1,233,124	3.00%	8.5%	108,275

<sup>12</sup> C3X, YCX

2020	532	2,006,891	788,058	1,327,029	2.80%	10.3%	146,892
2021	534	2,709,950	1,678,139	2,012,000	2.90%	7.0%	179,091

Source: FRC

### Capital market

In 2021, total number of accounts at Central Securities Depository stood at 2,463,052, grew by 1,492,643 or 60.6 percent from 2018 to 2020. At the end of the 2021, market valuation accounted at MNT5.98 trillion, grew by MNT2.9 trillion or 97.6 percent from last year, which shows a sharp growth of the market. The increase was mainly due to APU JSC's market valuation reaching MNT 1.9 trillion, IPOs from Central Express CVS and Bogd Bank, and growth of TOP20 index, MSE A and MSE B indices. In addition, trading volume increased by 21.6 times to MNT1.4 trillion, indicating that Mongolian capital market is getting into more active stirring into action.

Table 45. Key indicators of capital market, 2016-2021

Year	JSCs	Accounts created at central depository	Market value, (in billions of MNT)	Securities transaction amount (in billions of MNT)
2016	302	886,572	1,474.2	348.7
2017	300	906,116	2,440.2	860.8
2018	305	1,304,371	2,511.8	245.5
2019	306	1,809,943	2,693.1	143.6
2020	315	2,385,822	3,029.7	65.4
2021	314	2,463,052	5,982.9	1,414.2

Source: FRC, NSO

### Credit unions

As of December 31, 2021, number of licensed Credit unions stood at 209, shrunk by 16 percent or 40. In 2021, members of credit union accounted at 75,400, grew by 4.0 percent and total assets amounted to MNT291.2 billion, grew by 13.8 percent.

Table 46. Key indicators of credit unions, 2016-2021

Year	Credit unions	Total assets, (in millions of MNT)	Members	Total loans	WAIR on MNT loans	NPL ratio	Deposits
2016	280	113,132	46,183	84,442	2.90%	5.5%	68,149
2017	290	153,127	55,624	105,196	2.90%	4.2%	99,349
2018	279	200,211	62,193	133,764	2.90%	4.5%	141,544
2019	261	222,617	70,968	156,687	3.40%	3.9%	155,803
2020	249	255,975	72,561	167,573	3.00%	4.4%	182,184
2021	209	291,197	75,400	213,421	2.46%	3.9%	203,585

Source: FRC

## FinTech companies

As Fintech market expands, a total of 28 Fintech NBFIs are operating in the market at the end of 2021. Fintech companies account for 92.1 percent or 1,349,116 borrowers of total NBFIs.<sup>13</sup>

### *Leading FinTech companies in the market:*

---

"Ard Credit NBFI" public company provides e-commerce, insurance, savings, securities, online loan and money transfer services via its mobile application based on AI and blockchain technology. In 2020, Ard credit issued IPO of 25% or 70 million shares of its company, and it raised MNT 2.5 billion from strategic investors and 1,763 individuals and entities ordered MNT 7.3 billion in the primary market, exceeding the initial forecast by 299%.

---

"LendMN NBFI" public company is the first FinTech company offering unsecured online loans via mobile application based on AI. The company was awarded as "Best Digital Service Company of Mongolia 2019" by "AsiaMoney" and "Best FinTech Company 2020" by "Global Banking & Finance Review".

---

"Mobi Finance NBFI" LLC introduced "Message loan" for the first time in the market. The brand "Monpay" provides money transfer, micro loan, payment, e-commerce, ticket purchase, delivery, top-up, coupon and other benefits.

---

The Bank of Mongolia implemented consumer loan restriction policy for the commercial banks in order to ensure banking sector sustainability and reduce debt burden of the customers. As a result, the banks tightened their credit criteria leading to decline in consumer loan borrowers and increased demand for NBFIs and pawn shops with high interest rates. Main reasons for sharp increase in number of borrowers from NBFIs and FinTech companies are lower criteria and faster response based on technology.

By introducing FinTech-based loan products to the banks, it could reduce operational and personnel costs and improve efficiency while delivering low interest and fast service to customers. Market share of fintech companies internationally has increased exponentially following the global financial crisis. Mature legal and regulatory environment plays crucial role in mitigating risk when implementing financial technology to banks.

## Crypto market

Cryptocurrencies and virtual assets (VA), a new phenomenon in the global financial markets, have been spreading rapidly among Mongolian financial consumers in 2021. At the end of 2021, the number of virtual asset service providers (VASP) has exceeded 40, of which the number of service recipients has reached 800.0 thousand according to unofficial sources.

The Parliament has approved law on "Virtual Asset Service Provider" on December 17, 2021, and initial regulation effort is taking place in this market. The highlights of the law are as follows: establish registration and control on VASP by Financial Regulatory Commission, licensing of VASPs. Additionally, the issuer of any cryptocurrency (coin or token) is required to offer the virtual asset through VASP. The law is expected to come into effect upon enactment of 8 relevant procedures to be co-developed by FRC and relevant authority.

The Financial Action Task Force (FATF) adopted the risk of an emerging market and amended the FATF Recommendation 15, which requires that countries should establish regulation and supervision or monitoring of VA activities and VASPs. New technologies, products, and related services have the potential to spur financial innovation and efficiency and improve financial inclusion, but they also create new opportunities for

---

<sup>13</sup> <http://www.frc.mn/>



criminals and terrorists to launder their proceeds or finance their illicit activities and is considered as a high-risk financial instrument.

## 2.1.3. Macroeconomic policy measures, and its impact on banking sector

### 2.1.3.1. Macroeconomic policy

In November 2019, the first COVID-19 virus was first reported<sup>14</sup> and since then, on March 11, 2020, the World Health Organization has identified it as a pandemic-scale virus.

The Bank of Mongolia supported the economy through the use of traditional and non-traditional monetary policy instruments to counter the effects of the pandemic on the economy. On March 12, 2020, the Monetary Policy Committee of the Bank of Mongolia lowered the policy rate from 11.0 percent by 1.0 percentage points and subsequently throughout 2020, the policy rate was gradually lowered three times to a record low of 6 percent. In 2020, the policy rate was reduced by a total of 5 percentage points, the largest percentage reduction since the policy rate went into effect. In addition, the Bank of Mongolia has gradually reduced the required reserve ratio for MNT from 11.0 percent to 6.0 percent in order to stimulate cash flow in the economy. At the plenary session of the Monetary Policy Committee of the Bank of Mongolia on January 28, 2022, taking into account factors such as the economic situation and the inflation outlook, it was decided to increase the policy rate to 6.5 percent and the reserve requirement of MNT to 8 percent. Monetary Policy Committee of the Bank of Mongolia on March 23, 24 of 2022, increased policy rate by 2.5 percentage to 9% as result of discussion on macroeconomic condition, current status of banking and financial sector and foreign and domestic environment at its plenary session.

The Bank of Mongolia will continue the long-term repo financing and mortgage program loans to support small and medium enterprises and service providers.

Figure 18. Bank of Mongolia's interest rates

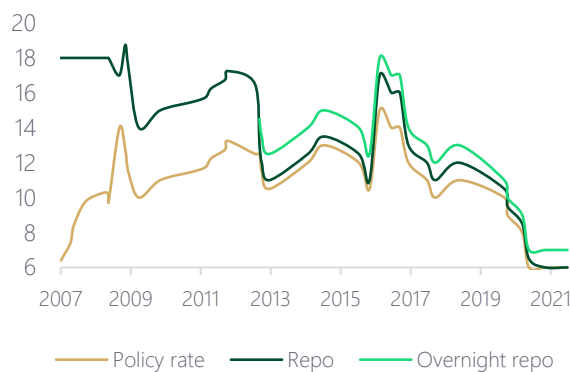
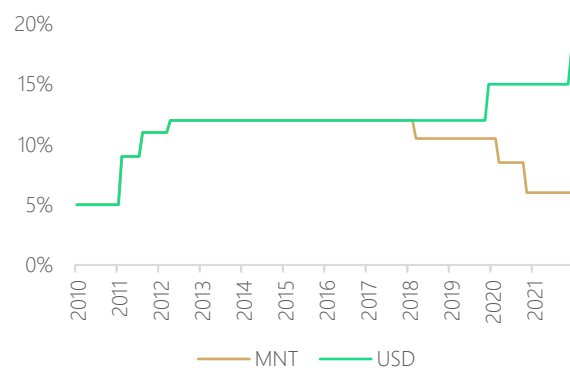


Figure 19. Required reserve amount



Source: Bank of Mongolia

The Government of Mongolia has begun to take measures to reduce the spread and impact of the COVID-19 virus earlier than in other countries. For instance:

- Approved the resolution "On Some Measures to be Taken for New Coronavirus Risk Prevention"<sup>15</sup> on January 26, 2020;
- Approved the "Comprehensive plan of MNT 10 trillion of Health Protection and Economic Recovery" on February 17, 2021.

<sup>14</sup> <https://time.com/5791661/who-coronavirus-pandemic-declaration/>

<sup>15</sup> <https://legalinfo.mn/mn/detail/15030>



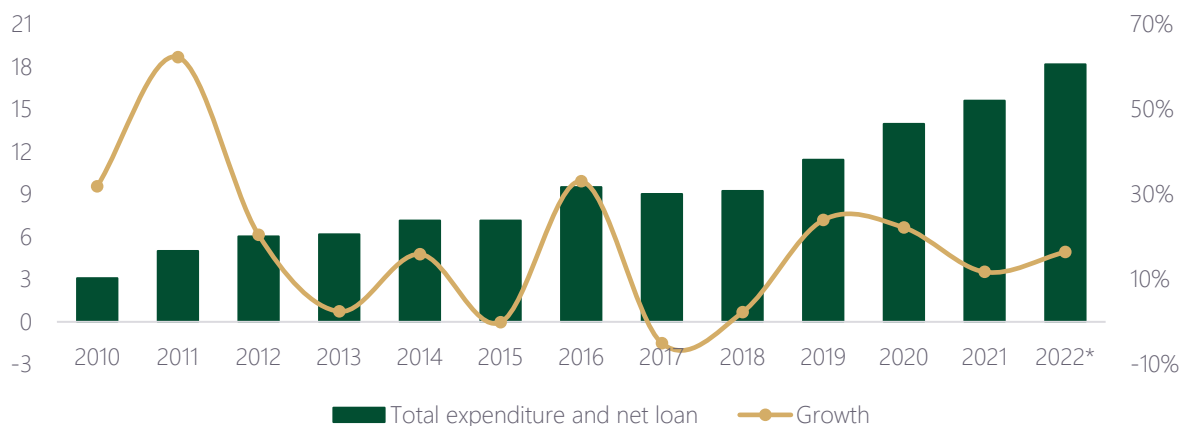
On November 13, 2020, at the plenary session of the State Great Hural (Parliament) the draft Laws on the 2021 State Budget, the 2021 Budget for the Social Insurance Fund, and the 2022 Budget for the Future Heritage Fund were passed.

The State Great Hural approved the total equilibrated revenue of MNT 11.7 trillion or 27.9 percent of GDP, total expenditure of MNT 13.9 trillion or 33.0 percent of GDP, and a deficit of MNT 2.1 trillion or 5.1 percent of GDP. In addition, in the fiscal year of 2021, a project has been developed to accumulate MNT 1 trillion 180.1 billion in the Future Heritage Fund and MNT 156.0 billion in the Stabilization Fund.

However, as scale and duration of the pandemic was wider and longer than expected, on June 30, 2021, the Government submitted "Amendment to the State Budget 2021". On July 7, 2021, the State Great Hural (Parliament) finally approved the draft amendments to the 2021 Budget Law and the 2021 Budget Law of the Social Insurance Fund.

The 2021 Budget amendment states that the total budget revenue will be increased by MNT 597.7 billion to MNT 13,731.7 billion, the total budget expenditure will be increased by MNT 1,796.7 billion to MNT 15,748.3 billion, and the budget balance will be MNT -3,691.8 billion or -8.8 percent of GDP.

Figure 20. Budget expenditure and net lending increase



Source: NSO

If we look at the total increase in state budget expenditures and net lending by MNT 2-3 trillion annually over the last four years, it is clear that the Parliament and the Government are implementing an expansionary fiscal policy during the pandemic. Although the economy will recover in the short term as a result of the fiscal expansionary policy, economic activity will decline in the long run.

As a result of the Government's and the Bank of Mongolia's fiscal and monetary policies, the total loan portfolio in the banking system increased by 21.3 percent to MNT 20.7 trillion in 2021, while the money supply increased by 15.0 percent to MNT 27.9 trillion. Khan Bank's total assets increased by 11.7 percent to MNT 13.6 trillion from the previous year, while total liabilities increased by 11.9 percent to MNT 12.2 trillion.

On April 29, 2020, the State Great Hural (Parliament) discussed and approved the Law on Prevention, Combat and Mitigation of Social and Economic Impacts of Coronavirus Pandemic. The law has been extended several times and was amended on January 29, 2021 and will expire on December 31, 2022. The Article 10.4 of the Law includes the following provisions.

"During the pandemic, interest is not accrued on demand deposits and current accounts, ordinary deposit interest is accrued on special term deposits, prohibition to make cash payment obligations and transactions

between citizens and legal entities in foreign currency with the permission of the Bank of Mongolia in accordance with Article 4.1 of the Law on Payments in National Currencies and except for Article 4.4<sup>16</sup>."

During the validity of the Law:

- 1) On April 29, 2020, with the passing of the Law, it was decreed not to accrue interest on current accounts. As of December 2021, the amount of time deposits in the banking system was MNT 3.66 trillion, or 10 percent of total liabilities. In March 2020, a month before the Law was passed, the weighted average interest rate (WAIR) on the system's MNT current account was 3.53 percent and the foreign currency current account's WAIR was 1.29 percent.
- 2) The law was amended on January 29, 2021. The amendment added a decision to not accrue interest on demand deposits. As of December 2021, the current account balance of the banking system was MNT 7.31 trillion or 20% of total liabilities. At the time of enactment of the Law, in January 2021, the WAIR of MNT demand deposits of commercial banks was 4.73 percent and the WAIR USD demand deposit rate was 1.09 percent. During the validity of the law, commercial banks' interest expense has decreased.
- 3) The Law states that ordinary term deposit interest rates will be accrued on special term deposits. Prior to the Law, commercial banks had an agreement with some customers to offer higher interest rates on long-term and high amount deposits.

The effects of this provision of the Law affects each bank differently, and saves interest expenses in varying degrees.

---

<sup>16</sup> <https://old.legalinfo.mn/law/details/15312>



## 2.2. Banking sector and legal environment of Mongolia

### 2.2.1. Banking sector information

#### 2.2.1.1. Banking sector/system

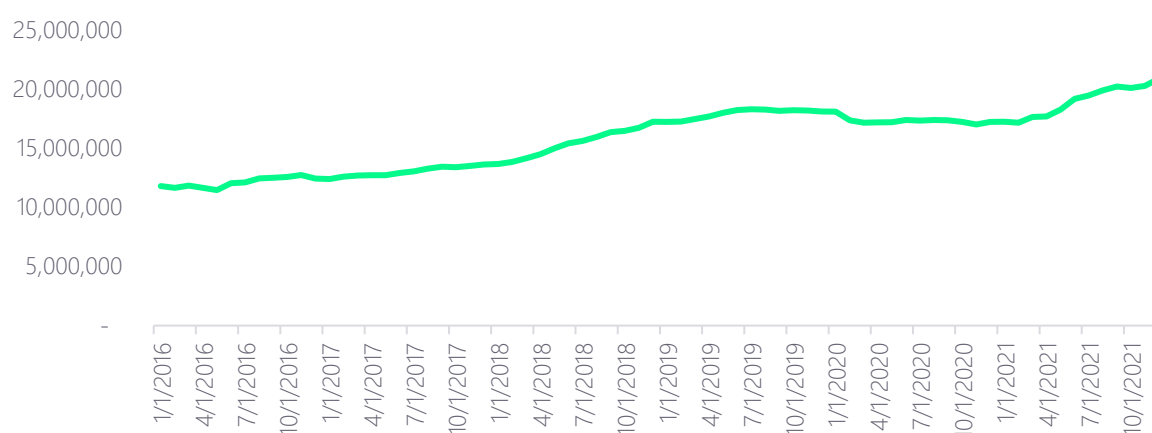
##### Loan

A total of 11 commercial banks operate in the banking sector of Mongolia, and as of December 2021, the total assets of commercial banks increased to MNT 40,935.6 billion causing the banking sector to account for 81.3% of the total financial sector.

Total loan in the banking system has increased by an average of 11.2% over the last five years, reaching MNT 20,861.7 billion at the end of 2021, an increase of MNT 3,760.7 billion (+22.0%) from the preceding year. In the beginning of 2020, consumer loan portfolio was declining, which is resultant from the fact that commercial banks slowed down consumer loan issuance due to COVID-19 related lockdown. During the pandemic, Monetary policy committee of the Bank of Mongolia decreased policy rate from 11% to 6% during the committee meetings in March, April, September and November 2020. Although, total loan portfolio of banking sector shrank by 4.6% in 2020.

In 2021, the Government of Mongolia has approved “A comprehensive plan of MNT 10 trillion for Health Protection and Economic Recovery” in its resolution no.42 dated 17 February 2021. The plan aims to support SMEs by issuing loans with interest of 3% p.a, as well as loans financed by long-term repurchase agreements. As a result, loan portfolio of the banking sector has increased in 2021.

Figure 21. Loans and advances to customers, banking sector

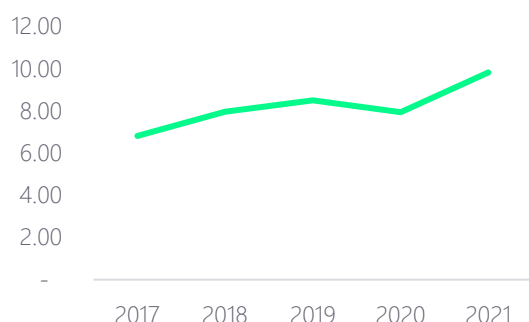


Source: NSO

Loans issued to individuals accounted for MNT 10,890.6 billion or 52.2% of total outstanding loans, while corporate loans accounted for MNT 9,971.0 billion or 47.8%.

In terms of the economic sector, loans issued for private sector reached to MNT 7.9 trillion in 2020, a decrease of 6.6% from previous year. Within the private sector, mining sector showed the biggest decline of 10.32%. In 2021, in connection to the comprehensive plan of MNT 10 trillion for Health Protection and Economic Recovery, business loan portfolio has grown, causing the total loan portfolio to private sector to increase by 23.79%. The biggest increase has observed in trading sector (45.14% increase). Next emerging sector in 2021 was mining sector (22.78% increase), where the portfolio increase was due to Gold-2 program, where substantial mining projects have received funding in 2021.

Figure 22. Loans and advances to private sector, in trillions of MNT



Source: NSO

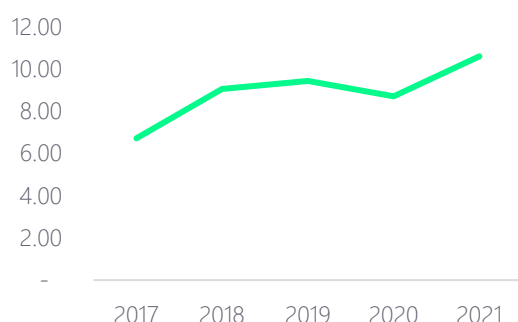
Figure 23. Loans and advances to private sector



Source: The Bank of Mongolia

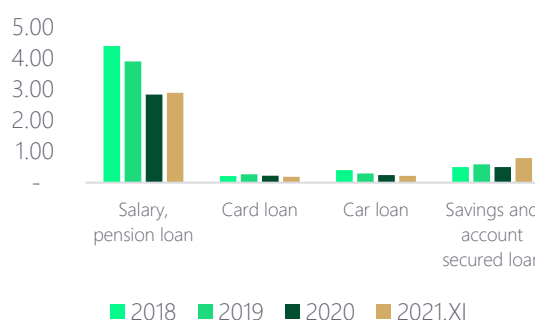
Loans and advances to retail customers has declined 7.7% in 2020, reaching MNT 8.7 trillion, resultant from macro prudential policy limitations on debt/income ratio. Since the second quarter of 2021, retail loans started to increase as result of comprehensive plan of MNT 10 trillion for Health Protection and Economic Recovery. In particular, loans to individuals reached MNT 10.6 trillion as at November 2021, an increase of 21.79%. The main increase was noted in deposit backed loans, an increase of 57.98%.

Figure 24. Loans and advances to individuals, in trillions of MNT



Source: NSO

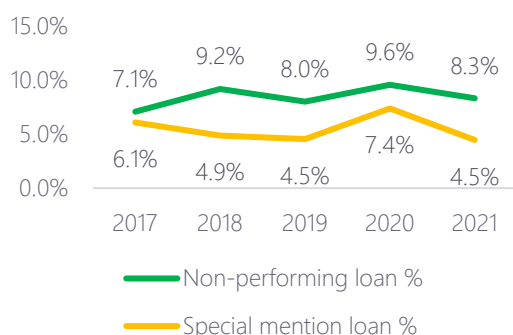
Figure 25. Loans and advances to individuals, by loan type



Source: The Bank of Mongolia

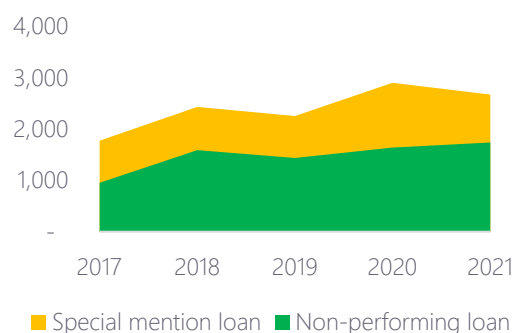
As of the end of 2021, past-due loans accounted for MNT 931.6 billion or 4.5% of total loans, a decrease of MNT 331.3 billion (-26.2%) from the end of the previous year.

Figure 26. Due past and non-performing loan percentage in total loans



Source: The Bank of Mongolia

Figure 27. Due past and non-performing loan outstanding amount (in billions of MNT)

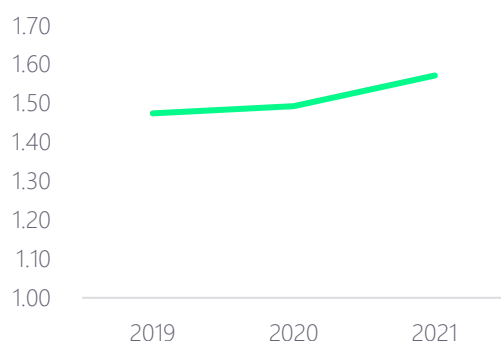


Source: The Bank of Mongolia

The non-performing loan portfolio reached MNT 1,737.5 billion, increased by MNT 100 billion (+6.1%) from the previous year. The share of non-performing loans reached its highest at the end of 2020, reaching 9.6%, later lowering to 8.3% following loan growth.

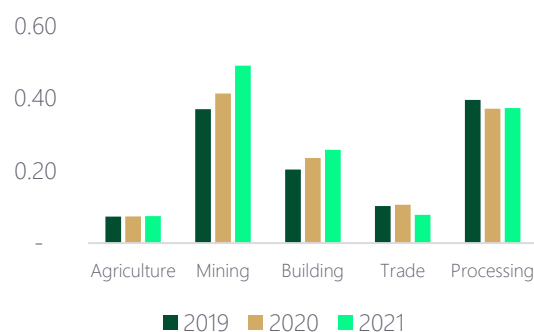
The non-performing loan portfolio in private sector reached MNT 1.16 trillion in 2020, an increase of 3.5% from the previous year, reached MNT 1.27 trillion in 2021, an increase of 9.1% from the previous year. The NPL increase in 2020 was mainly driven by mining and construction sectors, an increase of 11.71% and 15.68% respectively. In 2021, 1/3 of mining sector, 1/4 of manufacturing sector have been classified as non-performing loans. Whereas trading sector is performing relatively well, with NPL ratio of at 2.7%.

Figure 28. Private sector non-performing loans (in trillions of MNT)



Source: NSO

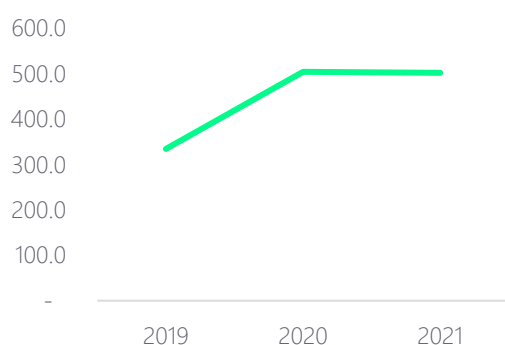
Figure 29. Private sector non-performing loan outstanding amount (in trillions of MNT)



Source: The Bank of Mongolia

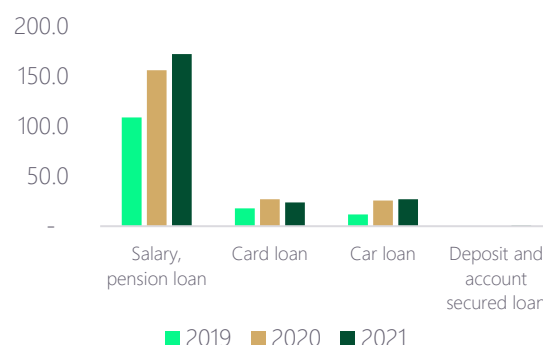
The non-performing loan portfolio to individuals reached MNT 0.5 trillion in 2020, an increase of 50.83% from the previous year, indicated the financial burden faced in 2020. In 2021, non-performing loan portfolio remained at MNT 0.5 trillion. Individual loan portfolio, particularly, consumer loan portfolio has negatively affected by the facts that average household income is not increasing and unemployment rate is increasing. In the past 2 years, NPL ratio has increased by 3.17% in case of salary and pension loans, 6.10% for credit card, and 8.35% for automobile leasing. NPL ratio will hugely be dependent on revival of economy and business activation in the coming years.

Figure 30. Consumer non-performing loan outstanding amount (in trillions of MNT)



Source: NSO

Figure 31. Consumer non-performing loan outstanding amount, by sector



Source: The Bank of Mongolia

### Total deposit

In 2021, the banking system's total liabilities increased by MNT 4,085.2 billion or 12.4% and reached MNT 36,922.9 billion. Of which, customers' current deposits increased by MNT 2,355.8 billion or 9.2% to MNT 28,018 billion. Current and deposit accounts are considered stable funding for the banking system, and its growth improves the sector's liquidity and ability to finance large projects and programs. Current and deposit accounts made up 69.6% of the total funding of the banking sector in 2021.

In 2020, foreign currency deposits increased by 37.1% and MNT deposits by 25.5%, while MNT current accounts increased by only 4.3% and foreign currency current accounts decreased by 16.8%, which shows the trend of shifting from current accounts to deposit accounts. This is due to stopping interests on current accounts in accordance with clause 10.4 of the Law on prevention and relief of COVID-19 pandemic, approved by the State Great Hural on April 29, 2020.

In 2021, foreign exchange deposits decreased by 14.2% and MNT deposits increased by 14.0% due to the change in the Law on non-compulsory insurance provided by the Law on Insurance for Bank Deposits, uncovering insurance on deposits denominated in foreign currency to keep the exchange rate stability. In the same year, foreign currency current accounts increased by 12.2% and MNT current accounts increased by 57.7%.

Figure 32. Current account outstanding amount (in trillions of MNT)



Source: NSO

Figure 33. Demand, time deposit outstanding amount (in trillions of MNT)



Source: NSO

### Total equity

Total equity of the banking system increased by MNT 263.3 billion (+7.0%) from the end of the previous year, reaching MNT 4,012.7 billion. Of which, retained earnings net increase grew by MNT 104.2 billion or 5.2%, reaching total of MNT 2,093.6 billion, and in accordance with the regulatory body's requirement of having the minimum share capital reach MNT 100 billion by 2021, commercial banks' share capital increased by MNT 281.0 billion (+21.3%).

Table 47. Banking sector quantitative indices from 2017-2021

Year	No. of banks	No. of branches	No. of employees	Total assets (in bln MNT)	Total loan portfolio (in bln MNT)	No. of lenders	Total deposits (in bln MNT)	Total equity (in bln MNT)	NPL %
2017	14	1,511	15,196	28,770	13,464	1,014,910	16,125	3,331	7.1%
2018	14	1,512	16,107	33,050	17,292	1,222,390	20,931	3,428	9.2%
2019	14	1,413	16,304	35,718	17,921	1,394,788	22,625	3,697	8.0%
2020	12	1,402	15,942	36,587	17,101	1,307,575	25,662	3,749	9.6%
2021	11	1,393	15,958	40,936	20,862	1,452,251	28,018	4,013	8.3%
Average annual growth		-1.4%	1.5%	10.1%	11.2%	10.3%	16.3%	5.24%	

Source: Bank of Mongolia report

### Digital channel

The total number of active cards in the banking system has increased by an average of 7.3% over the last 5 years, and in the third quarter of 2021, 2.1 million cards are being used in transactions. The number of ATMs and POS machines have increased by an average of 8.1% and 25.6%, respectively, over the past 5 years, and the number of online merchants has tripled from 2020 to the third quarter of 2021.

Table 48. Banking sector digital quantitative indices

	No. of cards	Our of which: Active cards	No. of ATM	No. of POS*	Online trading merchants
2017	3,844,630	1,716,229	2,031	32,837	-
2018	4,291,153	1,585,942	2,358	47,975	-
2019	3,748,025	1,899,509	3,321	64,911	773
2020	4,077,893	1,863,290	2,721	75,968	1,112
2021.09	4,326,473	2,091,215	2,806	84,254	3,393
Average annual growth	1.8%	7.3%	8.1%	25.6%	

Source: Bank of Mongolia report

\* Including POB device

### 2.2.1.2. Comparison between the systemically important banks

Per the criteria set by the Bank of Mongolia, Khan Bank, Trade and Development Bank, Golomt Bank, and the State Bank are considered as the systemically important banks, collectively accounting for 93.6% of the banking sector assets. The following tables show a comparison between these five banks' market shares. Market share wise, Khan Bank maintained its leading position at the end of 2020, far surpassing those of other systemically important banks.

Table 49. Market share comparison between the systemically important 5 banks

Main indicators (in billion MNT)		Increase 2021/2020	2021		2020		2019	
			Amount	%	Amount	%	Amount	%
Total assets	Khan Bank	11.2%	13,463	33.2%	12,111	33.2%	10,194	28.5%
	TDB	18.0%	9,576	23.4%	8,117	22.3%	7,803	21.8%
	Golomt Bank	8.6%	7,901	19.3%	7,278	19.7%	6,643	18.6%
	State Bank	9.1%	3,799	9.3%	3,482	9.5%	3,297	9.2%
	Xac Bank	7.1%	3,475	8.5%	3,244	8.8%	3,453	9.7%
Total loans	Khan Bank	32.9%	7,005	33.6%	5,270	30.8%	4,942	27.6%
	TDB	11.7%	4,660	22.3%	4,171	24.4%	3,662	20.4%
	Golomt Bank	10.9%	3,421	16.4%	3,085	18.0%	3,345	18.7%
	State Bank	28.3%	2,420	11.6%	1,886	11.0%	1,854	10.3%
	Xac Bank	33.1%	1,844	8.8%	1,385	8.1%	1,828	10.3%
Total deposits	Khan Bank	9.9%	10,028	35.8%	9,124	35.6%	7,014	31.0%
	TDB	12.8%	5,634	20.1%	4,993	19.5%	3,369	14.9%
	Golomt Bank	5.4%	5,335	19.0%	5,060	19.7%	4,813	21.3%
	State Bank	6.7%	2,846	10.2%	2,668	10.4%	2,563	11.3%
	Xac Bank	11.2%	2,252	8.0%	2,026	7.9%	1,843	8.1%
Equity	Khan Bank	4.5%	1,285	35.1%	1,229	33.3%	1,193	37.0%
	TDB	5.1%	1,069	26.7%	1,018	27.6%	728	22.6%
	Golomt Bank	-5.6%	596	14.9%	632	17.1%	463	14.4%
	State Bank	29.6%	393	9.8%	304	8.2%	267	8.3%



Xac Bank	33.0%	368	9.2%	277	7.5%	246	7.6%
----------	-------	-----	------	-----	------	-----	------

Source: Quarterly financial reports of commercial banks

\*The market share is calculated by comparing the unaudited financial performance of banks against the Bank of Mongolia's report on banking system.

Table 50. Systemically important TOP 5 banks' financial statements (in billions of MNT)

Statement of financial position	Khan Bank	TDB	Golomt Bank	State Bank	Xac Bank
<b>Assets</b>					
Cash and cash equivalents	5,336	3,142	3,535	1,017	505
Investments	912	958	495	385	1,007
Net loans and advances	6,589	4,531	3,262	2,251	1,787
Loan loss provision	(428)	(498)	(188)	(193)	(74)
Fixed assets	510	542	171	124	81
Derivative financial assets	27	101	187	1	52
Other assets	88	301	251	22	43
<b>Total assets</b>	<b>13,463</b>	<b>9,576</b>	<b>7,901</b>	<b>3,799</b>	<b>3,475</b>
<b>Liabilities</b>					
Customer accounts	10,028	5,634	5,335	2,846	2,252
Borrowed funds	1,225	2,069	1,509	269	631
Other funds	796	639	370	262	149
Other liabilities	130	165	90	29	74
<b>Total liabilities</b>	<b>12,179</b>	<b>8,506</b>	<b>7,305</b>	<b>3,406</b>	<b>3,107</b>
<b>Equity</b>					
Share capital	172	324	195	178	100
Share premium	-	0	165	-	2
Treasury shares	-	-	(10)	-	-
Retained earnings	1,018	612	192	173	202
Revaluation reserve	90	136	7	23	16
Other reserve	4	(3)	47	20	48
<b>Total equity</b>	<b>1,285</b>	<b>1,069</b>	<b>596</b>	<b>393</b>	<b>368</b>
<b>Total liabilities and equity</b>	<b>13,463</b>	<b>9,576</b>	<b>7,901</b>	<b>3,799</b>	<b>3,475</b>

Source: Quarterly financial reports of commercial banks

Khan Bank is leading the banking sector in terms of interest income, investment income. The Bank's non-interest income accounts for 17.9% of total income, which indicates the Bank having relatively stable source of income than the other banks in the system.

Table 51. Systemically important TOP 5 banks' income statement (in billions of MNT)

Statement of profit or loss	Khan Bank	TDB	Golomt Bank	State Bank	Xac Bank
<b>Interest income</b>	<b>1,182.3</b>	<b>576.0</b>	<b>576.1</b>	<b>372.6</b>	<b>327.5</b>
Loan income	851.7	370.4	387.7	293.3	240.5
Investment income	330.7	205.6	188.4	79.4	87.0
<b>Interest expense</b>	<b>569.5</b>	<b>403.0</b>	<b>330.5</b>	<b>190.1</b>	<b>177.2</b>

Net interest income	612.8	173.0	245.6	182.5	150.3
Provision expense	91.1	61.3	121.3	39.0	17.9
Net interest income after provision	521.7	111.7	124.3	143.6	132.4
Non-interest income	258.1	129.8	80.4	37.8	41.7
Net income	779.9	241.5	204.7	181.3	174.1
Operating expense	393.3	151.8	171.5	114.9	83.6
Profit before tax	386.6	89.8	33.2	66.4	90.5
Income tax expense	95.0	0.1	11.1	14.9	28.3
Profit after tax	291.5	89.7	22.1	51.5	62.2

Source: Quarterly financial reports of commercial banks

Table 52. Main criteria for the systemically important TOP 5 bank– December 31, 2021

		Khan Bank	TDB	Golomt bank	State bank	Xac bank
Prudential ratios	Tier 1 capital adequacy ratio (>10%)	15.6%*	15.1%	13.0%	15.7%	17.4%
	Capital adequacy ratio (>12%)	15.6%*	15.1%	13.3%	15.7%	17.4%
	Liquidity ratio (>25%)	47.4%	40.6%	41.3%	31.7%	44.3%
Loan quality ratios	Loan to deposit ratio	58.2%	55.9%	47.4%	71.7%	60.8%
	NPL ratio	5.3%	13.8%	7.6%	9.5%	4.4%
	LLP / Total loan ratio	6.1%	10.7%	5.5%	8.0%	4.0%
	LLP / NPL ratio	115.7%	77.2%	72.5%	84.1%	91.9%

Source: Banks' public report

### 2.2.1.3. Credit rating of Mongolian banks

Currently 8 commercial banks and 1 development bank operating in Mongolia are being rated by Moody's Investors Service, 3 commercial banks and 1 development bank by Fitch Ratings, and 2 commercial banks by S&P Global Rating.

The assessment of the banking sector incorporates the individual operations of the banks as well as other external operating environments such the macroeconomic and regulatory frameworks, the state policies of Mongolia in which the banks operate.

Rating Agency	Moody's	Fitch	S&P
Mongolian Government	B3/stable	B/ stable	B/ stable
Development Bank of Mongolia			-
State Bank			-
Khan Bank	B3/stable	B/ stable	-
XAC Bank		-	-
Golomt Bank		-	B/ stable
Trade and Development Bank		-	
Capitron Bank		-	-
Bogd Bank		-	-
Trans Bank		-	-

Source: [www.moody's.com](http://www.moody's.com), [www.fitchratings.com](http://www.fitchratings.com), S&P report

\* Fitch and S&P's "B" rating is one notch higher than Moody's B3 rating as per the rating scale comparison table.

## 2.2.2. Legal environment and regulatory body

### 2.2.2.1. Institutions in charge of regulating issuer's activities

The issuer's activities are overseen by the following regulatory bodies. Herein:

The Bank of Mongolia

Khan Bank LLC is engaged in banking activities under a banking license No.02 issued by the Governor of the Bank of Mongolia, Resolution No. 375 dated November 22, 2006. In addition to a banking license, the bank provides banking products and services to customers under a license to conduct 11 different operations related to deposit, settlement and loan activities.

The primary objective of the Bank of Mongolia shall be to ensure stability of the national currency - tugrik. The Bank of Mongolia shall contribute to the balanced development of the national economy by way of ensuring stability of financial markets and the banking system within the scope of its' primary objective.

The Bank of Mongolia carries out following functions within the scope of the objectives stated in the Law of Mongolia on Central bank (Bank of Mongolia):

- Issuing of banknotes into circulation and regulating them;
- Development and implementation of monetary policy;
- Acting as a fiscal agent for the Government;
- Supervision and regulation of activities of banks and other entities specified by laws;
- Organization of interbank payment and settlements;
- Holding and managing of state international reserves;
- Protection of legal rights and interests of bank customers and depositors.

The Financial Regulatory Commission

Khan Bank provides banking products and services as a licensed "Insurance Broker" in accordance with the Financial Regulatory Commission's license No. TZ210/16 dated August 8, 2012, and as a "Custodian" under the license No. 321/03 dated June 24, 2015.

The Financial Regulatory Commission (FRC) is a government agency responsible for creating a regulatory environment for and ensuring the stability of financial markets, protecting the interests of investors, customers

and policyholders, conducting inspections of institutions in non-banking financial market and real estate agencies, as well as traders of precious metals, precious stones or articles made of precious metals, precious stones.

In order to fulfill its' objectives set forth in the Law on Legal Status of the Financial Regulatory Commission, the Financial Regulatory Commission carries out following activities:

- Approve rules, procedures, and guidance within its' scope of authority, monitor their implementation, and define necessary criteria and other standards in order to support the stability of the financial market;
- Grant licenses to carry out financial services (hereinafter 'license'), suspend, revoke, terminate such license, and monitor the implementation of license requirements;
- Monitor the activities of license holders;
- Set the fees for regulatory services to be imposed on license holders;
- Solve disputes among the license holders and/or between license holders and clients within the scope of its' powers;
- Approve the ethics code for the Commission's employees and monitor their compliance;
- Set the minimum amount of capital funds of insurance license holders and the requirements thereof;
- Monitor whether the license holders are implementing the Law on Countering Proliferation of Weapons of Mass Destruction and Terrorism;
- Approve the regulation related to the requirements set for significant shareholders, sources of share capital, executive management, staff and agent of persons defined by the Law on Combating Money Laundering and Terrorism Financing.

#### **2.2.2.2. Laws, rules and regulations related to issuer's activities**

The main activities of the issuer are regulated by the relevant parts of following laws and regulation. These include:

- Law on Licensing of Business Entities
- Banking Law of Mongolia
- Law on Procedure of Enforcement of the Amendments to the Banking Law
- Law on Deposit, Settlement and Loan Activities of Banks and Authorized Legal Entities
- Law on Ensuring Banking Sector Stability
- Law on Bank Deposit Guarantee
- Law on Combating Money Laundering and Terrorism Financing
- Law on Bank Deposit Insurance
- Law on Securities Market
- Company Law of Mongolia
- General Law of Taxation
- Corporate Income Tax Law
- Law on State Registration of Legal Entities
- The Law on Prevention, Combat, and Mitigation of Social and Economic Impacts of the COVID-19
- Law on Credit Information
- Law on National Payment System
- Law on Regulation of Currency
- Law on Pledge of Immovable Property
- Law on Pledge of Movable and Intangible Property
- Regulation for Approval of Changes in the Amount and Structure of Bank's Share Capital

- Regulation for Approval of Changes in Amount of Share Capital and Shareholder Structure of a Bank in the Form of a Joint Stock Company
- Temporary Regulation for Developing, Implementing, Reporting and Reviewing the Plan to Reorganize the Bank Into a Joint Stock Company, Change the Structure of Shareholders and the Amount of Share Capital
- Regulation on Nomination, Appointment and Dismissal of an Independent Member of the Board of Directors of the Bank
- Regulation on Using Cumulative Voting Method
- Regulation on Preventive Measures on Anti-Money Laundering and Combating Financing of Terrorism
- Regulation on Setting and Monitoring Prudential Ratios of Banking Operations
- The Regulation on the Implementation of Corporate Governance Principles for Banks
- Regulation on Bank Units
- Regulation on Asset Classification, Provisioning And Its' Disbursements
- Regulation on Custodian License and Operations
- Insurance Package Rule
- Regulation on Securities Listing Approved By the Financial Regulatory Commission
- Securities Listing Regulation Approved By "Mongolian Stock Exchange" JSC
- Regulation on Delivery of Meeting Notice to JSC Shareholders
- Regulation on Monitoring Dividend Distribution of Joint Stock Company
- Regulation on Remote Monitoring of Issuer's Operations
- Code of Corporate Governance

#### Legal environment of the banking sector

The Banking Law, adopted in 2010, is the main law of the banking sector and governs relations concerning licensing of banks, revocation of banking license, establishment of general principles of the bank's management, organization and activities, supervision of banks and banking conglomerates and imposing enforcement measures thereupon. The Banking law defines the "Bank" as a for-profit legal entity which has paid-in capital consisting of cash funds invested by shareholders, and the shareholders which bear financial liability to the extent of their invested capital, and is engaged in financial intermediary services such as taking deposits, extending loans on its' own behalf and executing payments and settlements under a license from the Bank of Mongolia.

As a legal entity operating in a regulated market, the Bank is required to consistently meet the following requirements according to the Banking law. These include:

- to maintain its' reserve requirement and liquidity in the form and amount required pursuant to the relevant regulation and to safeguard customers' deposits, as well as pay out and transfer funds upon customers' first demand;
- to comply with requirements set for the amount of share capital, capital adequacy, asset risk, loan loss provisioning, concentration of sources, foreign currency exposure and other prudential requirements specified by the regulation of Bank of Mongolia.

Main requirements are reflected as follows:

#### *Restrictions on contracts concluded with any person*

The total value of loans, loan equivalent assets, guarantees, warranties and other contracts provided to one person and/or his/her related or connected persons shall not exceed 20 percent of the bank's equity .

#### *Restrictions on guarantees and warranties*

The total value of guarantees and warranties issued by a bank shall not exceed the value of the bank's equity.

*Restrictions on contracts concluded with related party*

The amount of a loan, loan equivalent assets, guarantees, warranties and other contracts issued to the bank's related party shall not exceed 5 percent of the bank's equity, and their aggregate value shall not exceed 20 percent of the bank's equity.

*Restrictions on the purchase of securities*

Except as stated in Article 17.5 of the Banking Law, the total amount of securities a bank can purchase shall not exceed 20 percent of the bank's equity and 10 percent of the total amount of the shares issued by one company. This shall not apply to securities issued by the Government and the Central Bank and shares of legal entities engaged in credit information service.

*Restrictions on the amount of paid-in capital*

The Governor of the Bank of Mongolia issued Resolution No. A-276 on October 30, 2017 to increase the minimum share capital of the bank to MNT 100.0 (one hundred) billion starting from December 31, 2021.

The bank shall pay dividends only if it continues to meet prudential requirements set by the Bank of Mongolia after the distribution of dividends. Shareholders of the bank shall undertake financial liability and cover the loss within the amount of their contribution to the bank capital.

*Activities prohibited for banks*

No bank shall engage in any activities other than the activities set forth in the Banking Law. Shareholders, chairman and members of the Board of Directors, the Executive Director, Supervisory Committee and employees of a bank shall not release and disclose to others, or use any information, which is considered by the bank, its' customers, and/or third parties as confidential, except in cases set forth by the Law (e.g., if the owner of the confidential information agrees in writing to disclose the information or if such disclosure is demanded by State Authorities etc.). In case of violation of this requirement, the bank is liable under the Law on Infringement.

*Criteria for prudential ratio*

According to provision 11.1 of Article 11 of the Law on the Central Bank, the Bank of Mongolia has the right to set required reserves provisioning by banks as well as prudential ratios for the purposes of implementation of the state monetary policy. According to said Law, the Bank of Mongolia is responsible for setting, enforcing and monitoring prudential ratios for banks, and taking related preventive measures. Currently, the regulator has set the following criteria for prudential ratios:

- Bank's capital adequacy ratio  $\geq 12\%$
- Tier 1 equity and risk-weighted assets ratio  $\geq 9\%$  + Buffer (the buffer is established as per the Bank of Mongolia's regulation)
- Share of loans to one borrower and related parties in total equity  $\leq 20\%$
- Regarding loans to shareholders, bank employees and related parties:
  - Total share of equity  $\leq 20\%$
  - Percentage of equity of one person  $\leq 5\%$
- Fixed assets ratio  $\leq 8\%$
- Prudential ratio of foreign currency assets and liabilities:
  - For single currency  $\leq \pm 15\%$
  - For total currency  $\leq \pm 30\%$
- Prudential liquidity ratio  $\geq 25\%$



### *Deposit insurance*

In accordance with the Law on Bank Deposit Insurance, the Bank is obliged to insure the depositor's deposit with the deposit insurance and pay the insurance premium. In case of liquidation of the bank or occurrence of an insured event, the Deposit Insurance Corporation shall compensate insured depositors with deposits of both local and foreign currency up to the amount of MNT 20 million per depositor.

### **2.2.2.3. Legal regulations related to banking activities**

#### *Law on licensing of business entities*

Objective of the Law on Licensing of Business Entities, which came into force on February 1, 2000 is to govern relations with respect to issuance, suspension and revocation of a license to conduct certain business activities that may negatively affect the public interest, health, environment and national security and that require specific conditions and expertise.

In accordance with Section 15.2.1 of Article 15 of the Law which concerns the license to "establish a bank and conduct banking activities", the securities issuer has been providing banking products and services to its' customers within the scope of its' activities on the basis of its' banking license issued on November 22, 2006.

#### *Banking law*

The Banking Law approved on January 28, 2010, governs relations concerning licensing of banks, the revocation of licenses, the establishment of general principles of a bank's management, organization and activities, supervision of banks and banking conglomerates and taking enforcement measures against them.

The Banking Law has been amended 23 times, one of which, dated January 29, 2021, introduced the following major changes. These include:

- A bank established prior to the enactment of the amendment must change its' corporate form in accordance with the relevant law before June 30, 2022. Systematically important banks shall become an open joint stock company.
- The amount of bank shares and securities owned by any person, individually or jointly with a related party, shall not exceed 20 percent of the total shares issued by the bank. The Bank of Mongolia shall deduct shares and shares belonging to those that do not meet this restriction from the bank's equity.
- "Systemically important bank" means a bank determined by the Bank of Mongolia to have an impact on the banking system based on criteria such as bank assets, liabilities, share of total transactions in the payment system, banking operations and dependence on the financial system.
- Qualifying (influential) shareholder of a bank and its' related persons shall not be qualifying shareholders of another bank.
- The beneficial owner of a qualifying shareholder of the Bank shall not be the President of Mongolia, a member of the State Great Hural, a member of the Government or a high-ranking state political official.
- The Board of Directors of the bank shall have 9 or more members. Board members shall not have been convicted of crimes against the economy, property rights, public safety, interests, corruption, national or human security, and peace.
- The amendment also specifies in greater detail the order of payments in the event of the bank's liquidation and gives priority to the order of payments of individuals and depositors over other creditors.
- As for a systemically important bank, the legal requirement, which states that the amount of bank shares and securities owned by any person, individually or jointly with a related party, shall not exceed 20% of the total shares issued by the bank, shall be met by December 31, 2023

- If any of the following circumstances arise, Bank of Mongolia shall deem that the bank is insolvent or to be in a situation, which would inevitably lead to bank's insolvency:
  - As a result of an inspection, it was established that the bank is unable to or may not return the funds of the depositors, customers and other creditors upon their first demand;
  - Inability to continue operations due to failure to meet prudential ratios.
  - As a result of an inspection, it was established that the bank's liabilities exceed the assets or will exceed within reasonable available period.

#### *Law on Procedure of Enforcement of the Amendments to the Banking Law*

The Law on Procedure of Enforcement of the Amendments to the Banking Law was adopted on January 29, 2021.

The Law specifies the timelines within which the bank shall approve a plan for open and closed public offering of securities, setting forth the share price projections, and research on potential investors, and submit it to the Bank of Mongolia and the Financial Regulatory Commission; provides that the Bank of Mongolia and the Financial Regulatory Commission shall jointly approve temporary procedures for the development, implementation and reporting of the plan on reorganization of the bank into an open joint stock company, changing the structure and size of the bank's share capital in accordance with said Law.

#### *Law on Deposits, Money Transfer and Loan Activities of Banks and Authorized Legal Entities*

The Revised Law on Deposits, Money Transfer and Loan Activities of Banks and Authorized Legal Entities was approved on May 21, 2021 and entered into effect on July 1, 2021. The purpose of this Law is to govern relations related to deposits, money transfer and loan services provided by banks and authorized legal entities to individuals, legal entities and persons whose legal status is determined in accordance with the legislation of Mongolia in order to support the proper development of the financial market.

#### *Law on Combating Money Laundering and Terrorism Financing*

The Law on Combating Money Laundering and Terrorism Financing was adopted on May 31, 2013. The purpose of this law is to establish a legal basis for organizing measures to combat and prevent money laundering and terrorist financing activities.

The Bank is obliged to provide the Financial Information Unit of the Bank of Mongolia with information on cash and foreign settlement transactions in the amount of MNT 20 million or more in accordance with the approved forms and procedures within five business days of the transaction, as well as keep customer information for at least five years and report suspicious transactions to the Financial Information Unit.

#### *Law on Bank Deposit Guarantee*

The Law on Bank Deposit Guarantee was approved on November 25, 2008. The purpose of this law is to govern relations concerning issuance of state guarantees for deposits held in commercial banks in order to ensure the stability of financial markets.

The Law regulates deposits in banks that are subject to government guarantees and deposits that are not covered by such guarantees.

#### *Law on Bank Deposit Insurance*

The Law, adopted on January 10, 2013, establishes the legal basis for compulsory bank deposit insurance which aims to protect the interests of bank depositors and ensure the stability of financial markets, and governs relations related to the activities of the deposit insurance fund. A bank licensed to conduct deposit and settlement activities is obliged to insure the depositors' deposits with deposit insurance and pay insurance premiums in accordance with the law.



## Rules and regulations related to banking activities

### *Rules and regulations approved by the Bank of Mongolia*

The Bank of Mongolia, as regulatory body of banks, adopts and enforces detailed rules, regulations, instructions and methodologies related to banking activities within the scope of its' statutory functions, out of which the following key legal acts are abided by all commercial Banks in their daily operations. These include:

#### *Regulation for approval of changes in the amount and structure of bank's share capital*

As per the Banking Law, a bank shall obtain a permit from the Bank of Mongolia in order to issue new shares, change the amount of share capital and its' structure, and whenever any person becomes a qualifying shareholder. Accordingly, this regulation governs relations concerning the issuance of abovementioned permit to a bank in the form of limited liability company and its' revocation .

In case of such changes in the amount of bank's share capital and its' structure as per the regulation, the Bank of Mongolia shall take relevant measures to ensure that the bank and its' shareholders meet the requirements and criteria set forth in the relevant laws and regulations, to certify legal origin of cash funds to be invested in the share capital and decide whether to grant a license on the basis of the measures taken, while having the power to refuse to grant a license on the grounds specified in the regulations.

#### *Regulation for approval of changes in amount of share capital of a bank in the form of a joint stock company and structure of shareholders*

As per provision 36.11 of article 36 of the Banking Law, the Bank of Mongolia and the Financial Regulatory Commission shall jointly approve the Regulation on notifying the Bank of Mongolia and obtaining permission therefrom in case of changes in the amount and structure of share capital, issuance of new shares and securities related to shares, public offering of shares, sale and transfer of bank shares, other similar transactions, when any person becomes a qualifying shareholder of the bank, changes to the amount and structure of a qualifying shareholder's shares. Accordingly, the "Regulation for approval of changes in amount of share capital of a bank in the form of a joint stock company and structure of shareholders" to be abided by a bank in the form of a joint stock company was approved on October 5, 2021.

This regulation governs relations concerning notifying and obtaining permission from the Bank of Mongolia in case of changes to the amount of share capital and structure of shareholders of a bank in the form of a joint stock company. This regulation shall be binding for banks upon reorganization into a joint stock company.

#### *Temporary regulation for developing, implementing, reporting and reviewing the plan to reorganize the bank into a joint stock company, change the structure of shareholders and the amount of share capital*

As per Article 1 of Law on Procedure of Enforcement of the Amendments to the Banking Law, a systemically important bank is obliged to approve a plan to reorganize the bank in the form of an open joint stock company, which reflects timeframe for changing the amount of shares per shareholder in accordance with the limits set by the law, a plan to offer its' shares to the public, a share price forecast, and a survey of potential investors, and submit the plan to The Bank of Mongolia and The Financial Regulatory Commission by July 1, 2021.

In the said plan the bank shall be required to establish that activities regarding reorganization of the bank to a joint stock company, reflection of changes in the state registration shall be completed by June 30, 2022, while introduction of changes to the structure, composition and share capital of the bank's shareholders shall be completed by December 31, 2023.

Khan Bank has submitted its' plan to the Bank of Mongolia and the Financial Regulatory Commission, which in turn reviewed the plan and approved it as feasible.

As per Article 4.1 of the Regulation, the bank is obliged to submit quarterly plan implementation report to the Bank of Mongolia and the Financial Regulatory Commission by the 15th of succeeding month.

*Regulation on nomination, appointment and dismissal of an independent member of the Board of Directors of the bank*

As per Articles 31.2 and 33.1 of the Banking Law, the Board of Directors of a bank shall have nine or more members and at least one third of the total members shall be an independent member.

Approved on March 22, 2021, this regulation governs detailed issues related to the selection, nomination, appointment, dismissal and early termination of an independent member of the Board of Directors of the bank and specifies that such activity shall be based on principle of transparency and openness.

*Regulation on using cumulative voting method*

Article 77.4 of the Company Law stipulates that members of the Board of Directors of a joint stock company shall be elected by cumulative voting, while the regulation on such cumulative voting shall be approved by the Financial Regulatory Commission. The revised version of the Regulation on using cumulative voting method was approved on September 9, 2020.

This regulation governs relations concerning the election of Board members of a joint stock company by the cumulative method of voting, and its' violation renders a given election null and void.

As per the regulation, according to the cumulative method a shareholder shall have the same number of votes, per common stock owned, as the total number of members of the Board of Directors, and shall have the right to distribute such votes among all or several candidates nominated for a member of the Board of Directors.

*Regulation on preventive measures regarding anti-money laundering and combating financing of terrorism*

According to Article 4.1.1 of the Law on Combating money laundering and terrorism financing, the Bank shall bear the duty of a reporting entity. Thus, pursuant to the Regulation on preventive measures regarding Anti-Money Laundering and combating financing of terrorism and other relevant regulations, the Bank has the following key responsibilities (including, but not limited to) in the combat and prevention of against money laundering and terrorist financing:

- Assess potential risks of the money laundering and terrorism financing (ML/TF)—in order to understand and effectively manage the risks—by taking into account factors such as customer risks, product and service risks, geographical risks, delivery channel risks; and risks arising from the purpose of the business relationship;
- Implement measures specified in laws and regulations to manage the risks identified through the risk assessment;
- Carry out simplified and detailed due diligence operations to know your customers, identify their beneficial owners, verify information in a timely manner, and refrain from establishing business relationships with customers who have not been duly identified;
- Approve and implement an internal control program to combat money laundering and terrorist financing in accordance with relevant laws and regulations;
- Implement financial sanctions imposed by the UN Security Council and other competent authorities to combat money laundering and terrorist financing and financing of proliferation of weapons of mass destruction.

*Regulation on setting and monitoring prudential ratios to banking operations*

In accordance to 16.1.1 of the Banking Law, the bank is obliged to maintain its' reserve requirement and liquidity in the form and amount required pursuant to the regulations issued by the Bank of Mongolia,



safeguard customers' deposits and pay out funds on customers' first demand. Accordingly, this regulation aims to regulate the relations concerning setting of prudential ratios by the Bank of Mongolia, as well as its' implementation and monitoring.

For the purpose of fulfilling above mentioned obligations in an adequate manner, the bank ensures the prudential requirements of capital adequacy ratios, liquidity ratio, net open position limit and concentration risk limit in its daily operations as per this regulation; in the event of breach of prudential ratios, the Bank of Mongolia shall submit an official notice and, if deemed necessary, take preventive measures.

### *Regulation on the implementation of corporate governance principles for banks*

"Regulation on the implementation of corporate governance principles for banks" was adopted with the aim to align the decisions and activities of shareholder's meeting, board of directors and executive management of a bank with the interests of bank's shareholders, customers, deposit owners and affiliated entities, in order to establish and improve corporate governance framework of banks.

Within the scope of implementing corporate governance principles as per this regulation, the shareholder of a bank shall:

- Appoint a Board member who is capable of solving any matter related to banking operations in a professional and independent manner avoiding conflict of interest;
- Submit his/her affiliated or related person's information along with respective documents to the secretary of the Board of Directors in due time;
- Qualifying shareholder of a bank as specified in Banking Law shall not be appointed as an executive management of bank;
- Shall not exercise abuse of power for his/her private interests.

Board of Directors consisting of members, who are appointed by a decision of shareholder's meeting, is obliged as follows for the purposes of implementing corporate governance principles. Herein:

- To monitor activities of the Executive management of the bank, as well as review and discuss their performance report not less than once per quarter;
- To protect interests of shareholder, customer, deposit owner and affiliated persons;
- To define bank policy, strategy, risk bearing capability and provide solutions beneficial to the bank;
- To monitor operations of the executive management such as bank accounting, financial reporting framework, independent and internal audit, risk management, financial and operations monitoring, implementation of legal duties and changes in organizational structure of bank;
- To procure and select bank's executives, as well as approve a plan on ensuring their succession;
- Shall avoid action or inaction based on conflict of interests, that may impede the process of fulfilling his/her obligations to the bank;
- To procure and select an entity, which meets the requirements set forth in Mongolian legislation, as well as international standards, for conducting independent audit, etc.

The Bank shall assess its' corporate governance on an annual basis as per this regulation and submit an approved report to the Bank of Mongolia; whereas; the Bank of Mongolia shall review, re-assess the report and issue an assessment result to the bank within 5<sup>th</sup> of July on an annual basis.

### *Regulation on bank unit*

The Regulation on bank unit, approved as per Decree #99 by the Governor of the Bank of Mongolia dated on 3<sup>rd</sup> July, 2012, governs procedures for issuing permit to open a bank unit and revocation of such permit. As reflected in this Regulation, the bank is required to obtain permission from the Bank of Mongolia when seeking to open a representative office, branch, sub-branch /settlement center/ and cash-desk of the bank.



### *Regulation on asset classification, provisioning and its' disbursements*

The Regulation on asset classification, provisioning and its' disbursements, revised on 10<sup>th</sup> June, 2019, governs the relations regarding classification of loans and other assets, as well as establishment and disbursement loss provisioning. As specified in this Regulation, a bank is obliged to classify its' assets, establish a loss provisioning, as well as develop internal policies, procedures, guidelines and methodologies on asset risk management, taking into account the scope and complexity of its' operations, for accounting and management purpose.

As reflected in this regulation, bank shall classify its' asset as performing, special mention and non-performing in accordance to relevant methodologies for establishing loan loss provisioning and submit a report to the Bank of Mongolia upon accurate assessment of asset classification, contingent loss and loan loss provisioning amount.

### *Rules and regulations by Financial Regulatory Commission pertaining to bank operations*

Khan Bank carries out insurance intermediation and custodian activities, specified in 6.2.3 and 6.2.5 of Law on Banking, respectively, under a license issued by the Financial Regulatory Commission, which monitors those activities as an authorized regulatory body.

Following main legal acts, approved by Financial Regulatory Commission within its' scope of abovementioned functions, are implemented by the Bank. Herein:

### *Regulation on custodian license and operations*

This Regulation aims to regulate procedures on issuance of license for custodian activities by Financial Regulatory Commission, suspension, extension and revocation of such license, and sets terms and conditions for carrying out custodian activity.

Financial Regulatory Commission shall issue a license for carrying out custodian activities to the bank, provided that such bank meets requirements reflected in relevant laws and this Regulation; any license issued shall be recorded in publicly open integrated registration system as per respective procedure.

As part of carrying out custodian services, the bank shall maintain, as specified in this Regulation, its' monetary asset and securities accounts separate from customer account, notify the customer of any transactions made through customer's account, ensure confidentiality of customer's account information contained within its' internal registration system and execute transactions related to customer's securities and monetary assets in due manner as per respective regulation.

### *Insurance package rule*

As a professional insurance agent with license to carry out insurance intermediation activities, the bank ensures implementation of the Insurance package rule, approved by Financial Regulatory Commission on 9<sup>th</sup> January, 2019, which includes, among others, "List of documents required for obtaining license to carry out insurance and professional insurance agent activities, requirements and criteria to be followed by insurer and professional insurance agent" and "Guideline for insurer and professional insurance agent regarding submission of report, information and application".

## **2.2.2.4 Legislative requirement in respect to securities market pertaining to bank operations**

### *Law on Securities Market*

The Law on the Securities Market was revised on 24<sup>th</sup> May, 2013. The purpose of this law is to govern relations concerning the regulation and oversight of market participants' activities, and protection of investor interests in the securities market.



A securities issuer may sell its' securities through public offering or limited offering in accordance with this law. In the event of public offering, presentation and advertisement of the securities for sales in the primary market, to investors equal to or more than 50, shall be construed as a public offer.

Financial Regulatory Commission shall consider the primary market trading as successfully organized based upon fulfilment of all or any of the following circumstances:

- In cases where the securities issued at its' nominal value, if all securities offered were sold, i.e. the funds aimed to be raised by the trade have been fully settled in the issuer's account;
- In cases where the securities issued at a price exceeding its' nominal value, if funds sufficient for implementation of the project stated in the securities' prospectus have been fully raised and settled in the issuer's account; and
- In cases where an underwriter is involved, if (the underwriter has) fully transferred necessary payment in accordance with underwriting agreement or funds sufficient for implementation of the project have been fully raised by the issuer;

A securities issuer shall have the following general obligations. Herein:

- Have their decision to issue securities discussed and made by a meeting of an authorized body;
- Prepare and submit accurate information and reports related to the securities' trade to the Commission and disclose such to the public, in compliance with relevant methods and forms and within the specified period;
- Comply with the minimum number of independent Board members as indicated in the Company Law;
- Appoint or elect a fit and proper person for authorized positions;
- Inform the public and shareholders, if the information regarding project implementation has been changed from that stated in the securities' prospectus;
- Submit the mid-year and year-end financial statements, attested by an auditing firm registered with the Commission, to the Securities Exchange and the Commission within the period indicated in Article 13 of the Law on Accounting;
- Publicly disclose the information regarding the company's operational and financial situation in accordance with the regulation set by the Commission;
- Disclose publicly the shareholders' meeting decisions immediately and submit to the Commission and the Exchange relevant information and documents within three working days after the meeting was held;
- Report immediately to the public upon acknowledgment of the situations that may affect the price and volume of the securities at a noticeable level;
- Comply with corporate governance principles endorsed by the Commission;

#### Rules and regulations in respect to securities issuer

With respect to carrying out IPO on stock exchange and a becoming a listed public company, the bank shall comply with rules and regulations related to issuer's operations, approved by Financial Regulatory Commission, as well as being obliged to carry out its' activities under supervision and procedures imposed by Financial Regulatory Commission, in addition to the Bank of Mongolia.

#### *Regulation on securities listing*

Regulation on securities listing, approved by Financial Regulatory Commission on 11<sup>th</sup> June, 2021, governs relations with respect to registering securities, initially and additionally issued through public offering, in the securities listing, applying changes, removing, allocating in the primary market of such securities, receiving orders, selling, reporting and monitoring the implementation of information transparency.



In the event where bank issues the securities initially and additionally through public offering as per this Regulation, an application must be submitted to the Financial Regulatory Commission, which shall review and decide whether to register the securities within 20 business days upon receipt of such application together with relevant documents. In case the Financial Regulatory Commission issues a decision to list securities, the Underwriter shall issue and sell the securities in the primary market through public offering as specified in securities' prospectus. Securities not duly registered shall be prohibited from offering.

#### *Securities listing regulation by "Mongolian stock exchange" JSC*

Securities listing regulation, approved by Resolution of the Board of Directors of the "Mongolian stock exchange" JSC on 30<sup>th</sup> December, 2015, governs relations concerning listing of securities for public offering in the Mongolian stock exchange. This regulation specifies details on general requirements set for securities prospectus and issuers listing its' securities with the Exchange, the procedure regarding submission of application for listing, listing criteria for shares and obligations of an issuer.

As specified in this Regulation, securities shall be listed as I, II or III class security based on their respective criteria and while applying for listing, as well as during the whole period of being listed on the Exchange the issuer shall be responsible for fulfilling all relevant criteria, in addition to obligations before investors and authorized organization (body).

#### *Regulation on delivery of meeting notice to JSC shareholders*

As the active engagement of company shareholders in shareholders' meeting and their votes are highly important for company operations and interests of shareholders, Financial Regulatory Commission provided detailed Regulation on delivery of meeting notice to JSC shareholders.

This regulation shall govern the procedures for delivering regular and irregular meeting announcements to the shareholders, submitting of meeting notice to the Financial Regulatory Commission and Stock exchange, as well as for monitoring those activities. This Regulation shall be binding on all joint stock companies irrespective of whether the company is an open/closed or state/private-owned, or whether the meeting is regular or irregular and regardless of the type of business operations.

As specified in the Regulation, Board of Directors of the company shall submit meeting notice to the Commission and Stock exchange within 3 days and disclose it publicly within 5 days upon the date of decision to call shareholders meeting. After submitting notice to the Commission and Stock exchange 2 days in advance, meeting announcement shall be delivered to the shareholders and shareholders, who were included in the list of shareholders entitled to participate in the meeting as of the record date, shall attend the meeting.

This Regulation, furthermore, states that if specified in the company charter and BOD internal operations procedure, a shareholders meeting may be carried out online in following forms:

- Remotely /organized online with the help of information technology and software/;
- Mixed /in person and remotely/.

#### *Regulation on monitoring dividend distribution of Joint stock company*

This Regulation shall be adhered to when making decision on dividend distribution by authorized body of a joint stock company, informing shareholders of such, distributing dividend and reporting.

As specified in the Regulation, the decision on dividend distribution by authorized body of company shall be presented at shareholders regular meeting and date of dividend distribution shall be scheduled to be not later than 7 days upon the date of regular meeting. The information regarding decision to distribute dividend shall be provided to the shareholders via public media channels as per the Regulation on delivery of shareholders meeting announcement.



Joint stock company is obliged to submit report on dividend distribution and annual financial report to the Commission within 1<sup>st</sup> March.

#### *Regulation on remote monitoring of issuer's operations*

The purpose of this regulation is to govern law implementation proceedings such as remote monitoring of joint stock company operations based on information provided by securities issuer and other data, issuance of opinion, disclosure of information regarding issuers' performance of their legal undertakings to the public, assigning tasks with certain deadline on fulfillment of such legal undertakings, imposition of administrative measures and temporary termination of company operations.

As specified in this Regulation, Financial Regulatory Commission shall monitor the process of regular shareholders' meeting of joint stock company and financial reports based on information provided by shareholders, complaints filed by state owned and other organizations, as well as information disclosed via public media channels, and provide assessment based on integrated scoring of such monitoring; in the event of unsatisfactory results, the Financial Regulatory Commission shall be entitled to deny the authorized official of the company the title of "suitable person", submit a proposal to delist the company securities from Stock exchange and refuse listing of securities issued additionally.

### **2.2.2.5 Other law and regulations**

#### *Law on Company*

Revised Law on Company was approved on 6<sup>th</sup> October, 2011. The purpose of this law is to govern relations with respect to the establishment, registration and reorganization of a company, its' management and organizational structure, supervisory structure, the rights and obligations of its' shareholders, and its' liquidation.

Upon carrying out a public offering of securities, the issuer shall be registered as open joint stock company and, therefore, adhere to relevant rules regarding joint stock company and its' operations as reflected in the Law on Company.

When an entity becomes a joint stock company, information regarding its' operations, finance and management is disclosed publicly, making it more attractive to investors and improving corporate governance. As such upon becoming a joint stock company, the Bank shall be required to follow relevant rules and regulations approved by both the Bank of Mongolia and Financial Regulatory Commission.

#### *General law on taxation*

Revised General law on Taxation was approved on 22<sup>nd</sup> March, 2019. The purpose of this Law is to establish legal grounds for establishment, imposition, reporting, payment, inspection and collection, exemption, waiver, deduction and refund of taxes in Mongolia, registration of taxpayer, to define rights, duties and liabilities of taxpayers and entities obliged to tax authorities as per this Law and to govern relations arising between them.

As specified in this Law, securities issuer shall exercise rights and obligations and undertake responsibility as a taxpayer, follow relevant rules and regulations approved within the scope of this Law.

#### *Law on Corporate income tax*

Revised version of Law on corporate income tax was approved on 22<sup>nd</sup> March, 2019 with the purpose to govern relations in respect to the imposition of income tax on business entities, payment thereof to the state budget, and reporting.

In accordance to this Law, taxable income earned in the amount MNT 0-6 billion for the given year shall be imposed with a tax at 10% and taxable income in the amount exceeding MNT 6 billion for the given year shall be imposed with a tax equal to MNT 600 million plus 25% for taxable income in excess of MNT 6 billion.





### *Law on state registration of legal entities*

Revised Law on state registration of legal entities was approved on 21<sup>st</sup> June, 2018. The purpose of this law is to govern relations concerning state registration of establishment, reorganization, liquidation and changes in information of a legal entity, issuance of reference to an individual, legal entity and authorized organizations and officers and maintenance of legal entity's state register.

As reflected in this law, a legal entity incorporated in Mongolia shall ensure that any changes introduced into its' records are properly registered by submitting such information, along with the decision to incorporate relevant changes and other corresponding documents to the state registration authority within 15 working days upon the date of a decision to permit such changes issued by the Bank of Mongolia.

### *Law on Prevention, Combat, and Reduction of Social and Economic Impacts of COVID-19*

The Law on Prevention, Combat, and Reduction of Social and Economic Impacts of COVID-19 was approved on 29<sup>th</sup> April, 2020. Period of the law's validity was extended to 31<sup>st</sup> December, 2022 as per Amendment law dated on 31<sup>st</sup> January, 2022.

The purpose of this law is to govern relations concerning prevention and combatting of Covid 19 pandemic, protection of public health, restriction of human rights to certain degree, prompt decision making procedure, reduction of negative socioeconomic impact and discussion of organizational matters by the Government of Mongolia through extraordinary procedure.

Following main provisions, as set forth in this Law, are related to banking operations:

- During the period of pandemic, demand deposit and current accounts shall not accrue interest, while special term deposit accounts shall accrue interest at a general rate. Unless permitted by the Bank of Mongolia and the Law, payment and monetary transactions between individuals and legal entities may not be carried out in a foreign currency;
- During validity period of this law, all bank deposit in foreign currency shall not be subject to compulsory insurance set forth in Law on Bank Deposit Insurance regardless of the deposit agreement date, and insurance reimbursement shall not be paid on deposits in foreign currency;
- If a client of a bank, with whom the bank has stable financial relations and which holds an account with the bank, sends a request to sign an agreement relating to electronically provided services of the bank using its' registered electronic mail, technical tools, software, or a password, passcode, electronic signature satisfying confidentiality requirements, and the bank accepts such request, a legally binding agreement as stated in Article 42<sup>1</sup> and 196.1 of Civil code of Mongolia shall be deemed to be concluded between the parties.
- During the validity period of this law, the interest rate of deposits shall not exceed the weighted average interest of term deposit account announced by bank in public for clients newly entering into term deposit agreement with the bank or clients which extend such agreement upon its' expiration.

### *Law on conducting settlement in national currency*

Law on conducting settlement in national currency was approved on 9<sup>th</sup> July, 2019 with purpose to govern relations in respect to conducting settlement and expression of price of goods, work, service in national currency within the territory of Mongolia.

Price of goods, work and service shall be expressed and settlement shall be conducted only in national currency within territory of Mongolia, and it is prohibited to set a price, carry out or advertise settlement in foreign currencies or settlement units, except as permitted by the Bank of Mongolia. This rule, however, shall not apply to agreements on monetary deposits, loans, its' equivalent services, financial derivatives and



obligations thereunder of banks and non-bank financial institutions which may be expressed and/or conducted in foreign currency.

#### *Law on credit information*

Law on credit information was approved on 20<sup>th</sup> October, 2011 for the purpose of governing relations concerning credit information database establishment, processing, retention, protection and usage of credit information, provision of credit information service, licensing of the legal entity engaged in credit information service, the revocation of such license and its' monitoring.

The issuer, being a commercial bank, which supplies information to credit information database, shall exercise following rights and duties. Herein:

- to require from credit information service provider to ensure the safety and security of the credit information confidentiality;
- to require from credit information service provider to reflect the amendments and revision made to particular credit information based on reference material whenever it occurs and to process and enrich the credit information in a timely manner;
- to exercise monitoring measures in order to ensure that no false or wrong additional information is included in the information already transferred to the credit information database;
- in case of a necessity to clarify and examine certain information supplied due to existence of doubts in the validity of the information source, to cooperate by submitting an enquiry to the borrower and other relevant authorities;
- to verify accuracy of the credit information and to supply only such information to the credit information database, which is valid, certain and in line with the information source;
- when exchanging a credit information, to fulfill the requirements specified by this law;
- in case if the credit information supplied is incomplete or inaccurate, to take immediate action in order to revise, collect and/or amend such information;
- to refrain from disclosing to others any information, other than the confidential credit information pertaining to the borrower.

#### *Law on national payment system*

Law on National payment system was approved on 31<sup>st</sup> May, 2017. The law governs relations regarding management, organization, regulation and monitoring of Mongolian national payment system.

This law specifies, among others, provisions related to main principles of the national payment system and its' operation, role and powers of the Bank of Mongolia regarding national payment system, licensing by the Bank of Mongolia, outsourcing services, payment services rendered through agents, payment system rules, customer protection clauses, monitoring of national payment system, digital transfer of monetary assets, digital funds, settlement and settlement, result estimation, payment finalization and measures to be taken as part of liquidation and re-capitalization.

#### *Law on currency regulation*

Law on currency regulation was approved on 12<sup>th</sup> May, 1994 for the purpose of governing relations regarding definition of powers of the Government bodies in charge of currency settlement, execution of currency transactions by business entities, organizations and citizens and their monitoring, as well as protection of Mongolian currency from depreciation.

This law also regulates matters including powers of Government bodies regarding foreign currency reserve of Mongolia, currency market, currency settlement; currency transactions, oversight of currency transactions and matters regarding sanctions imposed for violation of this law.



### *Law on pledge of immovable property*

The Law on pledge of immovable property was approved on 9<sup>th</sup> July, 2009. The purpose of this law is to govern relations concerning pledge of real estate and titles attached thereto as a guarantee for fulfillment of obligation, conclusion of pledge agreement /mortgage/ and enforcement of obligations.

In addition to general provisions related to parties to the pledge, grounds for collateral rights, obligations guaranteed by a collateral, pledge of immovable property and titles attached thereto, this law reflects matters including execution of pledge agreement, utilization, protection of pledge certificate and items subject to pledge, transfer of collateral into ownership, possession, utilization of others, cross-collateralization of immovable property, transfer and pledge of claims and pledge certificate, enforcement of obligations by a collateral and specific provisions regarding pledge of land and residential apartment.

### *Law on pledge of movable and intangible property*

Law on pledge of movable and intangible property was approved on 2<sup>nd</sup> July, 2015 with the purpose of protecting rights and legal interests of parties engaged in pledge of movable and intangible property, as well as increasing capital turnover and financial returns.

This law governs relations on pledge of movable and intangible properties as a method of fulfillment of contractual and non-contractual obligations, registration of the pledge rights and fulfillment of collateral requirements.

### *Law on Ensuring Banking Sector Stability*

Law on Ensuring Banking Sector Stability was approved on 22<sup>nd</sup> June, 2018. The purpose of this law is to govern relations in respect to covering by shareholders and other investors' of the capital deficiency, estimated and revealed as a result of asset quality assessment and other relevant inspections for the purpose of ensuring banking sector stability, re-capitalization of the bank by Government when required, management of invested capital and its' recentralization into the budget.

This law provides legal environment on covering bank's capital deficiency by shareholders of systematically important bank, which does not fulfill its' capital adequacy prudential ratio based on asset quality assessment of the banking sector, with help of its' own funding source, supporting investment to private sector, as well as intensifying fund-raising process by private investors.

## **2.2.2.6 Other rules & procedures**

### *Corporate governance code*

The Corporate Governance Code approved by Financial Regulatory Commission as per its resolution no 145 the dated 23 March, 2022 is developed for protecting the rights of the investors and customers and promoting long term sustainable values by incorporating internationally accepted principles of corporate governance and best practices

The issuers registered in the securities trading company, insurers, trust service providers and investment management companies adhere to the following nine corporate governance principles included in this codex and the private companies whose shares are not traded publicly are advised to introduce and implement these principles in their operations. The principles are as follows:

Principle one. Board governance

*The Board of Directors should possess a broad range of expertise, skills, and competencies, sufficient to provide effective stewardship and oversight of the Bank.*

Principle two. Board Committees and responsibilities



*The Board of Directors shall implement activities through its relevant committees established and be fully accountable.*

Principle three. Information disclosure and transparency

*The Board of Directors shall ensure that the reporting of business operations and financial information is transparent, accurate and complete.*

Principle four. Audit and internal controls

*The Board of Directors shall ensure the independence and effectiveness of the internal audit and internal control framework.*

Principle five. Risk management

*The company shall establish the sound and independent risk management framework and the Board of Directors shall monitor the effectiveness of the risk management*

Principle six. Remuneration of the authorized personnel

*The remuneration level of the Board of Directors and the executive management shall be commensurate with company's vision and characteristics and shall be fair and transparent.*

Principle seven. The rights of the stakeholders

*The company shall recognize the rights of the other stakeholders in its operations.*

Principle Eight. Company culture

*The members of the Board of Directors shall be responsible to setting the highest standard of business ethics and accountability and shall instill those values to the executive management and employees through their own leadership.*

Principle nine. The rights of the shareholders

*The Company and the Board of Directors shall respect the rights of the shareholders and treat all shareholders in an equal manner and provide information and ensure that shareholders are able to practice their rights.*

### **2.2.3 Covid-19 impact on Banking sector**

In order to prevent and reduce the spread of the Covid-19 pandemic, the government imposed partial and strict lockdowns within the territory of Mongolia for certain periods of time and with different frequency. As of 2021, a total of 51 days were in strict lockdown, while other periods were in nationwide regime of heightened state of readiness with restrictions still imposed on public holidays and events, as well as several businesses involving large gathering of customers. Due to the effects of the pandemic, the Mongolian economy contracted by 4.6% in 2020, however, it grew by 6.3% as of the first half of 2021 and by 3.6% as of September 2021, respectively.

By the end of 2019, the outstanding loan portfolio of the banking system increased by 5% compared to the same period of the previous year and reached MNT 17.9 trillion, but as of the end of 2020, this indicator had decreased by 5% and the outstanding loan portfolio amounted to MNT 17.0 trillion. The decline in the loan portfolio was driven by uncertain macro-economic conditions, in addition to credit risk, which led banks to decrease the loan disbursement, while the business owners transitioned into standby mode observing the current situation.

As a country with a bank-dominated financial system, reducing lending operations during the period of an economic hardship would, in one hand prevent the growth of non-performing loans in the banking system,



but, on the other hand, would have led to a negative impact on the overall economic and business environment.

Therefore, the Government started to implement “MNT 10 trillion Comprehensive Plan for Health Protection and Economic Recovery”, which includes, among others, 3% interest rate loan to support workplaces, Bank of Mongolia’s repo financing program and measures to activate the issuance of mortgage loans. As a result of the said plan, by the end of 2021, the loan portfolio of the banking system reached MNT 20.9 trillion, which showed an increase of 22% compared to the same period of the previous year.

### Banking system loan portfolio quality

Prior to the Covid-19 pandemic, i.e. as of December 2019, the overdue loan ratio of banks operating in Mongolia was 4.5%, the non-performing loan ratio was 8%, while in December 2020, those indicators showed negative results reaching 7.4% (+2.8 points) and 9.6% (+1.6 points). During such a period of economic downturn, the fact that non-performing loan increase was not as significant owed largely to the Bank of Mongolia initiated measures such as revision of repayment schedule by way of restructuration of loan agreement, extension of loan maturity and temporary modifications introduced to the “Regulation on asset classification, provisioning and its disbursements”.

As of 2021, the overdue loan portfolio decreased by MNT 331.3 billion (-26.2%) to MNT 931.6 billion, while the non-performing loan portfolio increased by MNT 100 billion (+ 6.1%) to MNT 1,737.5 billion. The ratios have improved since the end of the previous year, with the overdue ratio reaching 4.5% (-2.9 points) and the non-performing loan ratio reaching 8.3% (-1.2 points) respectively, which was impacted by Government’s program.

Fiscal policy (Measures taken by the Government):

- “The Law on Prevention, Combat, and Mitigation of Social and Economic Impacts of the COVID-19” was approved on **April 29, 2020**. Subsequently the law was discussed multiple times by the Parliament in January, June, and December of 2021, as well as in January of 2022 and extended until December 31, 2022. Within the framework of this law, several restrictions were imposed in efforts to prevent and combat the spread of the pandemic and mitigate its negative socioeconomic impact. These include: (i) interest shall not accrue on any type of demand and current deposit account during the pandemic, while special term deposits shall accrue interest at a regular rate (ii) Any settlement between an individual and legal entity shall be carried out only in national currency, and conduct of such settlement in foreign currencies is prohibited except for settlements approved by Bank of Mongolia or those which are related to deposits, loans, its equivalent services, financial derivatives agreements (iii) Regardless of the deposit agreement date, foreign currency deposits will not be subject to compulsory insurance and no insurance reimbursement shall be paid on foreign currency deposits.
- **August, 05 2020** The Government announced extension and modification of COVID-19 related measures. Following measures were extended through to the end of the year: (i) child money allowance; (ii) CIT exemption; (iii) exemption from rent income tax; (iv) exemption from customs duty and VAT on certain imported goods. Following measures were modified: (i) food stamp allowance was increased; (ii) social welfare pensions were increased; (iii) social insurance premiums were reduced. On August 28 the parliament approved an additional budget equivalent to 7.5% of the GDP including these and previous measures.
- **December 13, 2020:** The Government announced additional COVID-19 related measures, which would be financed by selected SOEs. These measures include: (i) waiving utility payments (electricity, heat, water and waste fee) for households and business entities (ii) reducing price of coal briquettes by 75%.
- **In 2021** The government provided following 1-time cash grants in efforts to sustain the economy.

- one-time cash grant of MNT 300,000 to each citizen during strict lockdown,
- MNT 50,000 for vaccinated population,
- MNT 1 million for elders who were not subject to one-time forgiveness of pension secured loans,
- MNT 100,000 for each herder household to support herders

#### Monetary policy (Measures taken by Bank of Mongolia)

Regulation	Decision summary of the regulatory body
Policy rate	<b>2020.03:</b> lowered the policy rate by 1 percentage point to 10 percent.
	<b>2020.04:</b> lowered the policy rate by 1 percentage point to 9 percent.
	<b>2020.09:</b> lowered the policy rate by 1 percentage point to 9 percent.
	<b>2020.11:</b> lowered the policy rate by 2 percentage point to 6 percent.
	<b>2021.12:</b> Kept the policy rate unchanged at 6 percent.
	<b>2022.01:</b> Increased the policy rate by 0.5 percentage point to 6.5 percent.
	<b>2022.03:</b> Increased the policy rate by 2.5 percentage point to 9 percent.
Prudential requirements	Capital adequacy
	<b>2020.01:</b> The general buffer section of the capital conservation buffer for the Tier-1 ratio (applicable to all banks) which was supposed to be increased by +1% as of 2020.01.01, by +2% as of 2021.01.01 respectively, was postponed with increased by +1% as of 2022.01.01 and +2% as of 2022.07.01.
	<b>2020.01:</b> Variable component section from the systemic buffer (applicable to the systematically important banks) for Tier-1 ratio was supposed to be increased by +1% starting from 2020.01.01 but postponed until 2022.01.01.
	Reserve Requirements
	<b>2020.04:</b> Reduced the MNT reserve requirement of banks by 2 points to 8.5 percent in order to decrease dollarization of banks and increase MNT funds available for lending.
	<b>2020.11:</b> Reduced the MNT reserve requirement of banks by 2.5 unit points to 6.0%;
	<b>2020:</b> In line with the policy rate decrease, remuneration rate on MNT reserve requirement was decreased from 5% several times, reaching 2.5% as of November 2020.
	<b>2020.07:</b> In order to reduce dollarization of banks' liabilities, It was decided that remuneration on banks' domestic currency reserve requirements would be deducted in proportion to the share of high-interest rate foreign currency deposits and interest-bearing current accounts in banks' total deposits.
	<b>2021.12:</b> The bank's required reserve ratio in MNT is maintained at 6.0 percent and the reserve requirement in foreign currency increased by 3 percent to 18.0 percent
	<b>2022.02:</b> Increased the MNT reserve requirement of banks by 2.0 unit points to 8.0%;
	Liquidity ratio
	<b>2020.03:</b> Due to Covid-19, regulatory liquidity ratio was set at 20% until 2020.07.31
	<b>2020.08:</b> Regulatory liquidity ratio of 20% was extended until 2020.12.31.

	<p><b>2020.01:</b> Regulatory liquidity ratio of 20% was extended until 2021.06.30</p> <p><b>2021.07:</b> Regulatory liquidity ratio was increased to 25%.</p>
Loan classification	<p><b>2020.04:</b> Decision to leave the classification of the consumer loans which were restructured due to Covid-19 unchanged until 2020.07.31.</p> <p><b>2020.08:</b> Decision was extended until 2020.12.31.</p> <p><b>2020.11:</b> Decision was extended until 2021.07.01.</p> <p><b>2021.07:</b> Decision was extended until 2022.03.31.</p> <p><b>2021.12:</b> Timeframe for restructuring of mortgage loan was extended by additional 6 months.</p>
Restructuring	<p><b>2020.04:</b> One-time extension on maturity of the loans with repayment schedule violations since 2020.02 for up to 12 months.</p> <p><b>2020.08:</b> Decision was extended until 2020.12.31.</p> <p><b>2020.11:</b> Decision to re-extend the maturity date of consumer loans for up to 12 months once without increasing the loan amount for borrowers who although previously had their loan restructured, are still experiencing difficulty in their loan repayment (effective between 2021.01.01 – 2021.07.01)</p> <p><b>2021.07:</b> Based on customer's request, extend the maturity of the loan for up to 12 months until 2022.03.31 if customer does not have an outstanding amount due on 3% loan or repo financing as of 2021.06.30.</p>
Restructuring of MK mortgage loan	<p><b>2020.04:</b> Decision to defer principal and interest payment until 2020.10.31, interest payment shall not accumulate during the deferred period, maturity of the loan shall be extended accordingly.</p> <p><b>2020.11:</b> Decision was extended until 2021.07.01.</p> <p><b>2021.07:</b> Decision was extended until 2021.12.31.</p> <p><b>2021.12:</b> Decision was extended until 2022.06.30.</p> <p><b>2022.03:</b> Decision was extended until 2022.12.31.</p>
Temporary changes to the "Regulation on asset classification, provisioning and its disbursements"	<p>Consumer loans that are past due 90 days shall be classified as "Performing", loans that are past due 91-120 days shall be classified as "Special mention", and those that are past due 121 days and more shall be classified as "Non-Performing". Softened regulations will be repealed gradually starting from August 2021.*</p> <p>Calculation of overdue time period for loan classifications shall deduct days in "Heightened State of Emergency Readiness".</p>
Other	<p><b>2020.02:</b> Decision to waive loan agreement restructuration fee, and penalty interest.</p> <p><b>2020.09:</b> Decision to implement long term repo financing.</p> <p><b>2020.11:</b> Decision to implement long term repo-financing instrument for SME, and non-mining exports.</p> <p><b>2021.02:</b> Decision to implement "3% Job support loan".</p> <p><b>2021.05:</b> Decision to implement "agriculture support loan" program.</p> <p><b>2021.12:</b> Decision to implement "Fuel reserve loan".</p>

2022.04: Decision to implement "Agriculture support loan".

Implementation period for softened regulations

Loan classification	Implementation period				
	2021.08.01- 2021.09.30	2021.10.01- 2021.11.30	2021.12.01- 2022.01.31	2022.02.01- 2022.03.31	Starting from 2022.04.01
Performing	≤75	≤60	≤45	≤30	≤15
Special mention	76-115	61-110	46-100	31-90	≤90
Sub-standard	116-180	111-180	101-180	91-180	91-180
Doubtful	181-360	181-360	181-360	181-360	181-360
Loss	≥360	≥360	≥360	≥360	≥360

## 2.3. Analysis on the Issuer's operating and financial environment

### 2.3.1. Overview of external environment

11 commercial banks operate in Mongolian banking sector as of 2021 year end. The banking sector grew 10.1 percent over the course of past 5 years. Khan Bank has consistently led the growth of the sector growing 15.7 percent CAGR to 33.2 percent market share by asset size.

The Banking sector grew on account of loan book growth, which in turn grew due to Covid related policy and financial measures carried out by the Government. The sector's loan growth was 11.2% CAGR for the last 5 years.

As part of its macro prudential policy, the Bank of Mongolia has put ceiling on consumer loan amount in 2018. This was done to reduce indebtedness level on individuals, however, total loans still grew over the course of past years.

With onset of Covid-19 hitting Mongolia, the Government of Mongolia, and the Bank of Mongolia took series of policy actions in the form of various programs in 2020 and 2021. The program "10 trillion program of health protection and economy revival" issued series of lending programs through local commercial banks: these include "Employment protection loan program", "Agriculture Support loan program", "Government mortgage program" and "Herder support loan program", "Local procurement finance program for wheat and oil seeds from 2021 harvest", "Cashmere, hide loan program", "Reserve meat procurement loan program".

The Government also revised policy for treatment of past due loans, for borrowers whose income is affected by Covid pandemic, loan extension, forbearance measures were allowed. This policy has helped the banking sector to maintain loan balance as consistent. The amount of non-performing loans for the period increased to MNT 1,738 billion, however, its share in the loan portfolio reduced to 8.3 percent, owing to the loan growth.

The customer deposits grew by 16.3 percent for the period.

The volume of payments has increased, particularly in the last 3 years. Covid -19 has accelerated digital shift of the customers, who prefers to make payment digitally. The volume of transactions 2.6 times in Q3 2021, compared to 2019 same period..

Mongolian commercial banks, no exception to world banking community, are also competing in the digital space for customer business. All banks focus on simplifying customer journey, and on increasing its share of customer's digital wallet. The banks leverage data, insights, back office automation for better customer experience. The widespread pandemic served as acceleration factor as customers who are in the lockdown showed strong demand for remote services via call center or internet network.

Banks establish a dedicated teams to lead the digitization activity, open up for third parties, collaborating closely on some products, connecting to state authorities seamlessly. While doing some banks are renewing core banking platforms and investing in operating platforms and systems. As banks transform, there is a need to infuse digital culture, upskill the current talents for digital agenda and have a new perspective for hiring.

The operating environment presents a huge impact on the operation of banking sector. The current Government, as part of its Banking sector reform, approved new legislature that require banks to go public from first half of 2022. Consequently, all systemically important banks are preparing to issue initial public offering at this period.

Also, as Government sector itself is shifting to digital operation, opportunity to connect with State is becoming technologically enabled and simpler. This is an opportunity for all banks for offer services in much faster efficient ways. Some, banks, even non-banking organizations offer simple, easy to use solutions and changing



customer expectations of financial services. Customers compare the experience and demand easier services from incumbents.

Mongolia, with a wide penetration of mobile operating networks, and high level of smart phone consumption increasingly demand products and services to be available online. As customers' behavior change, the services organizations too finding it necessary to transform in order to stay relevant.

### 2.3.2. Market share of Khan Bank<sup>17</sup>

Khan Bank and the banking sector's average growth comparison for the past 5 years is shown below. Over the past 5 years, Khan Bank's key indicators have grown rapidly compared to the banking system.

Table 53. Market share of Khan Bank

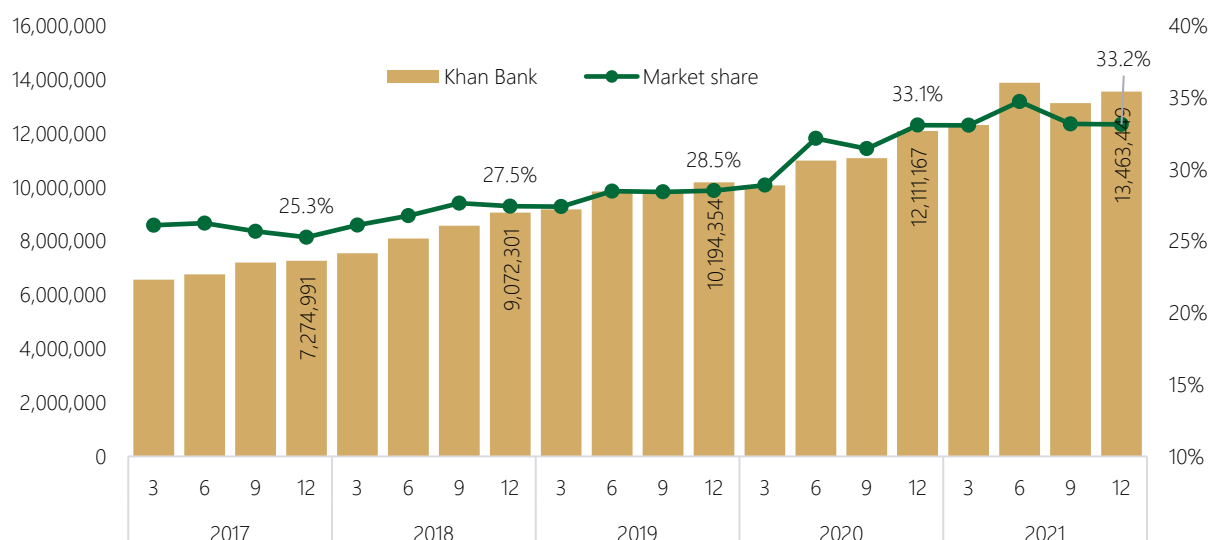
		CAGR% (2016-2021)	2021 (in millions of MNT)	2016 (in millions of MNT)
Total assets	Khan Bank	15.7%	13,463,449	6,480,832
	Banking system	10.1%	40,935,606	25,323,815
Total loans	Khan Bank	16.5%	7,004,826	3,264,422
	Banking system	11.2%	20,861,666	12,284,938
Total deposits	Khan Bank	21.1%	10,028,092	3,855,143
	Banking system	16.3%	28,018,031	13,166,055
Total capital (including sub-ordinated debts)	Khan Bank	5.8%	1,284,510	968,347
	Banking system	5.21%	4,012,693	3,113,367

#### Total assets

The banking sector's total assets have been growing consistently, increasing by CAGR 10.1% over the last 5 years, while Khan Bank's assets has increased by CAGR 15.7%, making the Bank's market share increase by 7.6 percentage points from 2017 reaching 33.2%. For the past year, on average, 9.5% of the total assets of the banking system are cash and cash equivalents, 24.9% are securities investments, and 50% are loan portfolios.

Figure 34. Khan Bank's total assets market share (in millions of MNT, %)

<sup>17</sup> The analysis and information in market share of the Bank is prepared based on Bank of Mongolia report "Form of public report on Bank financial reports, other information", as well as Khan Bank figures on public report compared to Bank of Mongolia's consolidated report.



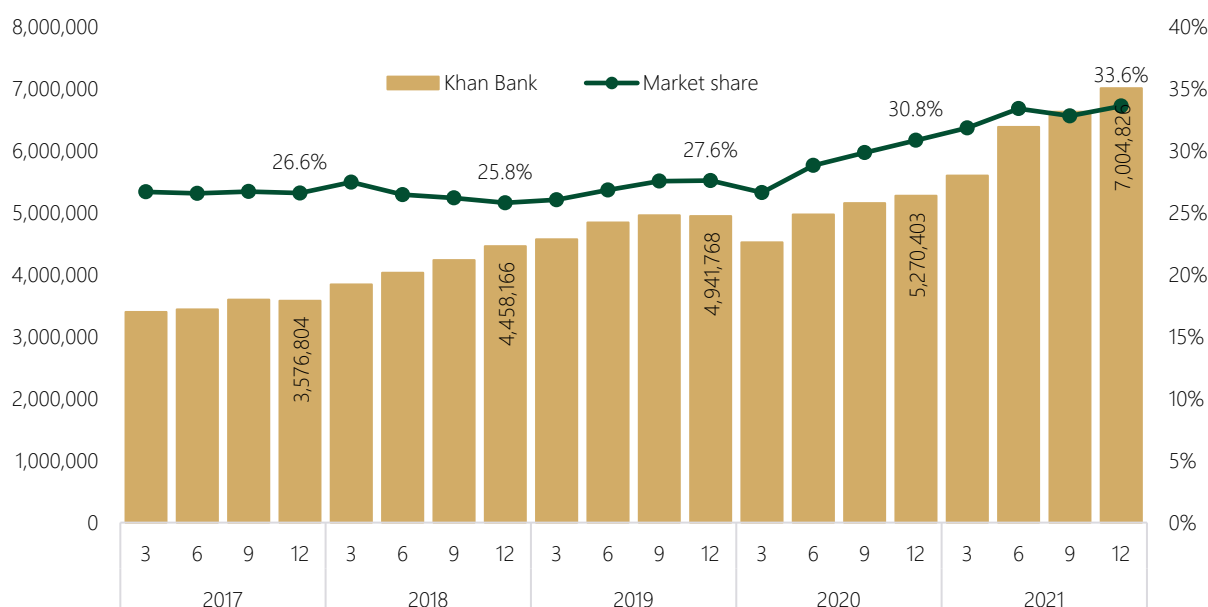
Source: Khan Bank report, Bank of Mongolia consolidated report

## Loan

### Loan products

The total loan portfolio of the banking sector has increased by 11.2% on average over the last 5 years, while Khan Bank's loan portfolio has increased by 16.5%, making its market share increase by 7.0 percentage points from 2017 to 33.6%.

Figure 35. Khan Bank's market share in terms of total loan portfolio (in millions of MNT, %)



Source: Khan Bank report, Bank of Mongolia consolidated report

Product-wise, Khan Bank accounts for 37.5% of the consumer loan market, while increasing its business loans to 31.6% in the last three years. As part of prudent macroeconomic policy, the Bank of Mongolia imposed step-by-step restrictions on retail loan growth and subsequently curbed the growth of retail loan portfolio in

the banking system. In addition, by the end of 2019, the Government of Mongolia paid off an individual's pension-backed loans. As a consequence, the Bank's retail loan share in its total loan portfolio further declined.

In terms of consumer loans, the centralized structure of analysis and decision-making was gradually transferred under the branch and sub-branches authority by introducing behavioral scoring for decision-making. Improvements have been made to reduce the number of participants in the process, insignificant controls, and to ease lending conditions and criteria in order to shorten the loan decision-making time, resulting in an increase of loan disbursements. In addition, pandemic related loan tenor extension and a temporary loan payment freeze upon borrowers' requests last year helped keeping the loan portfolio stable.

The market share of SMEs and corporate banking units has also increased following the growth of business lending.

Figure 36. Total loan market share (product)

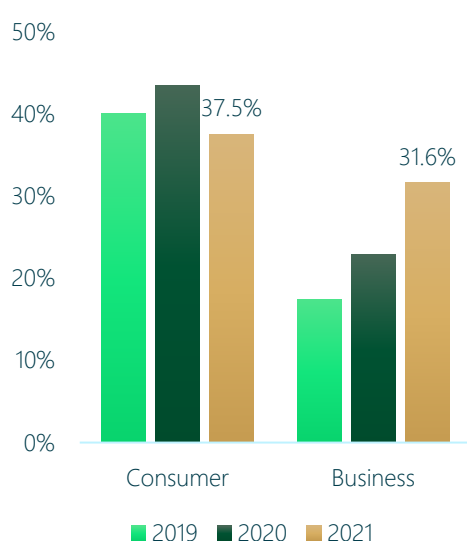
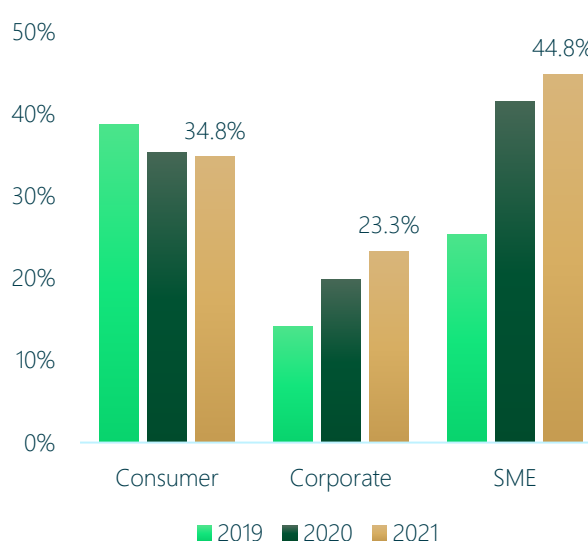


Figure 37. Total market share (business unit)



Source: Khan Bank report, Bank of Mongolia consolidated report

### Loan products under the Government programs

Mongolian Government has implemented "Job support loan", "Agricultural industry support loan", "Mortgage loan", "Herders support loan" "loans for the purchase of flour, wheat for feed mills, oilseeds for domestic production, respectively from 2021 yield", and "Meat reserve loan" under the "Comprehensive Plan of 10 trillion MNT to protect health and revive the economy" through commercial banks. Khan Bank actively took part in the above project loans. Under the "Job Support Loan" a total of MNT 2 trillion was disbursed through commercial banks, of which Khan Bank disbursed a total of MNT 835.4 billion to 10,330 borrowers. As for the "Agricultural industry support loan", the Bank disbursed a total of MNT 277.8 billion to 12,081 borrowers through its branches. Within repo financing program, the Bank issued MNT 308 billion to 1572 borrowers.

Figure 38. Employment support loan, percentage in total system disbursement, 2021 (percentage)

Figure 39. Repo financing loan, amount in total system disbursement, 2021 (percentage)



Source: Khan Bank report, Bank of Mongolia consolidated report

### Projects and programs

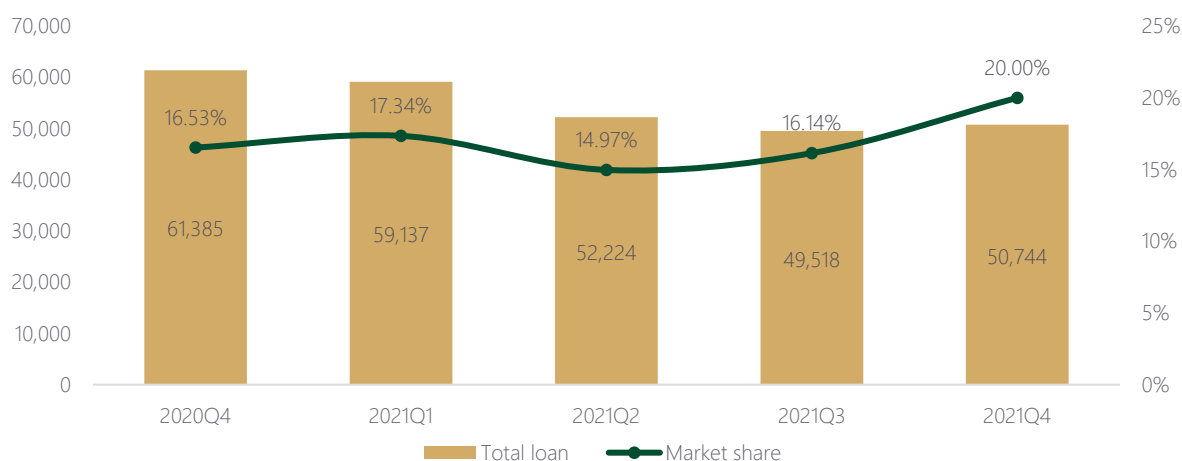
Since 2006, Khan Bank has been steadily taking part in the implementation of "Two-Step-Loan project for SME development and Environmental protection loan" implemented through provision of long-term finances by the Japan International Cooperation Agency /JICA/. At the end of 2021, the Bank's lending share is 22.5% which is the highest in terms of clients and loan amount among the commercial banks that are on-lending the JICA project loan.

### Green loan

In 2021, the Bank's green loan portfolio reached MNT 49.5 billion. Khan Bank has successfully attracted green loan funding from the following international lending organizations. Including:

- USD 15 million funding from Global Climate Partnership Fund;
- USD 20.0 million green funding from FMO, the Netherlands Development Finance Company;

Figure 40. Green loan portfolio, market share, 2020-2021 (in millions of MNT)

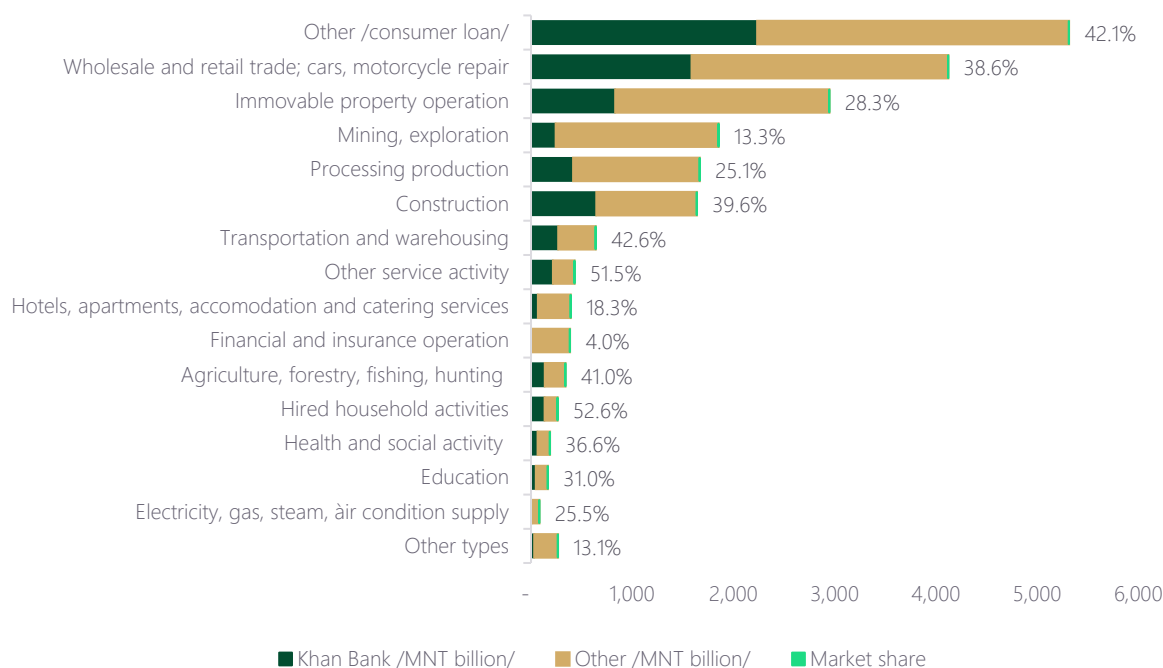


Source: Khan Bank report, Bank of Mongolia consolidated loan report

### Loans by sectors

As of the end of 2021, Khan Bank has a market share of more than 25% in key economic sectors such as wholesale and retail, real estate, manufacturing, and construction. In the mining sector, it stands relatively low at 13.3%. Most sectors have high growth rates and show an increasing trend.

Figure 41. Share in loan portfolio, by sectors



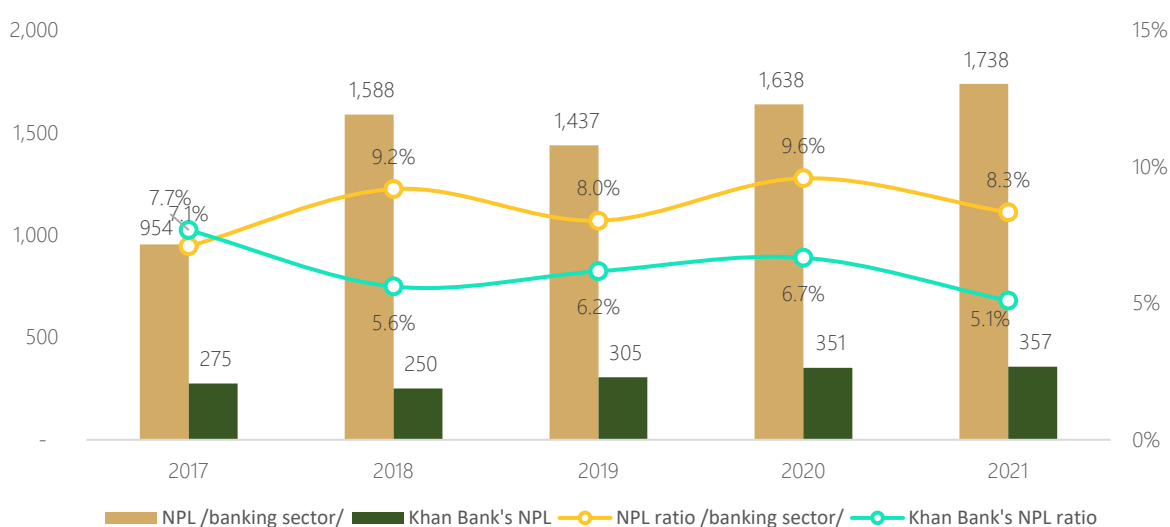
Source: Khan Bank report, Bank of Mongolia consolidated report

### Credit quality

Khan Bank's share of non-performing loans decreased from 7.7% in 2017 to 5.1%<sup>18</sup> in 2021, which is consistently lower compared to the banking system average.

Looking into non-performing loans at the end of 2021, the Bank's NPLs amount to MNT 356.9 billion, of which the mining sector has the highest NPL ratio at 11.4% (MNT 28.1 billion), the manufacturing sector at 9.3% (MNT 39.0 billion), the real estate sector at 6.7% (MNT 56.3 billion), construction sector at 5.7% (MNT 36.7 billion), and other business sectors at 1.8% (MNT 28.7 billion). While the consumer loan portfolio ratio stands at 5.1% or MNT 168.0 billion.

Figure 42. Loan portfolio quality (in billions of MNT, %)



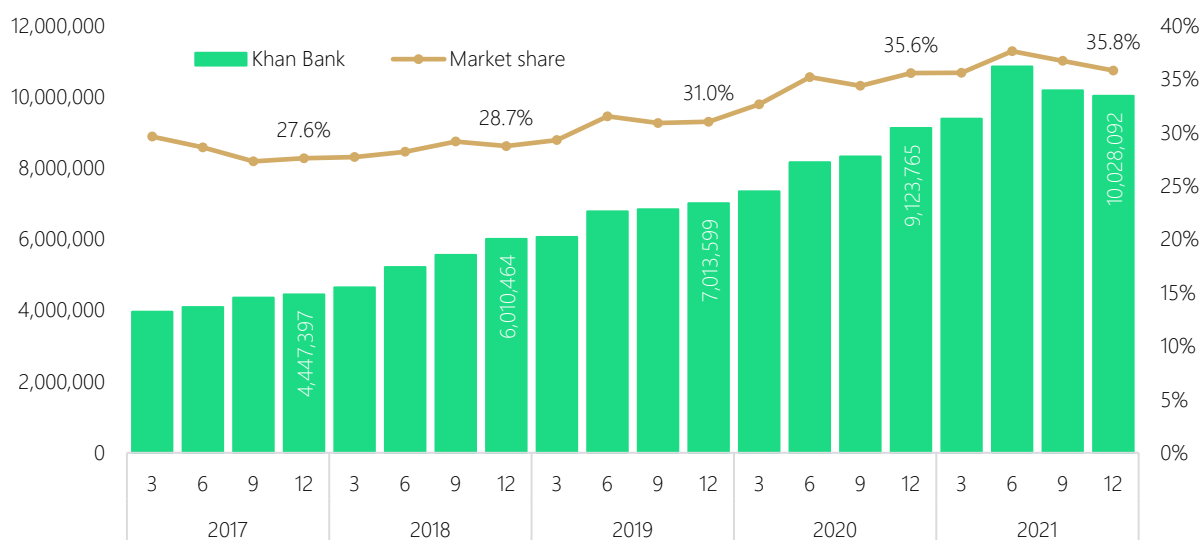
<sup>18</sup> As per IFRS rule NPL ratio was 5.3% in 2021YE  
156

Source: Khan Bank report, Bank of Mongolia consolidated report

## Deposit

Over the past five years, Khan Bank has consistently led the market in terms of customer deposits. As of December 2021, customer deposits reached astounding MNT 10,028.0 billion, an increase of MNT 904.3 billion (+9.9%) from the previous year, accounting for 35.8% of the banking sector.

Figure 43. Khan Bank's Market share in terms of total deposits (in millions of MNT, %)



Source: Khan Bank report, Bank of Mongolia consolidated report

Breaking down the Bank's customer deposits for the past 3 years, current account market share has increased rapidly, while demand and time deposits have maintained a stable market. Moreover, the Bank has a higher market share in terms of retail deposits.

Figure 44. Customer deposit market share (by product)

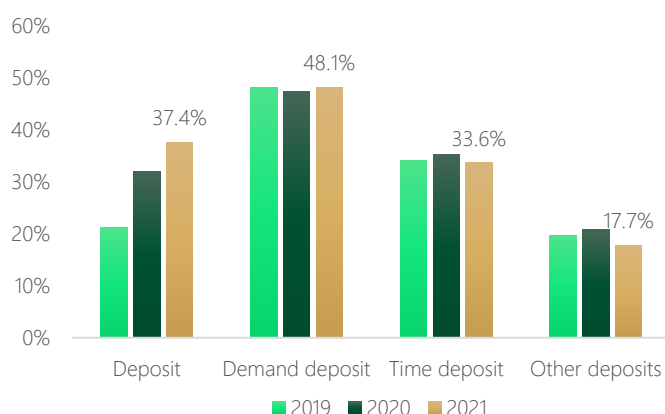
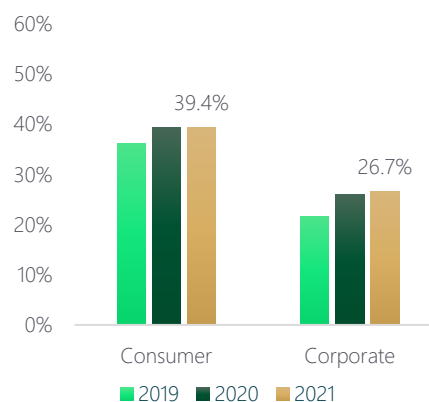


Figure 45. Customer deposit market share (by sector)



Source: Khan Bank report, Bank of Mongolia consolidated report

## Rural market share

Khan Bank prevails in the rural market, however, in recent years, it has also been increasing its market share in Ulaanbaatar. For instance, in 2021, the loan portfolio in Ulaanbaatar increased from 26.7% to 29.4%, while the current account increased from 30.7 to 32.5%.

Table 54. Rural market share as of December 31, 2021

	Total loan (%)	Customer deposits (%)	Branches (%)
<b>Ulaanbaatar</b>	<b>29.4</b>	<b>32.5</b>	<b>23.6</b>
<b>Rural</b>	<b>47.7</b>	<b>51.4</b>	<b>45.9</b>
Arkhangai	56.2	59.6	51.1
Bayan-Ulgii	70.3	48.0	47.5
Bayankhongor	36.0	47.3	48.1
Bulgan	48.2	62.3	50.0
Govi-Altai	58.3	62.4	51.1
Govi-Sumber	50.2	46.7	44.4
Darkhan-Uul	41.3	42.2	30.2
Dornogovi	37.1	47.0	39.7
Dornod	49.6	43.8	42.9
Dundgovi	54.0	66.7	50.0
Zavkhan	53.6	53.0	49.1
Orkhon	38.6	29.7	30.3
Uvurkhangai	51.8	59.1	47.2
Umnugovi	35.6	42.1	37.7
Sukhbaatar	54.2	65.7	51.4
Selenge	45.6	64.1	46.9
Tuv	51.2	58.4	49.2
Uvs	45.6	57.8	47.9
Khovd	48.9	48.1	43.8
Khuvsgul	52.2	64.1	50.0
Khentii	57.1	60.7	52.1

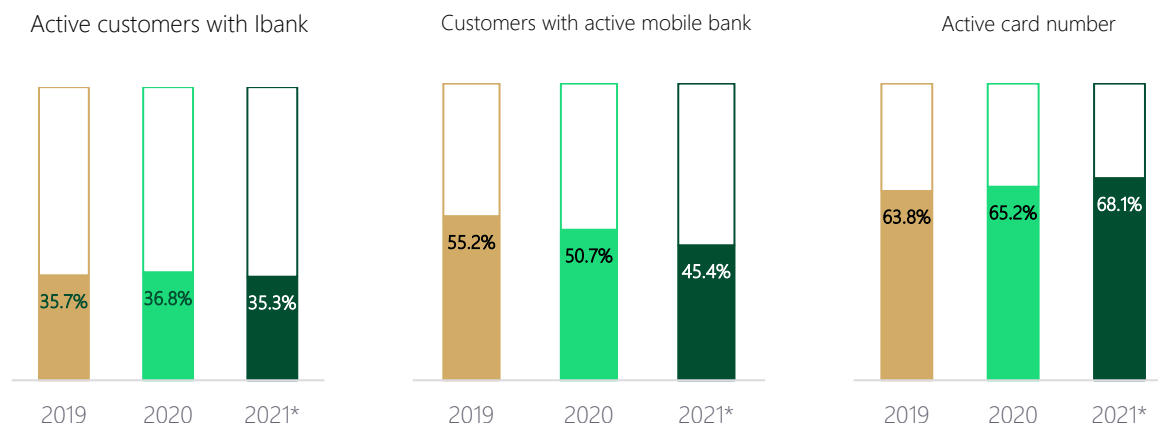
Source: Khan Bank report, Bank of Mongolia's rural branches' consolidated report

### Market share of digital banking and card service

Khan Bank's internet banking customers reached 1.2 million in the fourth quarter of 2021, accounting for 35.3% (as of third quarter of 2021) of the banking system. In 2020, the Bank upgraded its Mobile banking service and introduced the next generation USSD system /Mobile Banking 2.0/, enabling customers to have a seamless experience, further resulting in an increase of the total number of customers by 104.3 thousand to 808.6 thousand within the year, accounting for 45.4% of the total banking system. The number of active cards of the Bank reached 1.4 million, increasing by 208.7 thousand from the beginning of the year, accounting for 68.1% of the total banking system.

In 2021, the number of POS reached 33 thousand and as of third quarter of 2021 the number of ATMs 1.4 thousand, accounting for 40.0% and 50.2% of the total banking system, respectively.

Figure 46. Market share in digital banking service from 2019 to 2021 Q3

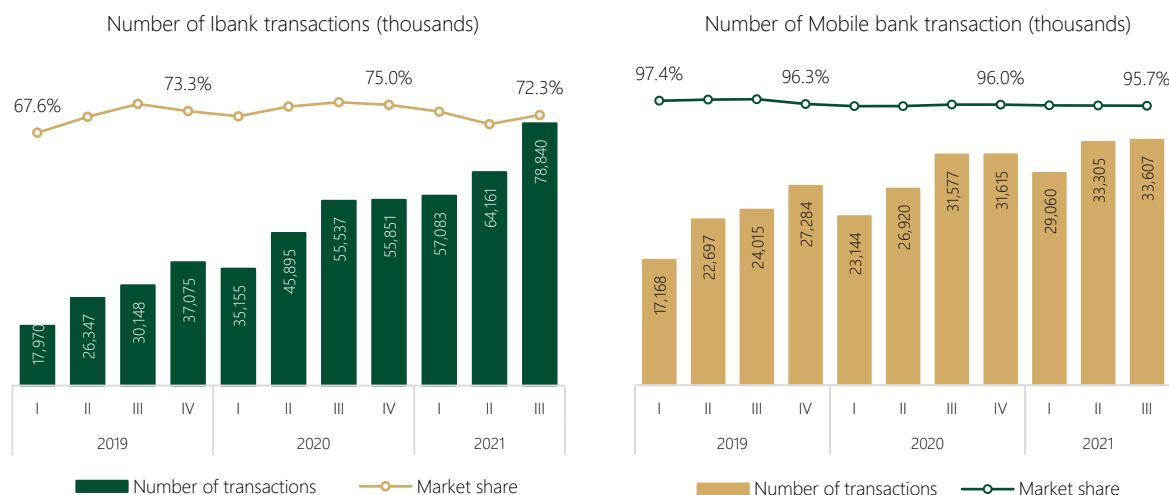


Source: Khan Bank report, Bank of Mongolia Payment system report and Mobile banking report

\* As of third quarter of 2021 Information on digital transactions

It can be seen that internet banking transactions have been growing rapidly over the last 3 years from the table below. Due to the Covid-19 pandemic, the need for customers to make payments remotely has increased, and by the third quarter of 2021, the number of digital transactions increased 2.6 times compared to 2019. Although Khan Bank's internet banking users account for 35.3% of the total banking system, it covers 72.3% of the transactions processed in the banking system, which demonstrates that the Bank is introducing user-friendly products and services. Furthermore, the Bank's mobile banking customers account for 45.4% of the total banking system, all while accounting for 95% to 98% of transactions processed.

Figure 47. Market share in internet and mobile banking transactions from 2019 to 2021 Q3

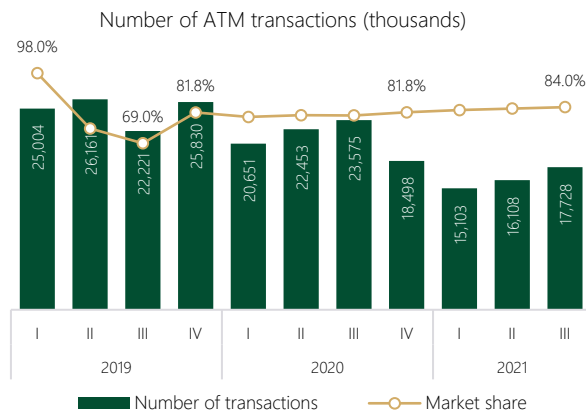


Source: Khan Bank report, Bank of Mongolia Mobile banking report

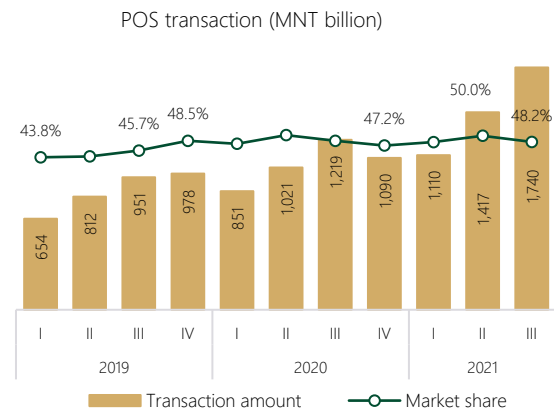
The graph below shows the decline in cash usage during Covid-19 pandemic. ATM transactions fell from 25.8 million in 2019 Q4 to 17.7 million in 2021 Q3. Khan Bank receives 48.2% of the POS transactions in the banking system through its POS devices.

Figure 48. Market share in terms of ATM transaction number and POS transaction amount from 2019 to 2021 Q3





Source: Khan Bank report, Bank of Mongolia's Payment system report



Source: Khan Bank report, Bank of Mongolia's Payment system report

## 2.3.3. Operating environment analysis-PESTEL

### 2.3.3.1. Political environment

#### 2022 State Budget

2021 fall session of Mongolian Parliament discussed and approved following legislative documents submitted by the Government in September 2021: State budget 2022, Social Insurance fund budget 2022, Health insurance fund budget 2022, Future heritage fund law for 2022. The budget themed "Labor, Productivity, Growth" focused to reduce Ulaanbaatar traffic jam. In the Budget, the Government also proposed to support large national level projects that expand the economy 3x, increase employment, increase state service availability, reduce state organization spending. In 2022, total income is projected at MNT 9.4 trillion, expenditure at MNT 12 trillion, and deficit of MNT 2.3 trillion. This deficit is expected to be at 13.1 percent of GDP. 2022 budget included following initiatives for growing Mongolia's economy and expanding it in short term.

- **Revive economy by kick-starting development projects, increasing exports and supporting investment.** MNT 1.8 trillion investment of total MNT 2.6 trillion, will be made to road and transport, energy, construction and development projects. This is 7.1x increase in new investment in road, transport sector, likewise, construction sector investment increases 3.7x, and energy sector investment increases 6.4x. The underlying projects are 124.5 km hard paved road from Dornod aimag Kherlen soum to Khavirga border, 122.4 km road connecting Tuv aimag's Ugtaaltsaidam soum with Tseel and Zaamar soums, 254 km road from Undurkhaan city to Ulikhan border point. Also, investment to increase of throughput capacity of Zamiin-Uud, Gashuunsukhait, Sukhbaatar, Altanbulag, Borshoo, Bichigt border points were included.
- **Increase of transparency, return and productivity of state owned enterprises.** As part of increasing state revenue by increasing SOE productivity, governance, transparency and accountability, "Governance, restructuring and dividend policy" reform will be carried out. The reform aims at assessing SOEs by finances and profitability, and sharing the information publicly to increase responsibility of the management. A dividend policy, is aimed to push SOE to save costs, increase profits and invest optimally.
- **Digitize State services, operate all functions cost saving mode.** All level training and seminar to be conducted in online environment to save costs. Costs associated with all international business trip, guest reception, purchase of office furniture, books, printing books, advertisements and gift items, sport events, organization anniversaries and state level celebrations, sector specific movie production projects and transportation fuel will be cut or saved. All level organizations have to cut 50 percent on their stationary

costs, and 50 percent on local business trips except for those organizations involved in combating pandemic situation.

- **Avoid state implementation of projects that can be done by private sector, transition to procurement of goods and services principle based on quality, standard and competition.** Outsource or contract all endeavors that private companies can take up as part of the operation. The fees and tariff shall be set so as to create competition and financing shall be done effectively.
- **Introduce reform package to social service sector organizations to transition them half budget independent.** Health, social protection sector will be reformed to become performance driven organizations to obtain funding. Education, arts, sports organization will become half independent in terms of budget, financing them based on performance from 2022. As part of education sector reform, variable cost funding mechanism will be established where program actual costs are taken into account. A system of independent review of quality of education will be established to teacher salaries and incentives are tied to student performance.
- **"Child with savings" program will be set up using national wealth.** To educate children on benefits of saving from young age, and supporting them to grow and develop into financially literate adult, a mandatory saving program will be implemented from 2022. The saving will be guaranteed by Future heritage fund, and of MNT 100 thousand amount per month. A legal guardian or parent obtain part of the funding during Covid hit period so as to reduce financial deficit of facility. The saving will be kept in State Treasury bank, upon parent or guardian request part of the saving can be taken out in cash.
- **Transition from welfare to labor policy to support employment of low income citizens.** Separate the population growth incentive from welfare programs, and make only the target group citizen eligible for welfare package. The target group will include senior age citizen that do not qualify for pension, developmentally challenged citizen and their care takers who are unable to work due to care taking, very poor and needy citizens. For low income families, welfare can be extended on a condition to work, support them get work
- **Finance Ulaanbaatar road congestion reduction initiatives.** MNT 420 billion was budgeted in Ulaanbaatar city budgets to reduce road congestion and improve public transport quality and accessibility.

#### Restructuring government organization

The Government plans to establish Ministry of Economic development, Digital development, communication ministry. Also E- Mongol academy, Discipline committee, Forestry development agency, General department for education were proposed to be established. The Government session dated January 6, approved the strategy and staffing plan for Ministry of economic development, Ministry of Digital development, communication. Ministry of Economic development was approved to have 7 departments, 8 division 80 headcount, including, Development policy and planning, Regional industrialization policy and planning, Development financing policy and planning, Commerce and economic cooperation policy and planning, State administration management, Development research and analysis, Monitoring- assessment, internal audit departments.

Ministry of digital development and communication will have 6 departments, 8 divisions with 87 headcounts. The departments include, Policy planning, Digital policy implementation, Communication policy and implementation, Cyber security policy and implementation, State administration management, and Monitoring- control, assessment, internal audit departments.

#### New rehabilitation policy

The Government of Mongolia was submitted the draft resolution of approving "New Rehabilitation Policy", in order for intensifying the economy during the pandemic, ensuring and strengthening economic independence, creating the basic conditions for the implementation of Mongolia's long-term development



policy "Vision 2050", and prompt resolution of development barriers. And its approved by Parliament of Mongolia. The policy addresses six sets of issues. These include:

1. **Port rehabilitation** - The Government will done the Gashuunsukhait railway into full operation in next year and connect the Khangai, Bichigt, Shiveekhuren and Artssuuri ports by rail to create a national railway network of about 5,600 kilometers. In this improment, the basic conditions for becoming the "Transit Mongolia" proposed by the President of Mongolia will be created. Within the framework of the "New Rehabilitation Policy", ports such as Khangai, Tsagaandel, Burgastai, Tsagaannuur, Tes, Artssuuri, Khankh, Baga Ilenkhi, Zelter, Ulkhan, Khavirga, Sumber, Bayankhoshuu and Bichigt will be connected by road to gradually strengthen the regional economic competitiveness. Additionally, the construction of a 987-kilometer highway connecting the border crossings from Altanbulag to Zamiin-Uud will also begin.
2. **Energy rehabilitation** – The main goal is by connecting to Northeast Asian network, to build a high-voltage transmission line for connecting two neighbor countries. Important recovery for energy sector is to intensify the construction of a natural gas pipeline from Russia to China through Mongolia, expand Thermal Power Plant III, Tavan Tolgoi, Baganuur, Choibalsan Thermal Power Plant and Amgalan Power Plant without delays.
3. **Rehabilitation of industrialization** - As part of the policy, value-added mining and agricultural processing plants will be established in stages. The steel and copper concentrate processing plants are at the heart of the industrial recovery. The Erdenet copper concentrate processing plant, the Tavan Tolgoi coal concentrator and the steel plants in the Darkhan-Selenge region will be built and put into operation. The steel and copper concentrate processing plants are at the heart of the industrial recovery. The Erdenet copper concentrate processing plant, the Tavan Tolgoi coal concentrator and the steel plants in the Darkhan-Selenge region will be built and put into operation. Organize the establishment of Darkhan tannery and retrieval sub-centers. The timely commissioning of the refinery and the domestic production of gasoline are considered important for economic independence.
4. **Urban-Rural rehabilitation** - Public transportation system of Ulaanbaatar will be completely renovated, and the construction of a 41-kilometer-long public transport with a pier bridge in three directions is planned, and the first line is planned to be completed by 2024. The construction of a new 136-kilometer railway around Bogd Khan mountain will reduce traffic congestion through Ulaanbaatar by 50 percent and provide the basis for the gradual relocation of major transport, logistics and trade centers in the capital city.
5. **Green development rehabilitation** – As part of the policy, in the initiation of the "Blue Horse" national program and promptly work to irrigate pastures, supply water to the Gobi region, recycle gray water, create lakes and ponds, and rehabilitate dried rivers, streams, springs, and streams. Desertification, pasture degradation, and depletion of drinking water resources are the main reasons for herders to nomad through around several aimags or moving to the capital city. The capital city of Ulaanbaatar, aimags and settlement areas need to establish new environment friendly technology plants for waste recycling.
6. **Rehabilitation of State productivity** - In order to improve the Government productivity, the program aims to become more Digital Nation, and to reduce the number of licenses and technical requirements required by government agencies by at least 50 percent by 2024. The transfer of number of government functions to the private sector and professional coalitions is scheduled to begin in the 2022 fiscal year. The fight against corruption will be intensified. The penalty policy will be tightened for corruption and official misconduct, and monitored the luxuries of public officials in excess of their incomes, and linked their income tax returns to tax payments.

MNT10 trillion Plan for Health Protection and Economic Recovery



The Government of Mongolia, on February 17, 2021, had approved MNT10 trillion Comprehensive Plan for Health Protection and Economic Recovery. The plan aimed to recover macroeconomic indicators to its 2019 level and laid out the following sets of measures to protect the public health and increase economic activity:

- MNT2 trillion financing to issue 3 percent interest and 3-year term loans to support employment of SME owners;
- MNT500 billion financing for 2-month scholarship for youth employment training program;
- MNT3 trillion financing for Youth I, II and III apartment complex and issuing housing loans;
- MNT2 trillion for financing large-scale development projects;
- MNT500 billion financing to support the agricultural industry;
- MNT2 trillion in line with the monetary policy objectives for increase in amount of repo financing by the Bank of Mongolia

### The Government's policy measures and emergency response to COVID-19 pandemic

Welfare policies such as "Mother with salary" and "Child savings" implemented during the pandemic will be continued in the form of savings. In the Action Plan of the Government of Mongolia for 2020-2024, will implement the "Child savings" measure and create a system to spend children's money on their food and nutrition needs, physical fitness, personal development, leisure and children's savings. On November 12, 2021, the Parliament of Mongolia approved the Law on the Future Heritage Fund. It has been decided to provide MNT100 thousand per month until July 1, and MNT50 thousand per month from July 1, 2022 to December 31, 2022 to children aged with 0-18. Under the program, the Government distributed MNT1.4 trillion to children, by changing it to savings, it is estimated that each child will have a total of MNT15 to 20 million in savings when they reach adulthood.

On December 31, 2021, the Government decided to reduce electricity bills for households until May 31, 2022. In particular, the Government will pay 350 kWh of electricity for ger area households and up to 250 kWh for apartment households on a monthly basis. The household will be responsible for any excess fees on electricity. The necessary funding will be provided by the mining project as part of social responsibility. On the other hand businesses have agreed to pay the bills of electricity. This may have a direct impact on daily consumption and increase the debt burden on citizens.

For public services, fees will be charged based on the number of services that have been successfully called to access information through the HUR and DAN systems of public services. The unit price is calculated at MNT10-80.

### Law on COVID-19 prevention, fight and mitigation of its socioeconomic impacts (Pandemic law)

On December 24, 2021, the Parliament of Mongolia has extended the effective period of the law to June 30, 2022. In accordance to this, the implementation of the Government programs has continued to remain in effect.

### Policy measures by the regulator in response to COVID-19 pandemic

The Bank of Mongolia has been taking necessary measures to reduce the negative impact of the Covid-19 pandemic on the banking and financial sector in accordance with the experience of other countries and related legislation, in 2021. Within the framework of the measures, MNT5.3 trillion loans of 181,783 borrowers had been restructured in a way that resulted in loan repayment deferrals.

The Bank of Mongolia is taking the following specific regulatory measures to ensure the implementation of the Pandemic Law, to reduce the negative impact of the pandemic on the banking and financial sector, and to continue financial intermediation.

- Effective period of the decision to defer both principal and interest payments without interest accrual on housing loans implemented by the Government of Mongolia have been extended by three times





since the beginning of 2020 until December 31, 2021. By the first half-end of 2021, payments of MNT3.1 trillion housing loans of 59.9 thousand households have been deferred;

- Effective period of the decision to defer repayments of consumer loans that experienced difficulties in repayments for up to 12 months regardless of debt-to-income ratio and term limit was extended until July 1, 2021. Commercial banks had restructured and deferred repayments of MNT1.2 trillion loans of 146.7 borrowers;
- Effective period of temporary changes to the “Regulation on Asset Classification, Provisioning and its Disbursement” has been extended until April 1, 2022. Under this regulation, if a loan is restructured, it will not be considered as restructured and its classification will remain unchanged as it was before. In addition, the number of overdue dates criteria to downgrade qualitative classification of a loan, which currently stands at 90 days, is to be reduced to 75 days starting from August 2021, 60 days from October 2021, 45 days from December 2021, 30 days from February 2022 and 15 days from April 2022;
- Reserve requirements for local currency has been reduced in March and November 2021 by 4.5 percentage points to 6 percent. Having a positive impact on the Bank’s liquidity position, it increases funds available for underwriting loans and supports financial intermediary services;
- Introduction of capital buffer requirements have been postponed with 1% and 2% capital buffer requirements coming into effect on January 1, 2022 and July 1, 2022, respectively;

Decisions in the political environment tend to have a direct impact on citizens financial consumption, and policies tend to increase the demand for banking products and services. Researchers believe that the amount of cash supplied to the market will not decrease and turnover will increase. On the other hand, although the pandemic exemption measures have been extended until the end of 2021, there is a tendency not to extend them further from 2022, to stop them, to change the form of some preferential regulations or to gradually reduce them to normal. Discounts and exemptions may reduce real household income, increase the debt burden, and adversely affect creditworthiness.

### 2.3.3.2. Macroeconomic environment

#### Economic factors affecting the bank's operations

Macroeconomic environment has a significant effect on the operation as the banking sector alone accounts for about 85 percent of Mongolia's financial market. The Bank's management regularly monitors macroeconomic developments and establishes business plans based on the performance of macroeconomic indicators, their trends and expectations.

#### GDP

The Covid-19 pandemic, which began in 2020, has caused a downturn in key sectors of the Mongolian economy, resulting in a 5.3% contraction in real economic growth, the steepest in 30 years. Policymakers have been implementing policies step by step to reduce the negative impact on the economy, banking and financial sector, and to alleviate the financial difficulties faced by citizens, businesses and financial institutions. As a result, economic activity increased to 1.4% in 2021. Economic growth in 2022 is projected to recover to 5.1% by the World Bank and 5.5% by the Bank of Mongolia. According to the Bank of Mongolia, the banking sector's credit growth would need to be around 13 percent to achieve this growth. Economic growth in 2022 can be projected to be higher than 5%. The positive economic outlook suggests that the bank's resources side will increase, the quality of the loan portfolio will improve, and the loan portfolio will grow.

#### Inflation

The Bank of Mongolia is implementing a policy to stabilize inflation in the medium term around the target level in the “Government Monetary Policy Guidelines”. In particular, stabilizing inflation will not only protect people's real incomes and assets from devaluation, create environment for the stability of the banking and financial system, but also will support long-term investment and sustainable economic growth. The Bank of



Mongolia aims to stabilize the inflation rate in 2021-2023 at around 6% per annum, +/- 2 percentage points. Caused by the Covid-19 pandemic, the global economic outlook has deteriorated, and inflation has risen sharply in many countries due to transportation, logistics disruptions and supply chain failures. Inflation remains above the Central bank's target, reaching 14.8% by the end of 2021 in Ulaanbaatar and 13.4% nationwide. It was announced that demand-driven inflation is likely to continue to rise in line with economic activity, while the supply-side inflation will depend on how quickly border constraints, transport and logistics delays are resolved. Higher-than-expected inflation exposes the risk of the Bank of Mongolia to tighten its monetary policy and further halting the interest rate decline.

#### Interest rate

In order to support economic growth, the Monetary Policy Committee of the Bank of Mongolia held four meetings from March 12, 2020 to November 24, 2020, and gradually lowered the policy rate by 5 percentage points to a record low of 6%. As a result, the required reserve ratio (RRR) of commercial banks was reduced from 10.5% to 6% in order to increase lending and put less liquid assets in the banking system into circulation. The decision was aimed at supporting economic activity and increasing lending during the pandemic, which led to a decline in interest rate of MNT deposits and loans throughout the banking system. However, at the irregular meeting of the Monetary Policy Committee on January 28, 2022, the policy rate was increased by 0.5 percentage points to 6.5% and the RRR rate was increased by 2 percentage points to 8%. According to the Monetary policy statement "Continued supply shortages due to border constraints are likely to increase inflation expectations and exacerbate the effects of the second round of inflation," and that the base rate is expected to rise in the international markets, which is creating an environment to increase the policy rate. In addition, inflation remains above the central bank's target, policy rate has raised again by 2.5 percentage to 9% in March 24, 2022. Although the policy rate increase has a negative effect on the increase in banks' capital expenditures, in the short term, on the asset side it has a positive effect on the increase in interest income of the Central Bank bills and, consequently, the increase in loan interest income.

#### Labour market

The labor force participation rate has increased since the second half of 2017 and remained relatively stable at 2018-2019, or at around 60 percent. However, it experienced a steady decline since the Covid-19 outbreak, reaching 57.9% in the third quarter of 2021. Employment also declined, falling to 7.4% in the third quarter of 2021. In addition, the number of employees declined, except in non-mining, agricultural and energy sector, and the total number of employees declined in comparison with the previous year.

The national average salary in the third quarter of 2021 was MNT 1,335.1 thousand and the median salary was MNT 993 thousand, which shows an increase of 5% each from the same period of the previous year. In connection with this, the average monthly total household income increased by 8.2% compared to the same period of the previous year and reached MNT 1,636.4 thousand. Despite this increase in nominal income, real income indicators have declined when the impact of prices on people's purchasing power is eliminated. For instance, the national average real wage index and average monthly real household income decreased by 3.3% and 1.3%, respectively, compared to the same period of the previous year. Looking at the household sector, the overall outlook is unfavorable, with rising debt levels, declining wage incomes, declining employment and rising unemployment. In addition, rising consumer goods prices are likely to be the biggest strain on real household incomes, and if household wage incomes do not recover quickly, households will have to reduce consumption, inducing slow economic recovery and worsening prospects. Weak labor markets are likely to adversely affect the bank consumer loans quality and the growth of the consumer loan portfolio.

#### Exchange rate and foreign debt





MNT rate against USD has stabilized at around 2,850 since August 2020 and fluctuated between +/- 5 tugrik. Policymakers have implemented a series of measures to prevent the tugrik from depreciating against the US dollar.

The Central bank has increased its foreign currency credit risk weight to 150%. In addition, the foreign exchange reserve requirement ratio(RRR) of commercial banks was gradually increased to 18% by the end of 2021, and the decision to reduce the RR interest rate of banks with higher foreign currency deposit rates than the systematic average was approved. This has led to increased cost and resulted in lowering foreign exchange deposit rates throughout the banking system.

Moreover, the dollarization of the market has been reduced by the inclusion of a provision in the Government's Law on Prevention, Control, and Social and Economic Impact of Coronavirus Pandemics that states to not cover foreign currency deposits with compulsory insurance and that transactions between citizens and legal entities must be made in the national currency.

In addition, events such as the postponement of the CNY 15 billion swap agreement between the Bank of Mongolia and the People's Bank of China to 2023, and the successful refinancing of the USD 799 million Gerege bond to be repaid in 2022 and USD 800 million Chinggis bond to be repaid in 2023 through the Century project, mainly contributed to reduction of the foreign debt burden, which led to the official foreign reserve of the Bank of Mongolia to reach USD 4.36 billion at the end of 2021.

From 2022, it is expected that the normalization of foreign trade will increase the volume of imports to increase as impact of the Covid-19 pandemic will weaken. If the demand for commodity in the international markets decreases, the prices of key raw materials will decrease, which may lead to a decrease in export earnings and a balance of payments deficit. There is a risk that the quality of foreign currency loans issued by banks will deteriorate if the tugrik depreciates against the US dollar due to increased external debt pressures and balance of payments deficits. Khan Bank's foreign currency loans account for about 2.58 percent of the total loan portfolio, indicating that it is unlikely for the bank to be exposed to exchange rate risk. However, positive or negative changes in Mongolia's credit rating due to external debt pressures will have a direct impact on the bank's cost of financing from foreign markets.

### 2.3.3.3. Social environment

#### Population and households

As of December 31, 2021, Mongolia had a total population of 3.4 million, an increase of 1.6 percent or 52.6 thousand from the previous year. By the end of 2020, the men and women accounted for 49.1 percent, 50.9 percent, respectively. Total population shows steady growth, but growth rate has been declining in recent years.

As of December 31, 2021, the population by age group (shown in a table below), 24.9 percent or 835.3 thousand in up to age of 10, 19.1 percent or 642.9 thousand in age of 11 to 23, 26.3 percent or 883.0 thousand in age of 24 to 39, 17.9 percent or 602.5 thousand in age of 40 to 54, 11.7 percent or 393.9 thousand in age over 55.

Table 55. Total population by age group

Birth year	2010 or later (Gen Alpha)	1997 to 2009 (Gen Z)	1981 to 1996 (Mil)	1966 to 1980 (Gen X)	1965 or before (Baby Boomers)	Total
Population (thousand)	835.3	642.9	883.0	602.5	393.9	3,357.5
Percent	24.9%	19.1%	26.3%	17.9%	11.7%	100%

Source: NSO

At the end of 2020, total households accounted at 908.7 thousand in nationwide, as settlement regard 45.6 percent or 414.3 thousand in capital and 54.4 percent or 494.4 thousand in rural. Total households by housing condition, 29.2 percent or 261.8 thousand in apartment, 31.7 percent or 284.8 thousand in house (all specified conditions are not met), 38.2 percent or 342.4 thousand in Ger and 0.9 percent or 8.0 thousand in other housing.

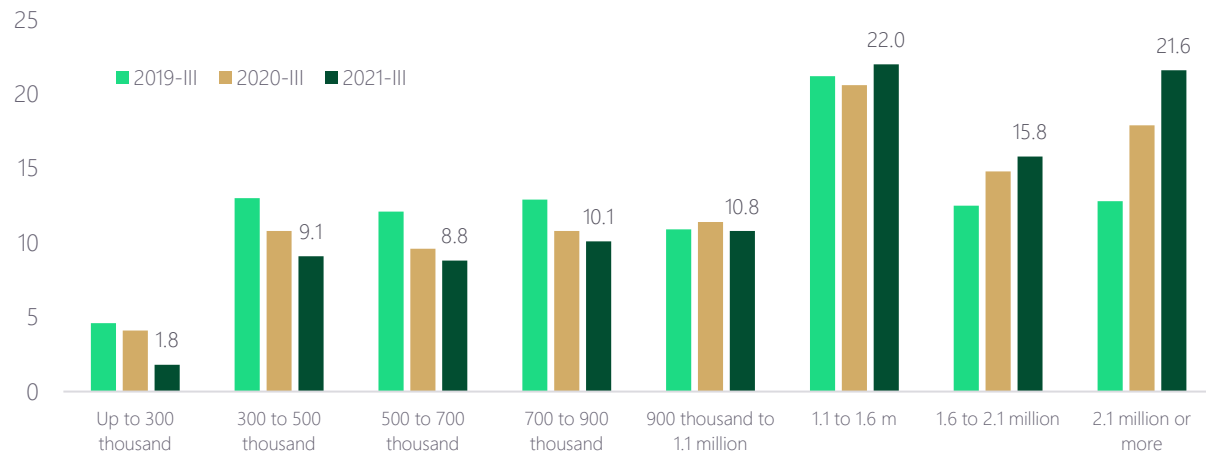
In Ulaanbaatar, households by housing condition at the end of 2020, 47.4 percent or 194.8 thousand in apartment, 29.9 percent or 123.0 thousand in house (all specified conditions are not met), 22.2 percent or 91.2 thousand in Ger and 0.5 percent or 2.2 thousand in other housing. In Ulaanbaatar, 214.3 thousand of households are settled in Ger district, the number was 218.7 thousand in 2015, which is decrease of 2.0 percent in the past years, which indicates that demand for housing in apartment areas remained at high.

In rural, specifically, herder households number accounted at 181.0 thousand at the end of 2020, grew at 5.5 percent or 9.4 thousand on year-over-year. The share of herder households accounted for 19.9 percent in total households, showed increase on year-over-year.

As of third quarter of 2021, monthly average income per household accounted to MNT 1.6 million, grew at 8.2 percent on year-over-year. The income mainly composed 44.8 percent by wages and salaries, 28.2 percent by pensions and allowance. The wages and salaries shrunk at 5.2 percent and pensions and allowance grew at 51.8 percent, on year-over-year. The main impact is in increase of child allowance from MNT 20.0 thousand to 100.0 thousand in April, 2020.

In terms of household monetary income grouping, as of third quarter of 2021, income of MNT 1.1 to 1.6 million group has accounted for 22 percent, which is most dominated group. Households with income of up to MNT 1.1 million shrunk but income of MNT 2.1 million or more group increased in last 3 years.

Figure 49. Household monetary income grouping in MNT, by percent



Source: NSO

As of third quarter of 2021, monthly average expenditure per household accounted to MNT 1.495 million, shrunk at 2.4 percent or MNT 37.2 thousand on year-over-year. Expenditure composed 61.6 percent by non-food expenses and services, 20.8 percent by food expenses. In December 2020, the Government of Mongolia decided to pay for utility costs (electricity, water, heating, and waste collection) for households and some businesses during the pandemic. It has been resulting significant impact on household consumption.

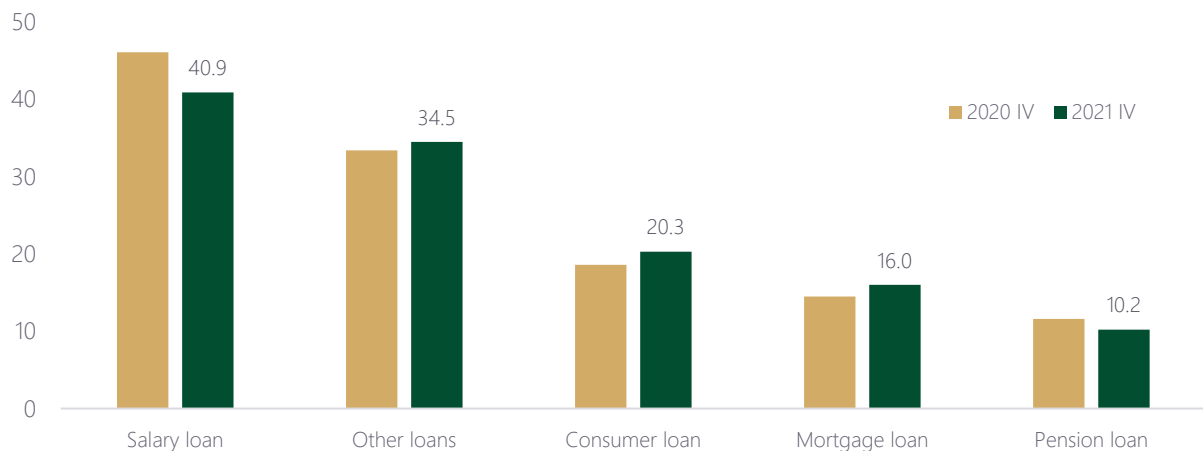
For household loans, as of third quarter of 2021, 483.4 thousand of households or 52.9 percent of the total are under loans, and its decreased by 6.6 percentage point on year-over-year. By loan type, 44.3 percent or 214.4 thousand are under salary loan, 32.4 percent or 156.6 thousand are under other types of loan, 22.9 percent or 110.7 thousand are under consumer loan, 14.0 percent or 67.7 thousand are under mortgage loan





and 8.6 percent or 41.6 thousand are under pension loan. For households with housing program loan, the Bank of Mongolia deferred the repayment of mortgage loans from 2020 to July 1, 2022, due to the pandemic.

Figure 50. Household loan type, by percentage



Source: NSO

For loan repayment, as of third quarter of 2021, monthly average repayment amount accounted at MNT 669.4 thousand for per household, grew by 6.0 percent or MNT38.0 thousand. For monthly average repayment amount on loan type, repays MNT640.6 thousand, MNT525.2 thousand and MNT316.5 thousand for mortgage loan, salary loan and pension loan, respectively.

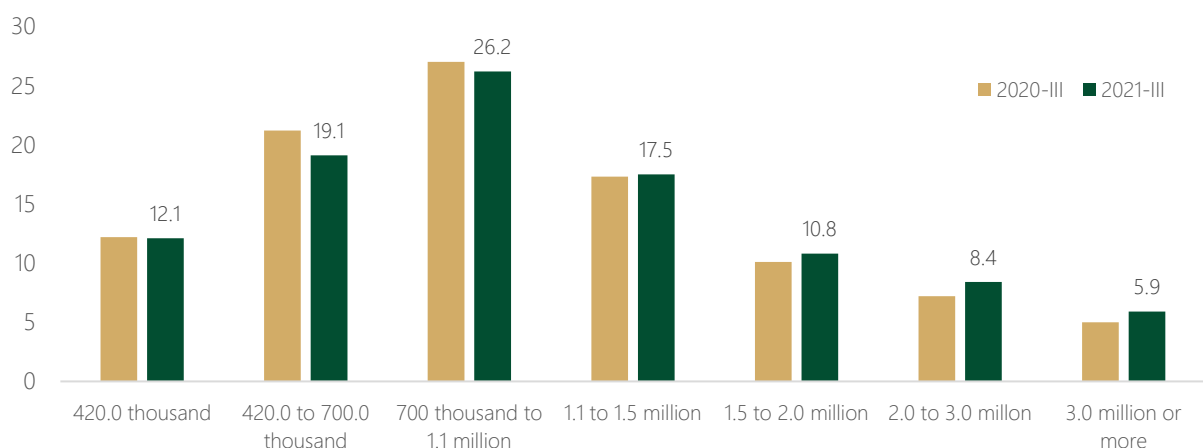
#### Employment and average salary and wages

As of third quarter 2021, labor force participation rate is 53.6 percent, decreased by 0.9 percentage point on year-over-year. The rate is highest in the age group of 35-39, accounted at 75.3 percent.

As of third quarter 2021, the monthly median salary was MNT993.0 thousand and monthly average salary was MNT1.3 million for employees. Monthly average salary increased by 5.2 percent or MNT66.0 thousand on year-over-year. By economic sector type, highest salaries are in mining and quarrying sector or amount of MNT3.1 million and lowest salaries are in accommodation and food service activities or amount of MNT890.8 thousand.

For grouping of monthly average wages and salaries, as of third quarter of 2021, according to insurers' report of social insurance, from MNT700. thousand to MNT1.1 million group was highest or 26.2 percent and MNT 3.0 million or more group was lowest or 5.9 percent.

Figure 51. Wages and salaries by group in MNT, by percentage in total



Source: NSO

### Business register

As of third quarter of 2021, registered establishments were 228.4 thousand. By establishment type for composition, 77.9 percent or 178.0 thousand were company, 14.4 percent or 33.0 thousand were non-government organizations, 2.1 percent or 4.8 thousand were government bodies, and 2.4 percent or 5.4 thousand were partnership, 2.0 percent or 4.6 thousand were cooperatives. In the total, 42.2 percent or 96.3 thousand of all established legal entities are under active operation.

In terms of number of employees for operating establishments, entities with 1 to 9 employees was 87.8 percent or 84.7 thousand, 10-19 employees was 5.2 percent or 5.0 thousand, 20 to 49 employees was 4.2 percent or 4.0 thousand and employees with 50 or more was 2.7 percent or 2.6 thousand. By economic sector, wholesale and retail trade sector is dominating, number of entities were accounted for 78.1 thousand or 81.0 percent.

### 2.3.3.4. Technology environment

The FinTech market is booming as the world's traditional credit system is slowly declining and becoming more and more digitalized. Due to long pandemic lockdown people are preferring to use fintech applications and digital banking solutions for their everyday needs. Let's look more into trends in technological environments.

#### Smart phone technology

As people's lives are getting more connected to smartphones, financial products and services are starting to become more smartphone based. According to "Digital banking user study" in 2018 by PWC people prefer to use their phone as their main channel of banking so they can avoid visiting physical branches which is a huge advantage.

#### Digital banking

Digital banking is a high level online automated services which uses API to connect banking institutions, deliver banking services and make payments. This service allows financial users to quickly access their finances through devices such as mobile phones, computers, and ATMs, the number of mobile financial service providers is also expected to increase due to high demand.

#### Biometric Technology

In today's digital age, online security and attacks are one of the most sensitive issues, so it is important for the fintech industry to prioritize cyber security. One of the answers to this issue is biometric technology. Although protection only requires biometric authentication, this technology has the advantage of making the process of accessing the application and services easier and faster.

#### Block chain technology

Block chain technology is becoming a base technology for information transparency, and fintech startups are increasingly using the technology. Another advantage of this technology is that it allows you to make smart contracts to automate financial processes.

#### Artificial Intelligence

Artificial intelligence allows us to automate data analysis on wide range of data which helps us to save valuable time. The technology is also the basis for the development of chatbots and robot advisors, as well as identifying customer behavior and habits which can be used to detect any fraudulent activity.

#### Machine learning



Machine learning is the use of statistical models, algorithms, and computational systems to perform a specific task without instruction, based on the information provided and its patterns. Machine learning is used for many purposes, from sorting out "spam" emails to detecting fraud and predicting stock prices. Machine learning generally uses three things: data, variables, and algorithms.

#### *Mobile devices and mobile phone service options*

- ✓ Internet and smartphone based banking services
- ✓ Online loan service
- ✓ Use information technology systems to access banking services regardless of time or distance
- ✓ Using Fintech makes financial services easier

#### **2.3.3.5. Environment**

Environmental factors have direct and indirect impacts on the Bank's operations. Climate change and the frequency and spread of weather disasters are increasing worldwide, which is Mongolia is particularly susceptible to due to its cool and dry climate and high elevation. Due to global population growth and industrialization, the use of fossil fuels has increased over the past 200 years, increasing greenhouse gas emissions, which is a key factor in accelerating climate change and global warming. Global climate change has affected Mongolia's environment and fragile ecosystem for decades. The snow line of the Altai, Khangai, and Khuvsgul mountains are melting; rivers, streams, and springs are drying up; and steppe desertification is in full swing. As a result, pasture degradation and dust storms in the spring increase year by year, reaching East Asia and the United States. Furthermore, the increased number of livestock and deterioration of pasture yields has led to poor fattening of livestock and grazing following severe winters, resulting in increased migration from provinces and soums to the capital city, the rapid spread of livestock diseases, and other adverse effects. This is a risk factor for the Bank's operations in terms of its herder loan products.

About 80 percent of Mongolia's population lives in Ulaanbaatar, province centers, soums, and other urban areas. Relatively cold and long winters in Mongolia require efficient central heating solutions and a shift from burning raw coal to the use of improved briquettes. Public health concerns are also reaching catastrophic levels. In terms of banking operations, the Bank's employees and customers continue to be affected by negative environmental impacts.

By developing green loan products to support the introduction of modern, clean, waste-free, and environmentally friendly projects and programs in cooperation with the Government, the private sector, and international organizations, there will be greater opportunities for reducing air pollution.

It is projected that Khan Bank's green loan amount to be disbursed newly in 2022 will be approximately MNT 100 billion. Herein:

- Household, pension and business loan to reduce air and environmental pollution: Disbursement of 2022 will be directly dependent on the subsidy amount and new loan of MNT 5 billion can be disbursed in case of MNT 1 billion interest subsidy is allocated.
- Green consumer and business loan to improve energy efficiency: Total fund received from foreign institution is USD 13 million and the first tranche of USD 5 million has been used and remaining USD 8 million can be disbursed by the end of 2022. Thus, total portfolio of the product can be reached to MNT 37 billion by disbursement.
- Green loan to be disbursed within scope of FMO co-financing: 10% of total funding or USD 20 million is received for financing green projects. The funding will be fully used in 2022 according to purpose as stated in the agreement.



## Legal environment

### Amendments to the Banking Law of Mongolia

The Amendment to the Banking Law was approved on January 29th, 2021 during the fall parliamentary session and it reflects following 4 principles. These are:<sup>19</sup>

**Reorganize banks as joint-stock companies.** In accordance with the amendment systemically important banks shall become an openly traded joint-stock company and carry out IPO by 30th of June, while other banks are free to choose the type of joint-stock company, whether it's open or closed.

**The concentration of share ownership shall be decreased.** An influential shareholder (i.e., a shareholder holding more than 5% shares in a bank or a shareholder which can influence the bank's management or operations) of one bank may not be an influential shareholder of another. By December 31, 2023, a shareholder of any commercial bank must not hold more than 20% of the total issued shares of any bank (whether alone or together with its/his/her related persons, if any).

3. The law specifies rules according to which the order in which the bank's creditors will be paid in liquidation is clearer and in line with legal interests of customers holding deposit with the bank. The amendment established that citizens would be the first in priority before legal entities in deciding the order of payment of funds in deposit and current accounts, while the receivables of legal entities, government, parliament affiliated entities shall be discharged after.

**The criteria for defining a systemically important bank has been specified in greater detail.** The Law on Ensuring Banking Sector Stability defined a systemically important bank as a bank which has accounted for five (5) or more percent of the total assets of the Mongolian banking system. The amendment, however, specifies that the Bank of Mongolia will determine if a bank constitutes a "systemic bank" based on criteria such as the bank's total capital, total liabilities, volume share of banking transactions within the overall payments system, core operations, number of customers as well as market share.

*Law and legislation relevant to the Banking operation:*

### Within the framework of Online loan product

#### *Civil code*

The amendment to the Civil law specifies that an electronic agreement may be confirmed not only by a digital signature, as it was prescribed previously, but also using an electronic signature.

#### *Law on deposit, transaction, loan activity of banks and authorized entities*

The bank may render deposit, transaction, loan services in an electronic form if the client has opened an account with the bank on the basis of a written agreement, i.e. a client subjected to KYC. In doing so a password, passcode, electronic signature satisfying confidentiality requirements may be used, in which case such methods shall be deemed as an authentic signature affixed to electronic transfer, loan agreement and other contracts.

#### *Law of Mongolia on Electronic Signature*

"Electronic signature" is defined as an electronic data, which contains words, letters, numbers, symbols, shapes, affixed to or merged into an electronic document in order to identify a person which signed the electronic

---

<sup>19</sup> Mongolia Financial Stability Report, 2021.09, №15; Bank of Mongolia



document, while a “digital signature” is defined as a type of electronic signature, contained in an electronic document, created through a cryptographic transformation of information using private key of digital signature in order to prevent forgery, modification of an electronic document.

#### *The Law on Prevention, Combat, and Mitigation of Social and Economic Impacts of the COVID-19*

If a client of a bank, with whom the bank has stable financial relations and which holds an account with the bank, sends a request to sign an agreement relating to electronically provided services of the bank using its” registered electronic mail, technical tools, software, or a password, passcode, electronic signature satisfying confidentiality requirements, and the bank accepts such request, a legally binding agreement shall be deemed to be concluded between the parties.

#### *Law on state registration of property rights*

An application to register an immovable property pledge agreement may be authenticated by a digital signature and sent to the state registration authority along with copies of the loan agreement, pledge agreement, pledge certificate, however, the original copies of documents must be sent in paper form afterwards to the state registration authority within 5 days of sending the application in electronic form. The state registry employee shall ensure conformity of the electronic documents with the paper documents and only upon such confirmation the property right shall be registered, provided that no grounds to deny such registration is found.

#### *Deposit products*

##### *Law on deposit, transaction, loan activity of banks and authorized entities*

The depositor may enter into a deposit agreement with the depository in a form of deposit book or deposit certificate or in electronic form. The deposit agreement concluded in electronic form shall become effective from the moment that the depository accepts depositor’s expression of its’ intention to enter into an agreement and delivery of an electronic document certified by electronic signature.

#### *Laws approved in December, 2021*

##### *Law on Protection of Personal Information*

The law was approved during fall session of the Parliament on 2021.12.17. The law shall become effective starting from 2022.05.01, rendering the Law of Mongolia on Individual Secrecy invalid.

#### **New provisions relevant to the Bank:**

1. The draft law defines new concepts, such as personal information, sensitive information, and establishes what information pertains to biometric, genetic, health, correspondence, property information, who owns and how to collect, process and use such information.

“Sensitive information” is defined as an information regarding person’s ethnic origin, religion, beliefs, health, property, correspondence, genetic or biometric data, electronic signature, whether the person has been or is convicted of crime, sexual orientation, sexual life.

2. The person in charge of data shall collect, process or use a personal data only upon data owner’s consent, except in cases specified by law, and shall not use or transfer a personal data for purposes other than indicated in such consent. The data owner shall issue such consent in written, which can be in either paper or electronic form. No consent shall be necessary if 70 years has passed upon data owner’s death.

When providing banking service to the customers, the bank shall obtain customer’s consent to collect, process and use their personal information, and therefore, this law may have a significant impact on the banking operation. The bank will need to amend and revise its’ policies, regulations, guidelines, agreement, templates

and forms relevant to processing, using and erasure of personal data, as well as protection of customer's personal data confidentiality. The bank will undertake additional obligations related to use, processing, collection, erasure, protection, and correction of customer's personal information, which will increase the bank's responsibility related thereto. It has a positive impact on the Banking operation.

#### *Revised Law of Mongolia on Electronic Signature*

The Law was approved during parliamentary fall session on 2021.12.17 and shall replace the 2011 Law on Electronic signature starting upon 2022.05.01.

#### **New provisions related to banking activities:**

1. An electronic signature intended for legal entities shall be issued in the form of an electronic stamp. An electronic stamp shall be used by a person entitled to represent the legal entity without proxy or other persons authorized by the former. If the legal entity does not possess an electronic stamp, the digital signature of persons mentioned above shall apply.
2. Certificate of digital signature and electronic stamp shall be issued to a Mongolian citizen for a period of 5 years, to a legal entity of Mongolia for 3 years, to a foreign citizen and stateless persons for a period of their residency, or if the period of residency exceeds 3 years – for 3 years.
3. Every citizen of Mongolia who has reached the age of 16 shall be issued a digital signature certificate. In connection therewith the digital signature information shall be installed in the citizen identity card.

With the approval of this Law, the usage of digital signature will increase, while the gratuitous issuance of digital signature will provide the possibility for the bank to render services in electronic form and conclude electronic agreements with the client in line with requirements of the Civil law. The law will have a positive impact on banking operations.

#### *Law on Virtual Asset Service Providers*

The law was approved by fall session of the Parliament dated 2021.12.17. Effective date of the law is not specified as such, therefore, it shall enter into force 10 days after its' publication in the state gazette.

The law aims to establish provisions concerning registration of virtual asset service provider, control of their activities, description of their rights and duties.

This law may affect the bank when providing banking services and products to virtual asset service providers, therefore the bank needs to amend agreements entered into with virtual asset service provider and update the KYC procedure. The law has a positive impact on the banking operation.

#### *Law on Cyber Security*

It was approved during fall session of the Parliament dated 2021.12.17. This law aims to govern relations arising between the state, individual, or legal person in connection with ensuring cybersecurity and establish provisions concerning their organization, as well as implementation of supervision.

New provisions relevant to the bank:

1. As an entity operating a critical information infrastructure, Bank shall have an internal procedure on cybersecurity in compliance with the general cybersecurity regulation.
2. As a legal person operating a critical information infrastructure, Bank is obliged to procure information security auditing within the timeframe specified by law or upon demand by the competent authority.
3. As a legal person operating a critical information infrastructure, Bank shall have following duties:
  - Approve and implement a plan to abide by in case of cyber-attack and breach





- Implement a standard concerning an information security
- Procure cybersecurity risk assessment annually, or upon introduction of change in information system or information network partially, or upon demand by competent authority;
- To procure information security audit at least once every two years.

The law may have significant impact on the bank, since numerous changes may be introduced to the internal policies, procedures, instructions regarding bank's information security and cyber security.

#### *Law on Public Information.*

It was approved during fall session of the Parliament dated 2021.12.17. The law shall become effective starting from 2022.05.01 and replace the Law of Mongolia on Information Transparency and Right to Information.

New provisions related to banking activities: An electronic document assigned with unique number issued by the integrated public service system ("E-Mongolia") shall be deemed equal in effectiveness to a document in paper form.

State registration authority shall be in charge of the information regarding the legal entity's ultimate beneficial owner (UBO), and its' transparency. Thus, the bank will have direct access to the company's UBO information when conducting general banking operations such as receiving loan application, conducting loan analysis and research, decision making, loan disbursement, monitoring, and repayment. It has a positive impact to the banking operation.

#### *Draft laws included in the guidelines for improving the legislation of Mongolia until 2024*

#### *Law on Financial Consumer Protection*

Submitted to the Parliament on 2021.06.30.

#### **Highlight provisions:**

1. The bank is obligated to provide the financial consumer with information and knowledge on general conditions of financial services free of charge.
2. Financial consumer shall be entitled to repudiate a loan agreement concluded with a bank within 7 days, as well as prepay the loan without paying any penalty or fees.
3. The bank shall be obligated to establish an internal procedure and a structure regarding review of financial consumer's complaint, as well as report to the relevant authority regarding resolution of such complaint.
4. The financial consumer shall be entitled to file a complaint to the Financial ombudsman, if it deems that its rights were violated, and have such complaint reviewed and resolved.

#### *New regulations and instructions to be approved within the framework of Banking law & the Law on Deposit, Transaction and Loan activities of banks and authorized legal entities*

#### *Following procedures are subject to approval in accordance with the Banking law:*

Procedure on notifying and seeking permission from Central bank in case of introducing changes to the amount and structure of bank's capital, issuing new shares and securities convertible to shares, public offering of shares, selling or transferring of bank shares, concluding other agreements similar to such transactions, becoming an influential shareholder, introducing changes to the amount and structure of influential shareholder's share ownership.

The bank shall obtain a permission from the Bank of Mongolia whenever a change is introduced to the amount and structure of bank's capital in following ways:

- Issuance of new shares or securities convertible to shares;



- Reorganization of the bank by way of merger, consolidation, division, separation, or transformation;
- Increase or decrease of nominal price of bank's shares;
- Person becoming an influential shareholder of the bank whether alone or together with its' related persons;
- Influential shareholder increasing its' ownership by obtaining 1 or more percent of the total issued shares of the bank;
- Redemption of shares and securities convertible to shares.

In all remaining cases, where changes are introduced to the share ownership structure in a way that is not described above, the bank shall not need to obtain permission from the Central bank, mere notifications shall suffice.

*Following procedures and instructions are subject to approval in accordance with the law on Deposit, Transaction and Loan activities of banks and authorized legal entities:*

- Procedure establishing requirements for deposit, transaction, loan activity of banks and authorized legal entities;
- Instruction on calculation of deposit interest;
- Procedure on establishment of interest rate accruing on current account balance;
- Procedure on loan activity of banks;
- Instruction on calculation of loan interest rate.

## 2.3.4. Competition landscape

### Competition in banking sector

Total assets of banking sector amounted to MNT40,936 billion at the end of 2021, grew at GAGR of 10.1 percent, from 2016 to 2021. The primary competitors, top 5 banks accounted for 93.6 percent of total assets of banking system and other commercial banks accounted for 6.4 percent in the sector. The top 5 banks grew at GAGR of 7.7 percent at least, and while the other banks shrunk at CAGR of 4.2 percent. For Khan Bank performance, grew at highest CAGR of 15.7 percent. The following table sets forth the market share of banks and CAGR performance.

Table 56. As of December 31, 2021, total assets (including the bankrupted banks), market share, CAGR performance.

	Total assets (in billions of MNT)	Market share* %	CAGR 2016-2021
Khan Bank	13,463	33.2%	15.7%
Trade and Development Bank	9,576	23.4%	7.7%
Golomt Bank	7,901	19.3%	11.1%
State Bank	3,799	9.3%	12.7%
Xac Bank	3,475	8.5%	9.0%
Other Banks	2,613	6.4%	-4.2%
<b>Total</b>	<b>40,936</b>	<b>100.0%</b>	<b>10.1%</b>

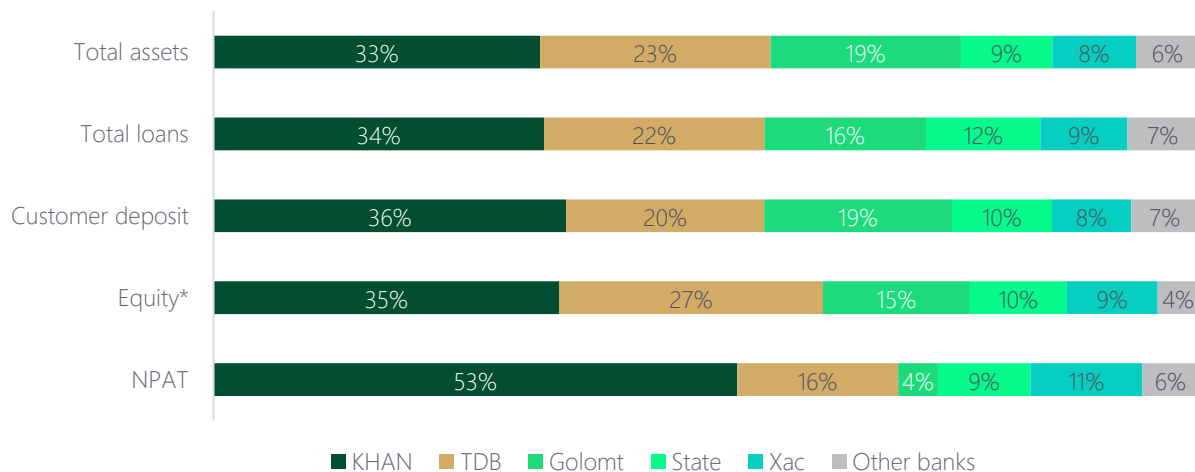
Source: Quarterly financial reports of commercial banks, Bank of Mongolia

\*(According to report of Bank of Mongolia)

In respect of market share, the following figure sets key financial indicators for top 5 banks and other banks.

Figure 52. Market share as of December 31, 2021 (\*excluding sub-debt)





Source: Quarterly financial reports of commercial banks, Bank of Mongolia

### Competition during digital transformation

The banking industry in Mongolia has become increasingly competitive, primarily in the scope of digital transformation as same as strategic priorities of the commercial banks of the world. In the market, as comply with top digital trends, the principal competitive factors include improving digital experience of customer journey, expanding digital payments, enhancing advanced data analytics and automate back-office operations. Due to the pandemic, banks required to deliver remote services and products to customers seamlessly, and the process lead to rapid transformation.

In recent years, banks' digital strategy formations include creating digital banking body in the structure, using open banking concept or building partnership with fintech and tech firms, leading the integration with State bodies, process automation, and upgrade legacy systems. In this formation, training digital skills and improving talent management at the core of business transformation.

In recent years, banks' digital products and services formations include, enabling potential remote services, creating or improving digital channels, launching digital wallet, introducing online deposit and lending service, pilot of new services related to customer lifestyle in respect of seamless customer journey and improving customer experience.

For Khan Bank, driving digital transformation is key strategic priority. In this regard, the bank is aiming to provide "Beyond banking" services to our customers. Accordingly, organizational development is the at core of the transformation including remote working practice, agile approach for technology projects, development of talent management policy on digital mindset and skills. In terms of development on new digital products and services, migration to omni-channel hub (OCH) platform and customer relationship management (CRM) platform, online lending service, goal savings and personal finance management services are commencing while keeping highlight on remote products and services.

### New entrants in banking sector

The industry has expanded with new entrants since 2000, in the wake of banking system capitalization program. Xac Bank and Chinggis Khaan Bank established in 2001, and later National Investment Bank, State Bank, Bogd Bank established in 2006, 2009, and 2014, respectively. However, over the past 8 years in the industry, the away of new entrants caused by regulation and economic contraction period, yet first and top commercial banks competition remain high in the market. Non-banking sector has extended with new entrants since 2016, specifically FinTech NBFIs' competition has intensified. According to FRC report, a total of 28 fintech are operating in the market.

### Non-banking sector competition

In recent years, the industry facing increased competition from substitutes as non-banking financial institutions and FinTechs. As December 31, 2021, 534 non-banking financial institutions were operating in the market. As of December 31, 2021, a total of 534 NBFIs are operating. Total assets of non-banking financial sectors in Mongolia accounted amounted to MNT228.3 thousand. The following table lists the features of FinTech apps and the products and services for 18.7 percent of the financial sector, and NBFIs sector accounted for 5.4 percent. For FinTechs' competition, 1.3 million of borrowers with MNT308.0 billion of outstanding loan through Fintech apps, at the end of 2021. Number of borrowers and outstanding loan amount grew by 4.3 times and 4.0 times, respectively on year-over-year. The average loan ticket size

Table 57. FinTech companies' products and services

App	Total downloads	Services and features						
		Online lending	Add card to wallet	Coupon	Deposit	Insurance	Markets	Stock, bonds, crypto
1 Monpay	500,000 +	+	+		+	+	+	
2 Ard app	500,000 +	+	+	+	+	+	+	+
3 SuperUp	250,000 +	+			+	+	+	
4 HiPay	100,000 +	+	+	+		+	+	
5 Toki	100,000 +		+				+	
6 Pocket	100,000 +	+	+	+				
7 Simple	100,000+	+					+	
8 Numur	100,000+	+						
9 Socialpay	100,000 +	-	+	+		+	+	+
10 Mongolchat	100,000 +		+					+

Source: According to official app of companies

## 2.3.5. Customer trends

### 2.3.5.1. Internet users and digital banking behavior

In recent years, number of internet network and smart phone users has been growing increasingly. It created wide range of services available online including telecommunications, information exchange, financial intermediation and public services.

As of fourth quarter of 2021, total internet users accounted at 4.1 million, grew by 5.9 percent on year-over-year and active mobile phone users accounted at 4.6 million (in duplicated). Mobile broadband users accounted at 3.7 million or 91.2 percent of the total internet users.<sup>20</sup>

For digital banking usage, as of third quarter of 2021, users with internet banking access accounted to 3.1 million, grew at CAGR of 31.1 percent, from 2019Q3 to 2021Q3. Active internet bank users, online transactions with 3 or more times per month, accounted to 1.6 million, grew at CAGR of 17.1 percent, from 2019Q3 to

<sup>20</sup> <https://www.1212.mn/>

2021Q3. Active internet bank users to population was 46.9 percent, to population with aged 18 or more was 73.1 percent.<sup>21</sup>


For regionally, active internet banks users accounted at 1.2 million and, its 77.7 percent and 22.3 percent are in Ulaanbaatar and Rural, respectively, at the third quarter of 2019. However, in the third quarter of 2021, 66.4 percent and 33.6 percent of 1.6 million internet banks users are in Ulaanbaatar and Rural, respectively. The active internet bank users in Rural, grew at CAGR of 43.7 percent, indicates that higher growth rate.<sup>22</sup>

### 2.3.5.2. Consumer spending behavior

For considering consumers' card transaction or spending pattern within age groups during pandemic period, 30 to 39 age group was the highest amount spending and active payment users among other age groups. By spending category, food and consumption amounts sets high bar including supermarkets, miscellaneous food stores, service stations, automated fuel dispensers, restaurants, drug stores and pharmacies. As age group grows, spending in restaurants and fast foods decreases, and spending on health, jewelry, fabric and sewing increases. In the age group 18 to 29, spending in higher in services' areas including fast foods, beauty shops, restaurants, drinking places, bar, and taverns.

Table 58. Consumer spending categories during pandemic period, Khan Bank card transaction data from Jan to Dec, 2021

Category	Sub-category	10-17	18-29	30-39	40-49	50-59	60+
Clothing, jewelry	Clothing stores						
	Kids wear						
	Fabric, sewing						
	Jewelry stores, watches						
Home supply	Furniture, home furnishing						
	Construction material						
	Electronics						
Transportation	Automotive service, supplies						
	Fuel dispenser						
Services	Health, beauty spas						
	Hotels, travel lodges						
	Beauty and barber shops						
	Telephone, service, equipment						
Food, consumption	Department stores						
	Supermarkets						
	Restaurants						
	Miscellaneous food stores						
	Fast foods						
	Drinking places, bars, tavern						
	Service stations						
Health	Pharmacies, drug stores						
	Hospitals						



← Spend less                      Spend more →

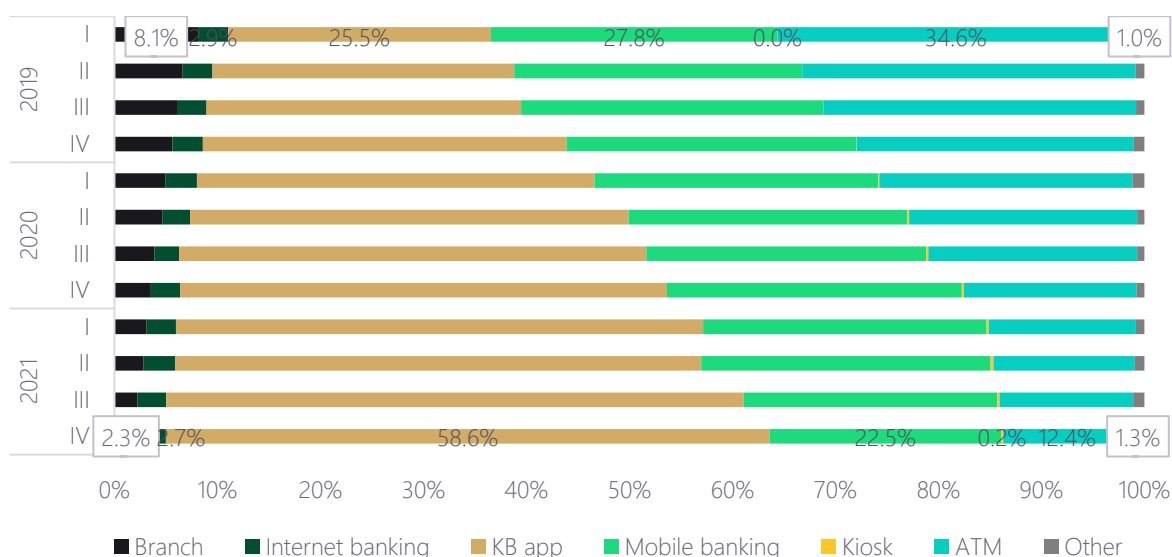
<sup>21</sup> Mobile banking report, Bank of Mongolia

<sup>22</sup> Mobile banking report, Bank of Mongolia

### 2.3.5.3. Consumer payment channel preference

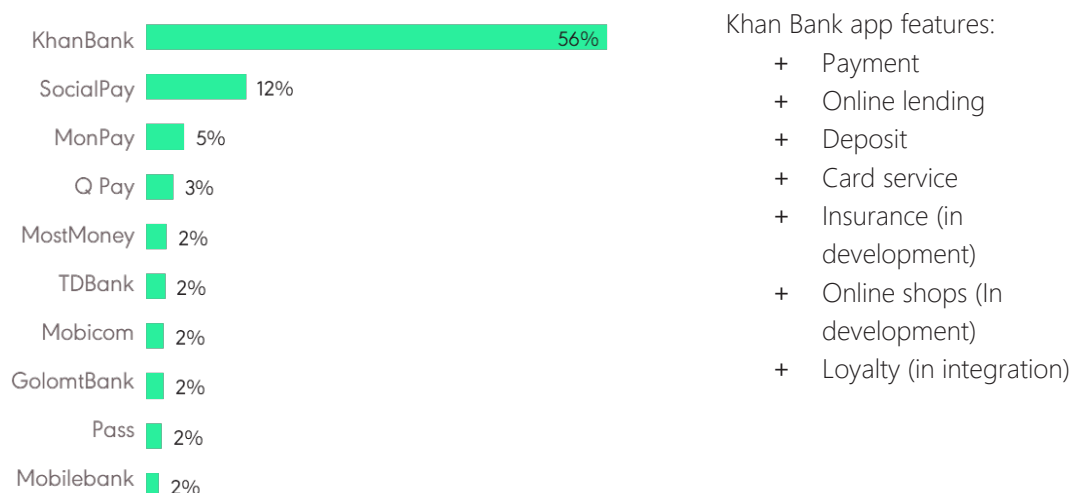
Consumers are preferring digital channels in payment pattern except card transactions. For Khan Bank transactions, in the beginning of 2019, the percentage of online channel (internet banking and smart banking app) transactions in the total transactions was 28.4 percent, while it came at 66.4 percent at the end of 2021, grew by 33.0 percentage point within 3 years of period. Customers are declining cash, ATM and mobile banking transactions. In the meantime, among Khan Bank customers, growing trend in using Kiosk machine transactions as it is a new pattern.

Figure 53. Shares of transaction channels in the total transactions, 2019-2021 (exclude POS transactions)



The use of digital wallets or apps has been increasing for payments in recent years. According to survey conducted by Khan Bank in Sep 2021, about 56 percent of the respondents indicated that Khan Bank app is at the top of payment. The following figure contains additional information.

Figure 54. Use of payment apps



## 2.3.6. Digital transformation

### 2.3.6.1. Digital maturity assessment (Deloitte)

In the first quarter of 2021, Khan Bank, in cooperation with Deloitte (International consulting service provider) conducted the “Digital Maturity” assessment research work on the subject of the bank. Marketing, customer relations, sales, customer service, organizational and employee skills, and digital operations were categorized into 7 main, 46 sub-elements and taken into account when completing the assessment.

The results of the assessment indicate that Khan Bank's digital transformation maturity coincides with that of international banks worldwide. In some areas, it is concluded that the Bank is even doing better than international banks. As part of our efforts to improve, we have developed a Medium-Term Digital Strategy and a three-year plan, both of which align simultaneously.

To improve these digital transition metrics, Khan Bank has developed a three-year digital capacity development program in seven key areas. The areas are shown below:

- In order to optimize and measure the benefits of digitalization, we are shifting from the traditional product development method to a more modern approach of the AGILE principle.
- We are taking steps to disseminate and make the digital strategy clear to all our employees by organizing digital event programs with the purpose to consolidate and achieve the goals of the Bank.
- To prepare, train and create the digitally skilled and savvy employee, the “Employee upskilling” program is being implemented.
- We are implementing programs and engagements to digitalize and optimize the work process of employees within the framework of human resource policy and recruitment, in line with the digital strategy.
- We are implementing an advanced “change management” comprehensive policy with the aim of improving the coherence of the projects and business goals for fast outcome and results.
- As part of the implementation of the “data and machine learning strategy”, a comprehensive data use strategy has been developed and the working structure has been improved.

In the aims to become a complex digital organization in all senses, It has become crucial for Khan Bank to plan and train the target “digital” staff of the organization. It is also essential that Khan Bank improves the internal communication and keeps the exchange of information most accurate and complete for the digital transition.

### 2.3.6.2. Agile transformation

As market trend and technology encounters fast-paced environment changes in recent years, there is growing need of adaptive and effective IT project delivery in day-to-day operation in each business sector. Hereon, Agile methodology is there to be as project management tool in business requirements. The international banks and tech companies embrace agile method commonly, to deliver project benefits to customers more effective, streamlined and faster.

For Khan Bank, 2021 was kick-off training year for Agile and embark to implement pilot projects in collaboration with local and international coaches, and introducing Agile Transformation to its all staffs. Furthermore, in order to fully benefit from Agile methodology across the bank, Khan Bank, exercising to create “Scaled Agile” structure for product development where creates ecosystem in our operation.

In the fruition of Agile Transformation, business-tech projects will be able to deliver digital banking products and services to our customers for higher satisfaction in effective, innovative and faster way from the hands of teams of highly productive and enthusiastic employees.



### 2.3.6.3. Process improvements, automation performance

Improvements and automation of lending operations:

<p>Risk management system was newly introduced.</p>	<ul style="list-style-type: none"> <li>The sub-system had been newly developed in 2021 by the purpose to reduce manual operations of loan officers in the bank, simplify credit analysis and support delinquent loan work-out. Currently, following information can be processed in overall 8 menus. Herein:</li> </ul> <p><b>"Debt collection"</b> menu shows overall delinquent loan and it enabled loan officers to see information on principal borrower, co-borrower, loan account, other delinquent loans, previous actions and other additional information simultaneously. It shows high and low probability of repayment to be made in case of workout for 1-60 DPD loans is done by the purpose to improve result of actions for delinquent loans.</p> <p><b>"Benchmarking"</b> menu enables to make financial analysis of borrower with business income in a simple way using Benchmark.</p> <p><b>"Pension reference"</b> menu enables to inquire information of pensioners, upload information of new pensioners and pensioners who extended term received from the General Authority for Social Insurance.</p> <p><b>"Credit history"</b> menu enables to easily inquire Khan Bank credit history rating of customers</p> <p><b>"MIK reference"</b> menu enables to record Ipotek mortgage loan requests of customers in order and allocate its funding.</p> <p><b>"New loan request", "Restructuring reference" and "Credit card restructuring reference"</b> menu enables to inquire loan and restructuring requests received through website, distribute the requests to loan officers and inquire list of agreements that need to be re-signed.</p>
<p>Regarding to receive loan requests through website</p>	<ul style="list-style-type: none"> <li>The bank enabled to receive all types of loan requests from customers through Khan Bank website without visiting in branches. As a result, customers visit in branches once after the loan requests are made through website and credit decisions are made to conclude loan agreements for loan disbursement. It enabled to save much time of customers.</li> <li>The bank has been receiving loan restructuring requests through its website and making decisions due to current circumstances.</li> </ul>
<p>Within scope of the online loan development</p>	<ul style="list-style-type: none"> <li>Online salary loan development has been made and the updated online salary loan service (online branch and OCH) has been introduced to the market successfully. The online loan analysis, CIB reference, getting data from DAN system, making credit decision and loan disbursement had been fully automated and it enabled to make credit decision in 3-5 minutes. As a result, it enabled customers with salary income verified by social insurance fee and who receive their salary through Khan Bank accounts to receive online salary loan within limit of their credit facility without any required documentation and no need to visit a branch to apply for an online salary loan once a loan agreement is signed in the branch.</li> </ul>



- Particular actions are under progress to make decision of credit card, leasing and business loans with smaller amount through online in 2022.

### *Information Technology operations improvement and automation*

#### DevOps Transformation

In the times of rapid technological advances, the banking systems need to be upgraded based on the new technologies. Major systems used in the Bank's business operations are working with the help of MicroServices development. In such connection, the implementation of systems for the Bank's projects and programs is deployed in accordance with the MicroService development and deployment activities. These are manual actions performed by Information Technology employees on a daily basis. The automation solution for these actions or a technology project "DevOps Transformation" has been implemented. As the outcome, the manual operations required for development and deployment of MicroServices used for the Bank's systems are automated. Having automated them, we have been able to ensure automation of delivery of projects based on MicroServices and implemented by Agile DevOps approach, and enabled their delivery to customer services in a short period of time.

- DevOps migration → Conversion and delivery of MicroServices through DevOps.
- MS Standard improvements → Improvement of MS Standard for MicroServices to run on DevOps.

#### API Management Eco system

API is an enabler technology for the implementation of the digital strategy for the business. Digital Banking systems are opened up for customer services with the help of API and a MicroService is the backend system. In order to enable the use of the function developed at the backend service to customers, the same needs are there for API development and deployment operations. At the present, we have enabled API automation through API Management eco system and any API development changes are delivered fast.

- API CICD
- API version control
- Cloud Native Platform

#### Test Automation

In order to ensure the continuous and reliable availability of all IT systems used throughout the Bank, IT Engineers manually perform testing and quality assurance of each system prior to its deployment. These manual operations require significant resources and take up major amount of time during a project delivery. Within the scope of work to reduce the delivery lead time of the Bank's projects and programs, we are in need of automation of manual operations to ensure quality for each system change. Having automated these activities, we shall have advantages such as being able to save time and reduce the potential risks associated with manual operations.



Furthermore, this shall introduce opportunities to reduce the lead time and enable delivery of projects and programs to customers in a short period of time.

Within the scope of this objective, testing automation of the core systems that require manual operations and time has been implemented; it has been already put in use in projects delivery processes.

- Card BDD automation – 635 test cases
- BANCS Test automation – 4 modules, 115 test cases
- API Test automation – 1308 endpoints, 60 proxies. API Test automation – 1308 endpoints, 60 proxies

### Digital channel performance

Category	Channel		2021	2020	2019
Retail	Digital customers*		1,574,409	1,454,196	1,284,382
	Main channel	Internet banking / Khan Bank app	1,167,636	975,959	746,467
	Additional channel	Mobile banking 2.0	914,391	848,608	787,158
		Telephone banking	118,691	116,713	316,913
	Touch points		1,646	1,593	1,316
	Main channel	Kiosk machine	215	213	10
	Additional channel	ATM	1,431	1,380	1,306

Category	Channel		2021	2020	2019
Number of transactions	Digital transactions		740,344,066	575,726,518	435,514,581
	Main channel	Internet banking / Khan Bank app	298,884,141	191,796,158	109,098,011
	Additional channel	Mobile banking 2.0	131,575,131	113,777,625	91,123,321
		Telephone banking	876,195	938,650	1,338,491
		Kiosk machine	1,170,587	723,708	46,994
		ATM	68,016,980	85,177,303	98,432,626
		POS	239,589,882	182,941,133	135,048,074
		e-Billing	231,150	371,941	427,064
	Teller transactions		13,133,080	17,268,650	20,968,538
	Digital/Teller transaction ratio		98:02	97:03	95.4 : 4.6

Category	Channel		2021	2020	2019
Corporate	Digital customers*		32,652	25,605	21,118
	Main channel	Corporate gateway	531	305	66
	Additional channel	Internet banking / Khan Bank app	32,121	25,300	21,052
	Touch points		1,431	1,380	1,306
	Main channel	ATM	1,431	1,380	1,306

\* The total number of customers using one of the intangible channel is calculated without duplication



### Contact center operation automation

While the bank's business and operations expansion, and the high digital transition, the flow of customers to the branches have decreased and the demand for services through remote channels is increasing year by year. Our Contact Center is also keeping pace with the bank's digital transition, increasing its remote service information and services to provide, accessible and affordable services to every customer, and updating its core system and platform to meet international trends in our services.

The Contact Center sector's development key is to receive the Contact Center program with an omnichannel platform that integrates all the features and quickly resolves every request to CRM programs that contain a unified database and integrated customer information. We can continuously improve many indicators to measure and evaluate activities such as customer access, call logging and data, service quality metrics, and customer satisfaction by the usage of these programs. On the other hand, we are constantly developing and improving a comprehensive Contact center platform that combines customer-friendly, inquiry service, chat, and IVR channels to make it easier for employees to save time, no manually, call allocation as a single window, and disposition.

The effectiveness of the contact center is determined by the time it takes for the employee to talk to the customer without waiting, the service is fast, the registration and during this time, working only on the optional screen saves 1 second, which increases the productivity of receiving more calls. To do this, the program used by the employee on a daily basis requires less effort from the employee and the main goal is to work without after-call work.

We also use TPIN, or customer identification code, on our IVRs to automate the customer identification process before connecting a customer to an employee, to reduce the time it takes for a customer to be served, and protect employees from the risk of identification errors. We are working to increase the use of TPIN codes in the coming years and introduce them into our operations in a smart way.

When our employees have a headset and a computer, they can use the Internet from anywhere in the world, not only from Mongolia, to work on Khan Bank's Contact Center system to receive calls. Our employees work on different lines and channels depending on their skills. Online and physical trainings are regularly organized using online platforms to provide employees with the necessary skills. Our customers can connect to different call lines depending on their needs and receive specific professional services. We are also planning to introduce a comprehensive employee management system such as Workforce management. It will simplify the day-to-day operations of the employee and increase employee satisfaction.

We also focus on the automation of our customer self-service channels, increasing the availability of self-service services on IVR, automating chat conversations using the chatbot system, and making accessible banking information without the need to contact employees. In 2021, a total of 482,000 customers have contacted through the social channels of the Contact center for information and inquiries, and about 4 million information was automatically obtained from chatbots. In the future, we are working to make our chat channels automated and able to deliver services and to introduce automated dialog-engineered systems that talk like real people.

In addition to continuously improving our operations, we will continue to strive to improve our customer service, bring it to a new level, and constantly introduce technology that meets international standards into our internal operations.

## 2.3.7. Analysis of financial indicators

### 2.3.7.1. Total assets

Table below shows asset indicators and dynamics for the past 3 years.

Table 59. Total assets

(in millions of MNT)

Assets	Year end			2021/2020 Change		2020/2019 Change	
	2021	2020	2019	%	Amount	%	Amount
Cash and cash equivalents	4,526,980	4,827,975	3,361,216	-6.2%	(300,995)	43.6%	1,466,759
Mandatory reserves with the Bank of Mongolia	809,082	743,336	749,981	8.8%	65,746	-0.9%	(6,645)
Due from other banks	-	85,401	119,455	-100.0%	(85,401)	-28.5%	(34,055)
Derivative financial instruments-assets	27,087	82,094	85,050	-67.0%	(55,008)	-3.5%	(2,956)
Loans and advances to customers	6,589,299	4,925,483	4,629,009	33.8%	1,663,816	6.4%	296,475
Financial assets at fair value through profit or loss	149,905	113,040	97,852	32.6%	36,865	15.5%	15,188
Debt instruments at fair value through other comprehensive income	206,008	201,033	287,225	2.5%	4,974	-30.0%	(86,192)
Equity instruments at fair value through other comprehensive income	3,157	3,149	3,159	0.3%	8	-0.3%	(11)
Debt instruments at amortised cost	553,089	529,202	348,913	4.5%	23,886	51.7%	180,290
Investments in associated companies	302	302	302	0.0%	-	0.0%	-
Other assets	78,095	76,142	51,048	2.6%	1,953	49.2%	25,094
Property, plant and equipment	455,595	465,928	405,803	-2.2%	(10,333)	14.8%	60,125
Intangible assets	54,765	50,719	41,272	8.0%	4,046	22.9%	9,447
Deferred income tax asset	-	-	-	0.0%	-	0.0%	-
Right-of-use asset	10,087	7,363	14,068	37.0%	2,724	-47.7%	(6,706)
<b>TOTAL ASSETS</b>	<b>13,463,449</b>	<b>12,111,167</b>	<b>10,194,354</b>	<b>11.2%</b>	<b>1,352,282</b>	<b>18.8%</b>	<b>1,916,813</b>

Khan Bank's total assets reached MNT 13,463.4 billion, showing an increase of 11.2% in 2021, 18.8% in 2020, 12.4% in 2019, respectively. Of which, the main drivers were cash and cash equivalent assets, and loans and advances to customers.

In terms of total assets, in 2021, 48.9% of total assets (2020: 40.7%, 2019: 45.4%) are comprised of net loans, 33.6% (2020: 39.9%, 2019: 33.0%) of short-term assets such as cash and cash equivalents, 12.8% (2020: 13.8%, 2019: 15.8%) of Bank of Mongolia mandatory reserve, current accounts and deposits with other banks and financial institutions and financial investments. Hence, the Bank is able to meet the requirements and ratios set by the Bank of Mongolia, such as mandatory reserve requirement, liquidity ratio, and prudential ratios of fixed assets, and prudently manage its assets and liabilities by investing in income-generating assets.

#### Cash and cash equivalents:

Cash and cash equivalents consist of cash, gold and silver reserves, current accounts at Mongolbank, Mongolbank Bills and Deposits at Other banks, and time deposits of 3 months or less.

Cash and cash equivalents increased by MNT 1,466.8 billion or 43.6% in 2020 compared to 2019, and Mongolbank Bills accounted for 73% of the total increase or change. This increase is related to the growth of total deposits in 2020, including an increase of MNT 2,153.0 billion or 29.8% in current accounts and deposits.

In 2021, cash and cash equivalents decreased by MNT 300.9 billion or 6.2%, mainly due to a decrease in Deposits at Other banks and time deposits of 3 months or less. However, in 2021, investment in Mongolbank Bills was relatively stable, growing by 0.5%.

The Bank purchases Government bonds through the Bank of Mongolia in order to reduce liquidity risk and obtain risk-free/low-risk returns from foreign exchange funding. There have been no new Government bond issuances in the domestic market since November 2017. Khan Bank purchased USD 93.2 million worth of bonds with a yield/return of 2.9 to 9.7% in 2020 and USD 117.2 million worth of bonds with a yield/return of 1.4 to 3.5% in 2021 from the secondary market. As a result, at the end of 2021, the Bank holds a total of MNT 15.8 billion and USD 249.2 million worth of Government bonds.

#### Mandatory reserves of the Bank of Mongolia:

In 2020, in order to minimize the adverse effects of the Covid-19 pandemic rising in the economy, increase the available fund of banks to finance loans, reduce the reserve requirement on banks' domestic currency liabilities from 10.5% to 6%, and as the pandemic still continued in 2021, The Monetary Policy Committee kept the decision made in regards to the mandatory reserve requirement. The Monetary Policy Committee held an extraordinary meeting on January 28, 2022, and decided to raise the reserve requirement on liabilities in domestic currency by 2 percentage points to 8% in order to counter inflation. MPC also decided to increase the reserve requirement on liabilities in foreign currency by 3 percentage points to 18% with the purpose of maintaining relative yield of tugrik and reducing the dollarization of bank liabilities during its meeting held on December 15-16<sup>th</sup>, 2021.

Khan Bank complied with the mandatory reserve requirement between 13.1 and 8.4%.

#### Due from banks:

This includes deposits with local banks. In addition, there are long-term deposits with other domestic banks placed in 2020 and 2019 matured in 2021.

#### Derivative financial instruments:

The Bank's derivative financial instruments include long-term and short-term swaps, which are entered at fair value. In 2020, derivative financial instruments decreased by MNT 3.0 billion or 3.5%, while in 2021, decreased by MNT 55.0 billion or 67.0%. These decreases are mainly due to maturity of some swaps and changes in the valuation of derivative financial instruments on account of the base interest rate or interest rate index.

The Bank controls the amount of contractual exposure in relation to derivative financial instruments under the Bank's market risk management, and defines some derivative financial instruments (currency and cross currency swaps) as a cash flow hedge of a recognized liability (foreign currency borrowings from international financial institutions). The Bank started using hedge accounting on May 1, 2016. Swaps are a hedging tool

designed to hedge FX risk of long-term dollar borrowings from international banks and non-banking financial institutions.

As of December 31, 2021, long-term USD borrowings from international banks and non-banking financial institutions identified as hedged were at USD 168.4 million (2020: USD 192.3 million, 2019: USD 276.0 million).

#### Financial assets at fair value through profit or loss:

Financial assets at fair value through profit or loss include Mortgage-Backed Securities ("RMBS"). The Bank sells its rights of the cash flows arising on some loan portfolios to wholly-owned special purpose companies of MIK Holding JSC "MIK" in exchange for RMBS, derecognizing the loan portfolios and recognizing the Senior RMBS and Junior RMBS received as financial assets. For the last 3 years, by selling mortgage loan portfolios to MIK, the Bank's RMBS has increased by MNT 36.8 billion or 32.6% in 2021 and by MNT 15.2 billion or 15.5% in 2020, respectively.

#### Debt instruments at fair value through other comprehensive income:

Debt instruments at fair value through other comprehensive income consists of domestic bonds, their interest receivables and the provision created in them, and the Bank's purchase of Government bonds through the Bank of Mongolia in order to reduce liquidity risk and obtain risk-free/low-risk returns from foreign exchange funding is included in here as well. There have been no new government bond issuances in the domestic market since November 2017. As of 2021 YE, the Bank holds Government bonds at fair value through other comprehensive income amounting to MNT 206 billion as it purchased USD 23.7 million worth of bonds with a yield/return of 1.4 to 2.6% from the secondary market in 2021. The bond included in this classification/category can be sold by the Bank before its maturity date.

#### Debt instruments at amortized cost:

Debt instruments at amortized cost consist of domestic bonds, their interest receivables, and the provision created in them, and the Bank holds the amortized debt instrument until the end of the term, as compared to the one mentioned above.

Khan Bank purchased USD 93.2 million worth of bonds from the secondary market with a yield/return of 2.9% to 9.7% in 2020, and USD 89.5 million with a yield of 2.0% to 3.5% in 2021, resulting in the Bank's Government bonds at amortized cost increase to MNT 553.0 billion at the end of 2021.

#### Investments in associates:

There has been no change in the amounts of the investments in associates for the past 3 years.

#### Other assets:

Other assets include clearing accounts, receivables, prepaid expenses, and foreclosed properties. In 2020, other assets increased by 49.2% due to counter-guarantee receivable, and in 2021, increased by 2.6% due to other receivables.

#### Property and equipment:

Khan Bank's property and equipment stand at MNT 455.6 billion or consists of 3.4% of the total assets (2020: MNT 465.9 billion or 3.8%, 2019: MNT 405.8 billion or 4.0%). Property and equipment increased by MNT 60.1 billion or 14.8% in 2020, while decreasing by MNT 10.3 billion or 2.2% in 2021.

Buildings and computer hardware account for the majority of the property and equipment, accounting for 62% and 26% (2020: 59% and 28%, 2019: 51% and 37%), respectively.



Within the framework of digital transformation, the Bank has been continuously upgrading its computer hardware and equipment by purchasing globally accepted equipment in recent years. Over the past 3 years, the Bank has invested a total of MNT 77.0 billion in server equipment, ATMs, Kiosks, and POS machines.

In terms of office buildings, the Bank has been implementing the branch standard project since 2017, in order to give all branches and sub-branches an identical, standardized image and ensure the comfort of its employees and customers. The project is implemented in stages, for instance, major renovations are carried out in the existing branches and sub-branches while new branch and sub-branch buildings are constructed per the set standard. Concerning the project, the total investment in the last 3 years has reached about MNT 57.0 billion.

#### Intangible assets:

Intangible assets increased by MNT 9.4 billion or 22.9% in 2020 and by MNT 4.0 billion or 8% in 2021.

In recent years, the Bank has been continuously implementing information technology projects and programs in relation to digital transformation and improving customer experience standards, and as a result, intangible assets have been growing each year.

#### 2.3.7.2. Loans and advances to customers

Khan Bank's total loan portfolio has increased by an average of 16.4% over the past three years, increasing 11% in 2019, MNT 349.5 billion or 7.1% in 2020, and MNT 1,727.6 billion or 32.7% in 2021, reaching MNT 7,017.6 billion by the end of 2021. Looking at credit growth:

- In 2019, production in all sectors was enhanced due to stable economic growth, increasing business loans and investments, expanding the mining sector, and maintaining relatively high world market prices.
- The outbreak of the Covid-19 virus which began to spread around the world in 2020, reduced international and domestic economic activity and adversely affected the financial intermediation of the banking system. In accordance with the Law on One-time State Repayment for the Pension-backed loan passed by the State great Hural on January 10, 2020, the Government waived a total of MNT 443.8 billion in Khan Bank's pension loan portfolio.
- In order to support and revive the economy, which contracted by 4.6% in 2021 due to the pandemic, the Government of Mongolia approved and implemented a plan worth of MNT 10 trillion "Economic recovery plan and citizen's health protection program" through banks, which became the main reason for total loan growth in 2021. In particular, Khan Bank has disbursed a total of MNT 1.3 trillion in loans to 20,600 individuals and 3,000 enterprises to support SMEs and herders; increasing headcount; purchasing cashmere and hides; and preparing meat reserve under the program.

The table below shows the total loan outstanding by segment.

Table 60. Loan segment

Customer type	(in millions of MNT)						
	Year end			2021/2020 Change		2020/2019 Change	
	2021	2020	2019	%	Amount	%	Amount
Private corporations	2,696,770	1,652,212	1,205,867	63.2%	1,044,559	37.0%	446,345
State enterprises	170,166	257,179	4,838	-33.8%	(87,013)	5215.5%	252,340
Financial institutions	6,885	4,005	1,222	71.9%	2,879	227.8%	2,784
Individuals	4,136,222	3,372,658	3,728,239	22.6%	763,565	-9.5%	(355,581)
Other	7,594	3,970	369	91.3%	3,624	975.7%	3,601

<b>Total</b>	<b>7,017,637</b>	<b>5,290,023</b>	<b>4,940,535</b>	<b>32.7%</b>	<b>1,727,613</b>	<b>7.1%</b>	<b>349,488</b>
--------------	------------------	------------------	------------------	--------------	------------------	-------------	----------------

The Bank's 58.9% of the total loan portfolio is from individuals, 38.4% from private organizations, and 2.4% from government organizations. While maintaining its leading position in the retail market, Khan Bank has successfully expanded and executed its business loan campaign directed towards the corporate segment over the past 3 years, increasing the corporate loan portfolio by an average of 47.7% over the past 3 years, from 24.5% to 41.0%.

The table below shows the total outstanding loan by different loan products

Table 61. Loan products

Loan type	(in millions of MNT)						
	Year end			2021/2020 Change		2020/2019 Change	
	2021	2020	2019	%	Amount	%	Amount
Business loans	3,978,647	2,725,301	1,839,334	46.0%	1,253,347	48.2%	885,967
Consumer loans	2,445,045	2,151,282	2,759,514	13.7%	293,763	-22.0%	(608,232)
Other loans	593,944	413,440	341,688	43.7%	180,504	21.0%	71,753
<b>Total</b>	<b>7,017,637</b>	<b>5,290,023</b>	<b>4,940,535</b>	<b>32.7%</b>	<b>1,727,613</b>	<b>7.1%</b>	<b>349,488</b>

There has been a significant change in terms of the Bank's loan portfolio structure over the past 3 years. For example, in 2019, consumer loans accounted for more than 50% of the total loan portfolio, but due to macro policies to curb the overgrowth of consumer loans (the Bank of Mongolia's measures such as curbing/ limiting consumer loan growth by setting the debt service to income ratio at 60% for consumer loans other than pension-backed loans on April 1, 2019), the ratio was reduced to 34.8% in 2021. On one hand, this limits the overheating of the economy that resulted in from the unsustainable overgrowth of the consumer loan and reduces the debt burden and on the other hand, it enables banks to support businesses and increase production.

The table below shows the total outstanding loan by currency composition

Table 62. Loan outstanding by currency composition

Currency	(in millions of MNT)						
	Year end			2021/2020 Change		2020/2019 Change	
	2021	2020	2019	%	Amount	%	Amount
MNT	6,836,746	5,201,885	4,819,602	31.4%	1,634,861	7.9%	382,282
USD	179,794	86,261	118,591	108.4%	93,532	-27.3%	(32,330)
EUR	1,097	1,727	1,892	-36.5%	(630)	-8.7%	(165)
CNY	0	149	219	-100.0%	(149)	-31.8%	(70)
JPY	0	0	230	0.0%	-	-100.0%	(230)
<b>Total</b>	<b>7,017,637</b>	<b>5,290,023</b>	<b>4,940,535</b>	<b>32.7%</b>	<b>1,727,613</b>	<b>7.1%</b>	<b>349,488</b>

As of 2021, the majority or more than 97.4% of the total loan portfolio is still in MNT. This indicates that the risk of foreign currency loans that may incur due to currency fluctuations is low. In addition, the Bank of Mongolia's regular FX swaps to support liquidity and reduce foreign exchange risk have enabled the Bank to effectively circulate the long-term and sustainable funding from international financial institutions.

The table below shows the total outstanding loan by interest types

Table 63. The total outstanding loan by interest types

(in millions of MNT)						
----------------------	--	--	--	--	--	--

Loan interest rate	Year end			2021/2020 Change		2020/2019 Change	
	2021	2020	2019	%	Amount	%	Amount
Fixed interest rate	6,793,637	5,152,825	4,862,532	31.8%	1,640,812	6.0%	290,293
Floating interest rate	223,999	137,198	78,003	63.3%	86,802	75.9%	59,195
<b>Total</b>	<b>7,017,637</b>	<b>5,290,023</b>	<b>4,940,535</b>	<b>32.7%</b>	<b>1,727,613</b>	<b>7.1%</b>	<b>349,488</b>

Loans with fixed interest rate account for 96% -98% of the Bank's total loans. Loans with floating interest rate increased by 18% in 2019 from the previous year, by 75.9% in 2020, and by 63.3% in 2021, respectively. In 2021, the loan portfolio increased by MNT 86 billion or 81.4% due to the diversification of the mortgage loan products funded by the Bank itself.

The table below shows the total loan portfolio by amount interval.

Table 64. Loan outstanding by interval difference

Loan Size millions (in millions of MNT)	2021.12.31				
	Number of Loans	Outstanding		Loans as a Percentage of Total Loans	Average Loan Size
		In millions of MNT	In millions of US\$		
Less than 100	378,379	3,208,522	1,291	45.7%	8
100-350	5,875	1,023,660	412	14.6%	174
350-500	897	393,535	158	5.6%	439
500-1'000	498	353,972	142	5.0%	711
1'000-5'000	411	872,670	351	12.4%	2,123
5'000-50'000	77	978,343	394	13.9%	12,706
50'000-100'000	3	186,934	75	2.7%	62,311
<b>Total</b>	<b>386,140</b>	<b>7,017,637</b>	<b>2,463</b>	<b>100%</b>	<b>18</b>

MNT 3,208.5 billion or 48.9% of Khan Bank's total loan portfolio has a balance of up to MNT 100 million, of which consumer loans account for 78%, and the average loan outstanding is at MNT 8.5 million.

Loans with a balance of MNT 100-500 million amount to MNT 1,417 billion or 20.2% of total loans, with its total standing at 71.3%, displaying a relatively low loan concentration.

Loans with a balance of more than MNT 500 million amounted to MNT 2,016.0 billion or 28.7%, of which 30% were from wholesale and retail trade, 24% from construction, 14% from manufacturing, 11% from mining, and 21% from other sectors.

The table below shows the remaining tenure on the outstanding amount.

Table 65. Classification based on the remaining tenure on the outstanding amount

Loan portfolio by maturity	Year end			2021/2020 Change		2020/2019 Change	
	2021	2020	2019	%	Amount	%	Amount
Less than 1 month	371,735	276,428	379,786	34.5%	95,307	-27.2%	(103,358)
1-6 months	1,313,488	859,884	1,008,911	52.8%	453,604	-14.8%	(149,027)
6-12 months	1,430,468	1,181,398	925,044	21.1%	249,071	27.7%	256,354
1-3 years	2,507,445	1,841,780	1,681,917	36.1%	665,666	9.5%	159,863
3-5 years	373,270	370,038	294,874	0.9%	3,232	25.5%	75,164

5-10 years	344,396	310,224	221,195	11.0%	34,172	40.2%	89,029
Upper than 10 years	248,496	85,732	117,281	189.9%	162,764	-26.9%	(31,549)
<b>Total</b>	<b>6,589,299</b>	<b>4,925,483</b>	<b>4,629,009</b>	<b>33.8%</b>	<b>1,663,816</b>	<b>6.4%</b>	<b>296,475</b>

In between 2019 and 2021, the Bank's loan portfolio ratio for loan term ranging below and above 1 year remains stable at 50/50. The Bank's outstanding loans for +1 year increased from 50% to 52.7% during 2019 to 2021, mainly due to an increase in the long-term business loan portfolio.

### Concentrations of credit

In order to reduce the risk of credit concentration, the Banking Law limits the amount of loans and other equivalent assets to a single borrower to 20% of the bank's capital and the ratio of the largest related persons at 5%. Khan Bank consistently meets this limit, and by the end of 2021, the largest borrower group had MNT 112.2 billion, or 8% of its capital.

Table 66. Top 10 borrowers

(in millions of MNT)

Loan industry sector		2021.12.31				
		Outstanding Principal Balance	Total Facilities	Total	Loan Classification	Provision
Group 1	Immovable property operation	69,941	42,288	112,229	Performing	1,521
Group 2	Processing production	61,098	42,657	103,756	Performing	1,844
Group 3	Processing production	28,500	56,577	85,077	Performing	849
Group 4	Mining	64,953	-	64,953	Performing	975
Group 5	Wholesale and retail trade; cars, motorcycle repair	64,904	-	64,904	Performing	2,668
Group 6	Immovable property operation	38,810	18,233	57,043	Performing	648
Group 7	Accommodation and food service operation	47,388	9,491	56,879	Performing	1,516
Group 8	Accommodation and food service operation	47,676	5,289	52,966	Performing	668
Group 9	Accommodation and food service operation	45,891	-	45,891	Loss	44,247
Group 10	Processing production	1,053	38,512	39,564	Performing	180
<b>Total</b>		<b>470,214</b>	<b>213,047</b>	<b>683,261</b>		<b>55,116</b>

### Loan classification by economic sectors

If we look at the total loans by sectors, by the end of 2021, 21.1% is made up of wholesale and retail trade, 9.1% of construction, 5.8% of manufacturing, 3.5% of mining and transportation warehousing, 34.8% of consumer loans, 4.7% of agricultural loans, and 17.5% of other loans.

Table 67. Total loan by economic sector

(in millions of MNT)

Loan industry sector	Year end			2021/2020 Change		2020/2019 Change	
	2021	2020	2019	%	Amount	%	Amount
Consumer loan	2,445,045	2,149,131	2,756,912	13.8%	295,914	-22.0%	(607,781)



Wholesale and retail trade; cars, motorcycle repair	1,477,569	1,013,662	807,934	45.8%	463,907	25.5%	205,728
Construction	637,930	360,848	236,459	76.8%	277,082	52.6%	124,389
Processing production	408,932	245,402	200,941	66.6%	163,530	22.1%	44,461
Immovable property operation	149,970	123,692	97,956	21.2%	26,278	26.3%	25,736
Mining	242,913	291,183	61,254	-16.6%	(48,270)	375.4%	229,929
Transportation and warehouse operation	248,401	126,742	53,538	96.0%	121,659	136.7%	73,204
Health and social activity	65,448	45,852	34,417	42.7%	19,596	33.2%	11,435
Agriculture, forestry, fishing, hunting	327,853	247,262	161,648	32.6%	80,591	53.0%	85,614
Other services	1,013,576	686,250	529,475	47.7%	327,326	29.6%	156,775
<b>Total</b>	<b>7,017,637</b>	<b>5,290,023</b>	<b>4,940,535</b>	<b>32.7%</b>	<b>1,727,613</b>	<b>7.1%</b>	<b>349,488</b>

In 2021, business loans increased by 46% or MNT 1,253.3 billion from the previous year, of which wholesale and retail trade increased by MNT 463.9 billion, construction by MNT 277.0 billion, manufacturing by MNT 163.5 billion, and transportation and warehousing by MNT 121.7 billion, respectively.

Table 68. Loan outstanding by geographical location

(in millions of MNT)

	Year end			2021/2020 Change		2020/2019 Change	
	2021	2020	2019	%	Amount	%	Amount
Ulaanbaatar	4,515,069	3,451,770	2,952,663	30.8%	1,063,299	16.9%	499,107
Rural	2,502,568	1,838,254	1,987,872	36.1%	664,314	-7.5%	(149,619)
<b>Total</b>	<b>7,017,637</b>	<b>5,290,023</b>	<b>4,940,535</b>	<b>32.7%</b>	<b>1,727,613</b>	<b>7.1%</b>	<b>349,488</b>

As of 2021, the UB area accounted for 64.3% of total loans, and in 2020 for 65.3%, respectively, and increased by 4.5 percentage points in comparison to 2019. This is mainly due to the high population in the city and the expansion of business markets.

Table 69. Loan outstanding by business segment

(in millions of MNT)

	Year end			2021/2020 Change		2020/2019 Change	
	2021	2020	2019	%	Amount	%	Amount
SME	1,103,313	662,670	217,334	66.49%	440,642	204.91%	445,336
Corporate	1,021,233	938,454	601,928	8.82%	82,778	55.91%	336,527
Retail	4,704,136	3,510,034	3,987,674	34.02%	1,194,102	-11.98%	-477,640
<b>Total</b>	<b>6,828,681</b>	<b>5,111,158</b>	<b>4,806,936</b>	<b>33.60%</b>	<b>1,717,523</b>	<b>6.33%</b>	<b>304,222</b>

Khan Bank provides loan services through Retail Banking branches and sub-branches, Small and Medium Business and Corporate Banking sub-branches. As of 2021, 67% or MNT 4,704.1 billion of the total loan portfolio was disbursed by Retail Bank, 15.7% or MNT 1,103.3 billion by Corporate Bank for business loans, and 15.7% or MNT 1,103.3 billion to SMEs.

### 2.3.7.3. Credit quality indicators

The Bank outlined to have the ratio of NPLs to total loan portfolio not exceeding 8% and adequacy of loan loss reserves not being lower than 90% in its Risk Appetite Statement and consistently follows the limits reflected in the Risk Appetite Statement. Furthermore, the Bank performs regular analysis on the pandemic impact and takes prevention measures accordingly under the risk management framework.

Table 70. Asset quality

	2021			2020			2019		
	Total loan	NPL	NPL ratios	Total loan	NPL	NPL ratios	Total loan	NPL	NPL ratios
Business loans	3,978,647	245,051	6.2%	2,725,301	229,105	8.4%	1,839,334	202,006	11.0%
Consumer loans	2,445,045	123,766	5.1%	2,151,282	126,561	5.9%	2,759,514	104,226	3.8%
Agricultural loans	593,944	1,324	0.2%	413,440	2,233	0.5%	341,688	902	0.3%
<b>Total</b>	<b>7,017,637</b>	<b>370,141</b>	<b>5.3%</b>	<b>5,290,023</b>	<b>357,898</b>	<b>6.8%</b>	<b>4,940,535</b>	<b>307,134</b>	<b>6.2%</b>

In 2019, non-performing loans accounted for 6.2% of the total loan portfolio, and in 2020, due to Covid-19 pandemic, the ratio increased to 6.8%. However, in 2021, as a result of effective response to the pandemic, non-performing loans remained stable and with the positive outcome of falling to 5.3%. This is 3.0 percentage points lower than the average of the NPL of the banking system, which is 8.3%.

Although the Bank has taken appropriate measures to prevent and reduce non-performing loans, it has been consistently increasing its loan loss provision, taking into account the current economic situation and the fact that the pandemic is not decreasing. The adequacy of loan loss reserves was increased to 115.7% in 2021 from 101.4% in 2019 and 101.9% in 2020.

Table 71. NPLs and adequacy of loan loss reserve

	(in millions of MNT)		
	2021	2020	2019
NPL	370,141	357,898	307,134
LLP	428,338	364,540	311,526
Coverage ratio %	115.70%	101.90%	101.40%

In 2020, the volume of non-performing loans increased by MNT 50.8 billion from the previous year, and the share of non-performing loans in the total loan portfolio was at 6.8%. Even though, the volume of non-performing loans increased by MNT 12.2 billion in 2021, the ratio decreased to 5.3%. This shows that the loan portfolio growth had a positive effect on the ratio. In 2021, non-performing consumer loans and agricultural loans decreased, while non-performing business loans grew by MNT 15.9 billion, resulting in an increase in the non-performing loan portfolio.

Credit quality is shown by different products.

Table 72. Credit quality by different products

	(in millions of MNT)					
	2021.12.31		2020.12.31		2019.12.31	
	Amount	%	Amount	%	Amount	%
<b>Business loans</b>	<b>3,978,647</b>		<b>2,725,301</b>		<b>1,839,334</b>	
Performing /Stage 1/	3,022,193	43.1%	1,627,651	30.8%	1,584,586	32.1%
Special mention /Stage 2/	711,404	10.1%	868,545	16.4%	52,741	1.1%

Non-performing / Stage 3/	245,051	3.5%	229,105	4.3%	202,006	4.1%
<i>Substandard</i>	34,983	0.5%	16,827	0.3%	5,765	0.1%
<i>Doubtful</i>	17,908	0.3%	5,533	0.1%	4,952	0.1%
<i>Loss</i>	192,160	2.7%	206,744	3.9%	191,289	3.9%
<b>Consumer loans</b>	<b>2,445,045</b>		<b>2,151,282</b>		<b>2,759,514</b>	
Performing /Stage 1/	2,283,068	32.5%	1,962,802	37.1%	2,565,863	51.9%
Special mention /Stage 2/	38,210	0.5%	61,919	1.2%	89,424	1.8%
Non-performing / Stage 3/	123,766	1.8%	126,561	2.4%	104,226	2.1%
<i>Substandard</i>	25,870	0.4%	30,363	0.6%	27,411	0.6%
<i>Doubtful</i>	25,010	0.4%	25,830	0.5%	27,403	0.6%
<i>Loss</i>	72,887	1.0%	70,368	1.3%	49,412	1.0%
<b>Agricultural loans</b>	<b>593,944</b>		<b>413,440</b>		<b>341,688</b>	
Performing /Stage 1/	581,954	8.3%	386,636	7.3%	339,989	6.9%
Special mention /Stage 2/	10,666	0.2%	24,572	0.5%	797	0.0%
Non-performing / Stage 3/	1,324	0.0%	2,233	0.0%	902	0.0%
<i>Substandard</i>	590	0.0%	1,311	0.0%	104	0.0%
<i>Doubtful</i>	263	0.0%	147	0.0%	153	0.0%
<i>Loss</i>	472	0.0%	774	0.0%	644	0.0%
<b>Total Non-performing loans</b>	<b>370,141</b>	<b>5.3%</b>	<b>357,898</b>	<b>6.8%</b>	<b>307,134</b>	<b>6.2%</b>
<b>Total loans</b>	<b>7,017,637</b>	<b>100.0%</b>	<b>5,290,023</b>	<b>100.0%</b>	<b>4,940,535</b>	<b>100.0%</b>

In terms of the classification of the Bank's total loan portfolio, in 2020, 75.2% of the total loan portfolio was at level 1 or performing, and by 2021, the quality of the portfolio improved reaching 83.9%, however, 10.8% are at level 2 and 5.3% are at level 3 or non-performing. Business loans, consumer loans, and agricultural loans make up 66.2%, 33.4%, and 0.4% of the non-performing loans, respectively. The Bank's non-performing loan portfolio by economic sectors for the last 3 years is as follows.

The Bank's non-performing loan portfolio is shown by economic sector.

Table 73. Credit quality by economic sectors

Industry sector	(in millions of MNT)					
	2021.12.31		2020.12.31		2019.12.31	
	Amount	% of loans in each category to total	Amount	% of loans in each category to total	Amount	% of loans in each category to total
Individuals	124,673	5.1%	127,130	5.9%	104,765	3.8%
Trade and commerce	28,588	1.9%	28,566	2.8%	29,596	3.7%
Construction	37,747	5.9%	39,657	11.0%	22,164	9.4%
Processing production	46,839	11.5%	39,823	16.2%	42,709	21.3%
Real estate	53,343	35.6%	47,929	38.7%	47,618	48.6%
Mining	28,130	11.6%	28,528	9.8%	23,477	38.3%
Transportation	3,365	1.4%	3,086	2.4%	2,484	4.6%
Health and social organizations	5,054	7.7%	6,058	13.2%	5,117	14.9%
Agriculture	7,741	2.4%	5,908	2.4%	4,860	3.0%

Other	34,661	3.4%	31,213	4.5%	24,343	4.6%
<b>Total Non-performing loans</b>	<b>370,141</b>	<b>5.3%</b>	<b>357,898</b>	<b>6.8%</b>	<b>307,134</b>	<b>6.2%</b>

The non-performing consumer loan portfolio increased by MNT 22.4 billion in 2020 compared to the previous year, mainly due to the Bank of Mongolia's policy on restricting consumer loans and the Covid-19 pandemic. Nevertheless, the economic recovery measures implemented by the Government and the Bank of Mongolia in 2021, and consumer and mortgage loan deferral helped keeping non-performing loans from increasing.

In 2020, the main reason for the increase in non-performing loans was the loan quality deterioration in the construction and mining sectors, while in 2021, the manufacturing and real estate sectors were the main drivers. Construction, real estate, mining, transportation, and manufacturing sectors were hit hardest by Covid-19 quarantine, border, and business restrictions. While loan portfolios in the wholesale and retail trade and health sector had a little direct impact.

The bank's non-performing loan portfolio is shown by segment.

Table 74. Credit quality by segment

(in millions of MNT)

	2021.12.31		2020.12.31		2019.12.31	
	Amount	% of loans in each category to total	Amount	% of loans in each category to total	Amount	% of loans in each category to total
Individual	158,794	3.8%	160,929	4.8%	133,057	3.6%
Organization	211,348	7.3%	196,969	10.3%	174,078	14.4%
<b>Total Non-performing loans</b>	<b>370,141</b>	<b>5.3%</b>	<b>357,898</b>	<b>6.8%</b>	<b>307,134</b>	<b>6.2%</b>

The non-performing consumer loan portfolio increased by MNT 22.4 billion in 2020 compared to the previous year, mainly due to the Bank of Mongolia's policy on restricting consumer loans and the Covid-19 pandemic. Nevertheless, the economic recovery measures implemented by the Government and the Bank of Mongolia in 2021, and consumer and mortgage loan deferral helped keeping non-performing loans from increasing.

In 2020, the main reason for the increase in non-performing loans was the loan quality deterioration in the construction and mining sectors, while in 2021, the manufacturing and real estate sectors were the main drivers. Construction, real estate, mining, transportation, and manufacturing sectors were hit hardest by Covid-19 quarantine, border, and business restrictions. While loan portfolios in the wholesale and retail trade and health sector had a little direct impact.

#### Expected credit losses /ECL/

Khan Bank evaluates the impairment of financial assets and ECL allowance/ loan loss provision on a quarterly basis in accordance with IFRS 9.

Table 75. Constituents of the loan loss provision

(in millions of MNT)

	2021.12.31	2020.12.31	2019.12.31
<b>Total provisions balance as of January 1,</b>	<b>364,540</b>	<b>311,526</b>	<b>272,676</b>
Charges for the year(s) less reversals	64,814	52,870	38,135
Written-off	(1,012)	(601)	(259)
Foreign exchange adjustments	(4)	745	974

Total provisions balance as of December 31	428,338	364,540	311,526
--	---------	---------	---------

In 2021, the loan loss provision created amounted to MNT 64.8 billion, an increase of 22.6% from the previous year. This includes an increase of MNT 12.2 billion in non-performing loans from the previous year due to restructured loan portfolio in consideration of Covid-19 pandemic, refinanced JSL portfolio loan portfolio highly impacted by the pandemic (entertainment, hotel, and accommodation services), increasing of LLP as a result of the re-evaluation of the big borrowers.

In 2020, the LLP was increased by MNT 52.9 billion due to an increase of non-performing loans at around MNT 50.8 billion and an increase in the LLP in relation to the restructured business loan portfolio.

The following table shows the Bank's LLP by economic sector for the past 3 years.

Table 76. LLP by economic sectors

(in millions of MNT)

Industry sector	2021.12.31		2020.12.31		2019.12.31	
	Amount	% of loans in each category to total	Amount	% of loans in each category to total	Amount	% of loans in each category to total
Individuals	98,108	4.0%	87,848	4.4%	91,967	3.3%
Trade and commerce	73,943	5.0%	72,141	7.1%	64,181	7.9%
Construction	52,332	8.2%	36,839	10.2%	23,486	9.9%
Processing production	41,053	10.0%	33,282	13.6%	32,595	16.2%
Real estate	40,655	27.1%	43,356	35.1%	40,523	41.4%
Mining	35,304	14.5%	28,592	9.8%	22,952	37.5%
Transportation	20,546	8.3%	5,676	4.5%	2,399	4.5%
Health and social organizations	4,941	7.5%	6,240	13.6%	4,160	12.1%
Agriculture	6,727	2.1%	4,948	2.0%	2,970	1.8%
Other	54,729	5.4%	45,618	6.6%	26,293	5.0%
<b>Total provisions</b>	<b>428,338</b>	<b>6.1%</b>	<b>364,540</b>	<b>6.9%</b>	<b>311,526</b>	<b>6.3%</b>

The increase in the ECL in 2021, was mainly driven by consumption, transportation and warehousing services, and construction sectors. Although the amount of non-performing loans in the sector has decreased, the provision increased due to the fact that Bank created an additional provision in response to the pandemic.

Over the past three years, the ECL of real estate, mining, and manufacturing loans has the highest percentage compared to the loan portfolio, respectively.

The following table shows the Bank's LLP by loan products for the past 3 years.

Table 77. LLP by loan products

(in millions of MNT)

	2021.12.31		2020.12.31		2019.12.31	
	Amount	loans in each category to total	Amount	loans in each category to total	Amount	loans in each category to total
Business loans	326,798	8.2%	274,835	10.1%	218,884	11.9%
Consumer loans	98,108	4.0%	87,848	4.1%	91,967	3.3%

Agricultural loans	3,432	0.6%	1,857	0.4%	676	0.2%
<b>Total provisions</b>	<b>428,338</b>	<b>6.1%</b>	<b>364,540</b>	<b>6.9%</b>	<b>311,526</b>	<b>6.3%</b>

LLP to the loan portfolio in terms of business loan has decreased for the last two years in a row due to an increase of business loan portfolio. While it has increased for consumer loan products.

The amount of the 10 largest non-performing loans is MNT 124.8 billion or 1.8% of the total loan portfolio and 33.7% of the non-performing loan portfolio. These loans were distributed to the real estate, manufacturing and mining sectors.

Table 78. The 10 largest credit defaulters

		(in millions of MNT)	
Borrower	Industry	2021.12.31	
		Outstanding	Loan classification
Borrower 1	Real estate	37,237	Loss
Borrower 2	Processing production	25,176	Loss
Borrower 3	Processing production	12,238	Loss
Borrower 4	Mining	8,764	Loss
Borrower 5	Trade and commerce	8,728	Loss
Borrower 6	Real estate	8,584	Loss
Borrower 7	Real estate	7,979	Loss
Borrower 8	Real estate	5,580	Loss
Borrower 9	Real estate	5,320	Loss
Borrower 10	Processing production	5,213	Loss
<b>Total</b>		<b>124,820</b>	

### 2.3.7.4. Total liabilities

Table 79. Total liabilities and equity

(in millions of MNT)					
	Year end			2021/2020	
	2021	2020	2019	%	%
<b>Liabilities:</b>					
Due to banks	35,854	25,825	109,064	38.8%	-76.3%
Repurchase agreements	620,803	184,891	197,871	235.8%	-6.6%
Customer deposits	10,211,451	9,370,845	7,217,772	9.0%	29.8%
Other borrowed funds	1,191,917	1,173,586	1,308,696	1.6%	-10.3%
Other liabilities	118,914	126,809	167,455	-6.2%	-24.3%
<b>Total liabilities</b>	<b>12,178,939</b>	<b>10,881,956</b>	<b>9,000,858</b>	<b>11.9%</b>	<b>20.9%</b>
Total equity:	1,284,510	1,229,211	1,193,496	4.5%	3.0%
<b>Total liabilities and equity</b>	<b>13,463,449</b>	<b>12,111,167</b>	<b>10,194,354</b>	<b>11.2%</b>	<b>18.8%</b>

In 2021, total outstanding of liabilities stands at MNT 12,178.9 billion, which increased by 11.9% in 2020 (2020: 20.9%, 2019: 11.0%), of which 83.8% or MNT 10,211.4 billion were of customer deposit. In 2020, the Bank's customer deposits increased by 29.8% to MNT 9,370.8 billion, which exceeded the banking system's growth,

while in 2021, the growth slowed to 9% compared to the previous year. The Bank's market share of customer deposits to the total banking system increased from 31.0% in 2019 to 35.6% in 2020 and 35.8% in 2021.

Current accounts and time deposits from banks and financial institutions decreased by 76.3% or MNT 83.2 billion in 2020 from the preceding year, in relation to the decrease of overnight loans from domestic banks and time deposit from Development bank amounting to MNT 50.0 billion.

### 2.3.7.5 Due to customers

Table 80. Account and currency composition of customer deposits

(in millions of MNT)								
	2021		2020		2019		2021/2020 Change	2020/2019 Change
	Outstanding	%	Outstanding	%	Outstanding	%	%	%
<b>Current account</b>	<b>3,084,764</b>	<b>30.2%</b>	<b>1,764,570</b>	<b>18.8%</b>	<b>1,506,219</b>	<b>20.9%</b>	<b>74.8%</b>	<b>17.2%</b>
MNT	2,583,075	25.3%	1,338,965	14.3%	1,179,619	16.3%	92.9%	13.5%
FC	501,689	4.9%	425,605	4.5%	326,599	4.5%	17.9%	30.3%
<b>Demand deposits</b>	<b>1,763,182</b>	<b>17.3%</b>	<b>2,339,770</b>	<b>25.0%</b>	<b>1,312,689</b>	<b>18.2%</b>	<b>-24.6%</b>	<b>78.2%</b>
MNT	1,606,792	15.7%	2,153,184	23.0%	1,141,946	15.8%	-25.4%	88.6%
FC	156,390	1.5%	186,586	2.0%	170,744	2.4%	-16.2%	9.3%
<b>Time deposits</b>	<b>5,336,749</b>	<b>52.3%</b>	<b>5,241,638</b>	<b>55.9%</b>	<b>4,374,194</b>	<b>60.6%</b>	<b>1.8%</b>	<b>19.8%</b>
MNT	4,341,576	42.5%	3,678,411	39.3%	3,253,751	45.1%	18.0%	13.1%
FC	995,172	9.7%	1,563,227	16.7%	1,120,443	15.5%	-36.3%	39.5%
<b>Other deposits</b>	<b>26,756</b>	<b>0.3%</b>	<b>24,867</b>	<b>0.3%</b>	<b>24,670</b>	<b>0.3%</b>	<b>7.6%</b>	<b>0.8%</b>
MNT	26,097	0.3%	24,214	0.3%	23,132	0.3%	7.8%	4.7%
FC	660	0.0%	653	0.0%	1,537	0.0%	1.0%	-57.5%
<b>Total customer accounts</b>	<b>10,211,451</b>	<b>100.0%</b>	<b>9,370,845</b>	<b>100.0%</b>	<b>7,217,772</b>	<b>100.0%</b>	<b>9.0%</b>	<b>29.8%</b>
MNT	8,557,540	83.8%	7,194,773	76.8%	5,598,448	77.6%	18.9%	28.5%
FC	1,653,910	16.2%	2,176,072	23.2%	1,619,323	22.4%	-24.0%	34.4%

In 2021, MNT customer deposits amounted to MNT 8,557.5 billion, which is an increase of 18.9% from the previous year. While, FC customer deposits decreased by 24.0% lowering to MNT 1.653.9 billion.

Table 81. Regional composition of the customer deposits

(in millions of MNT)								
	Year end						2021/2020 Change	2020/2019 Change
	2021		2020		2019			
	Outstanding	%	Outstanding	%	Outstanding	%	%	%
UB								
Current account	2,301,819	22.5%	1,277,433	13.6%	1,172,217	16.2%	80.2%	9.0%
Demand deposits	1,278,303	12.5%	1,679,036	17.9%	954,634	13.2%	-23.9%	75.9%

Time deposits	3,989,741	39.1%	4,076,816	43.5%	3,469,717	48.1%	-2.1%	17.5%
Other deposits	23,209	0.2%	20,305	0.2%	20,132	0.3%	14.3%	0.9%
<b>Total</b>	<b>7,593,072</b>	<b>74.4%</b>	<b>7,053,590</b>	<b>75.3%</b>	<b>5,616,701</b>	<b>77.8%</b>	<b>7.6%</b>	<b>25.6%</b>
<b>Rural</b>	<b>782,945</b>	<b>7.7%</b>	<b>487,137</b>	<b>5.2%</b>	<b>334,001</b>	<b>4.6%</b>	<b>60.7%</b>	<b>45.8%</b>
Current account	484,879	4.7%	660,734	7.1%	358,055	5.0%	-26.6%	84.5%
Demand deposits	1,347,007	13.2%	1,164,822	12.4%	904,477	12.5%	15.6%	28.8%
Time deposits	3,547	0.0%	4,562	0.0%	4,538	0.1%	-22.2%	0.5%
Other deposits	<b>2,618,379</b>	<b>25.6%</b>	<b>2,317,254</b>	<b>24.7%</b>	<b>1,601,071</b>	<b>22.2%</b>	<b>13.0%</b>	<b>44.7%</b>
<b>Total</b>	<b>10,211,451</b>	<b>100.0%</b>	<b>9,370,845</b>	<b>100.0%</b>	<b>7,217,772</b>	<b>100.0%</b>	<b>9.0%</b>	<b>29.8%</b>

At the end of 2021, 25.6% of customers' current accounts and deposits were in rural areas and 74.4% in Ulaanbaatar. In terms of Retail Banking Rural, current and deposit accounts grew 13.0-44.7% throughout 2019 to 2021, resulting in an increase of its share by 3.4 percentage points.

As of 2021, the average balance of the Bank's total accounts shows that 43.8% of the total balance had MNT 100.0 million or less, which makes up 99.7% of the total accounts. The average balance of current and deposit accounts is MNT 2.2 million.

As per the "Regulation on Setting and Monitoring Prudential Ratios to Banking Operation", the sum of the 10 largest depositors' current account and deposits' balances must not exceed 25% of the bank's total asset. As for Khan Bank, the requirement complied with 7.4% in 2020, and 4.4% in 2021.

Table 82. Customer deposit by amount

(in millions of MNT)				
	2021			
	# Accounts	Outstanding	%	Average
Customer accounts				
Up to 1.0	4,127,620	317,994	3.1%	0
1.0 - 5.0	344,629	808,834	7.9%	2
5.0 - 10.0	82,072	567,470	5.6%	7
10.0 - 20.0	49,666	687,743	6.7%	14
20.0 - 50.0	36,853	1,123,697	11.0%	30
50.0 - 100.0	13,939	962,818	9.4%	69
100.0 - 500.0	10,514	1,997,551	19.6%	190
500.0 - 1000.0	1,020	691,447	6.8%	678
Above 1000.0	926	3,053,898	29.9%	3,298
<b>Total</b>	<b>4,667,239</b>	<b>10,211,451</b>	<b>100.0%</b>	<b>2</b>

In 2020, 18.8% of the total customer deposits consisted of current accounts, 25.0% of demand deposits, 55.9% of term deposits, respectively. Meanwhile, in 2021, current accounts reached 30.2%, demand and term deposits lowered to 17.3% and 52.3%, respectively.

Table 83. Customer deposits by duration

(in millions of MNT)



	2021		2020		2019	
	# Accounts	Outstanding	# Accounts	Outstanding	# Accounts	Outstanding
<b>Customer accounts</b>						
Current accounts, Demand deposits	4,154,247	4,874,702	3,860,576	4,129,207	3,684,016	2,843,578
Up to 3 months	143,577	1,717,486	133,728	1,621,246	117,312	1,347,285
4-6 months	131,302	1,386,181	134,778	1,634,815	118,310	1,282,050
7-9 months	92,683	1,084,932	87,134	945,556	72,233	728,599
10-12 months	134,452	1,048,625	130,312	853,859	104,052	930,520
13-18 months	5,296	56,790	4,612	122,712	2,504	57,814
19-24 months	5,537	42,557	6,371	63,444	2,473	27,153
25-36 months	145	177	85	7	124	773
<b>Total</b>	<b>4,667,239</b>	<b>10,211,451</b>	<b>4,357,596</b>	<b>9,370,845</b>	<b>4,101,024</b>	<b>7,217,772</b>

### 2.3.7.6. Due to banks

Current accounts and time deposits from banks and financial institutions with a balance of MNT 109.0 billion in 2019, decreased to MNT 25.8 billion in 2020 due to the closure of MNT 50.0 billion in overnight loans from banks and term deposit of the Development Bank.

Table 84. Due to banks

	(in millions of MNT)		
	Year end		
	2021	2020	2019
<b>Domestic</b>			
Current accounts from banks and financial institutions	28,590	15,361	15,492
Time deposits from banks and financial institutions	-	-	28,053
Other	1,862	3,658	56,944
<b>Total</b>	<b>30,452</b>	<b>19,018</b>	<b>100,490</b>
<b>Foreign</b>			
Current accounts from banks and financial institutions	715	990	1,770
Time deposits from banks and financial institutions	4,687	5,817	-
Other		12	6,804
<b>Total</b>	<b>5,403</b>	<b>6,807</b>	<b>8,575</b>
<b>Total</b>	<b>35,854</b>	<b>25,825</b>	<b>109,064</b>

### 2.3.7.7. Borrowings

The amount of borrowings obtained by Khan Bank loans in 2021 was MNT 1,191.9 billion. Of this, 67.9% or MNT 808.9 billion was borrowed from foreign financial institutions and the rest was borrowed from government organizations.

Table 85. Borrowings

	(in millions of MNT)	
	Year end	

	2021	2020	2019
<b>Borrowed funds from foreign financial institutions</b>			
The Netherlands Development Finance Company (FMO) and syndication arranged by FMO	367,696	297,509	346,617
HS Holdings Co., Ltd. (formerly Sawada Holdings Co., Ltd.)	77,889	48,900	47,046
Funds managed by BlueOrchard	67,432	72,601	54,613
Symbiotics SA	67,251	-	-
Funds managed by Incofin CVBA	51,093	52,715	46,035
Promissory notes	50,392	122,378	194,452
Responsibility	42,500	-	-
European Bank for Reconstruction and Development (EBRD)	41,194	98,869	167,845
BANK IM BISTUM ESSEN	15,763	-	-
IFC and syndicated loans arranged by IFC	-	39,011	75,401
H.I.S U.S.A Holding, Inc	-	88,125	85,012
Others	27,671	27,899	12,560
<b>Total</b>	<b>808,881</b>	<b>848,006</b>	<b>1,029,582</b>
<b>Borrowed funds from government organizations</b>			
Bank of Mongolia	277,562	99,446	123,155
Ministry of Finance - Asian Development Bank	56,462	32,372	18,970
Ministry of Food, Agriculture and Light Industry	15,241	20,254	21,290
Ministry of Labour and Social Welfare-Small Loan supporting the Labour market	4,044	4,010	4,010
Ministry of Finance - other	3,994	4,173	365
Ministry of Finance/Japan Bank for International Cooperation	-	33,874	28,861
Development Bank of Mongolia	1,980	80,985	15,466
Ministry of Labour and Social Welfare- Employment Support Fund	-	9,034	9,029
Government project	881	1,149	1,016
Education Loan Fund under Ministry of Education, Culture, Science and Sports	427	629	751
Other government organizations	168	168	168
Other project	574	-	-
<b>Total</b>	<b>361,335</b>	<b>286,095</b>	<b>223,082</b>
Trade finances	21,701	39,485	56,032
<b>Total borrowed funds</b>	<b>1,191,917</b>	<b>1,173,586</b>	<b>1,308,696</b>

### 2.3.7.8. Repurchase agreement

As part of the Government's program, the first long-term repurchase agreement was signed with the Bank of Mongolia in the amount of MNT 100 billion with an interest rate of 10.5% and 2 year tenure, maturing on 30 November 2022. The repurchase agreement is part of a series of government programs aimed at refinancing SME loans in support of its economic growth plan. In 2021, an additional repurchase agreement has been

made in the amount of MNT 255.0 billion, which would mature in 2022 and 2023. In addition, the Bank also entered into a short-term repurchase agreement of MNT 248.0 billion, which expires on January 3, 2022.

Table 86. Repurchase agreement

(in millions of MNT)

	Year end		
	2021	2020	2019
Repurchase agreements	620,803	184,891	197,871

### 2.3.7.9. Other liabilities

Table 87. Other liabilities

(in thousands of MNT)

	Year end		
	2021	2020	2019
<b>Other liabilities</b>			
Payables and accrued expenses	31,887,840	47,435,602	16,271,897
Delay on clearing settlement	19,563,551	16,826,713	25,377,551
Temporary card payables	33,486,434	18,317,004	19,235,871
Salary payables	9,066,673	8,987,589	7,800,344
Tax payables other than income tax	852,491	8,234,783	7,049,074
Allowance for off balance commitments	5,874,105	4,780,149	2,454,566
Liabilities sold to MIK with recourse	-	-	1,030,090
Deferred revenue	30,000	437,446	1,034,781
Derivative financial instruments-liabilities	319,756	206,964	219,478
Subordinated debt	-	-	56,316,854
Lease liabilities	4,579,593	7,467,039	5,760,791
Current income tax liability	11,085,695	7,960,407	14,905,332
Deferred tax liability	2,167,852	6,155,494	9,998,555
<b>Total</b>	<b>118,913,990</b>	<b>126,809,190</b>	<b>167,455,184</b>

### 2.3.7.10. Equity

Table 88. Equity

(in millions of MNT)

	Year end			2021/2020 Change	2020/2019 Change
	2021	2020	2019		
<b>Equity:</b>					
Ordinary shares	172,098	58,071	52,792	114,027	5,279
Treasury stock	-	(7,589)	(2,184)	7,589	(5,405)
Other reserves	94,279	112,569	44,959	(18,290)	67,610
Retained earnings	1,018,134	1,066,160	1,097,929	(48,026)	(31,769)
<b>Total equity</b>	<b>1,284,510</b>	<b>1,229,211</b>	<b>1,193,496</b>	<b>55,299</b>	<b>35,715</b>

**Retained earnings:** Retained earnings increased by MNT 644.0 billion (profit for 3 consecutive years ) from 2019-2021, and dividends of MNT 200 billion were disbursed to shareholders in 2021. Profit for the year

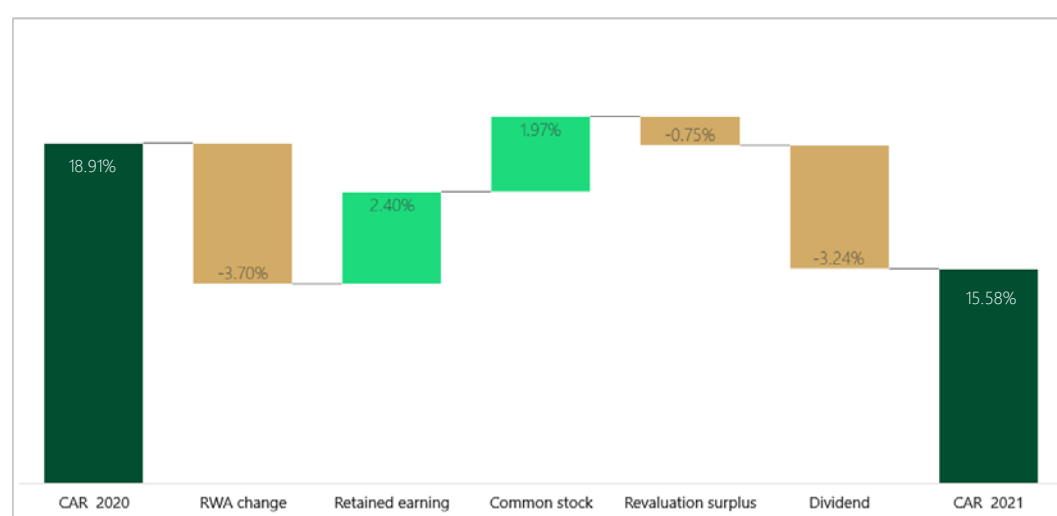
**Paid-in capital:** In accordance with the requirement set by the regulatory body, commercial banks are required to increase their statutory capital to MNT 100 billion by December 31, 2021. In line with the requirement, Khan Bank's equity reached MNT 172,098,820,000.00 by increasing the Bank's par value of shares from MNT 8,800 to MNT 30,000.

**Other reserves:** Other reserves is comprised of MNT 90.4 billion of asset revaluation reserves of and MNT 3.9 billion of changes in fair value (cumulative net change in the fair value of the debt instruments classified at FVOC and cumulative net change in the fair value of the equity instruments).

From January 2021, in accordance with the "Regulation on Setting and Monitoring Prudential Ratios to Banking Operation", the revaluation reserve is deducted from Tier 1 capital, and the Bank meets the requirement with a performance of 15.6% in terms of total capital (requirement: >12%) and Tier 1 capital (requirement: >10%).

The graph below shows the change in the capital-related ratios:

Figure 55. Change in the capital adequacy ratio in 2021



### 2.3.7.11. Detailed analysis on profitability

#### Net interest income

Net interest income increased by MNT 54.0 billion or 14% in 2019, decreased by MNT 8.9 billion or 2.0% in 2020, and increased by MNT 202 billion or 46.7% in 2021.

In 2020, net interest income decreased due to the following factors. Including:

- The average increase in interest-bearing liabilities increased by 14.5% and the average increase in income-generating assets grew by 13.8%, while increase in high-interest assets or loans to customers was 4.4% (pension loans were repaid by MNT 444 billion from the beginning of the year) resulting in a decrease of MNT 4.6 billion.
- The average rate of return on assets decreased from 11.5% to 10.05 and the average cost of funding decreased from 9.6% to 7.9%, while net interest income decreased by MNT 4.2 billion. The reduction in average interest rates was affected by BOM bills interest rate decrease from 11% to 6% three times during the year on top of loan interest rate decrease. On the other hand, the Government decisions such as stopping interest for the current account effective from April 29, 2020, under the Adoption of measures to ensure financial and economic stability during the Covid-19 pandemic.
- Though average of income generating assets increased by 15.9%, average return on assets decreased from 11.4% to 9.8% which had impact on net interest income decrease by MNT 11.3 billion. This has impacted by not only loan interest rate, also Mongolbank bil rate was decreased 3 times during the year from 11% as at beginning of the year to 6% by the end of the year as well as repayment of pension by MNT 444 billion from beginning of the year.
- Total liability increased by 16.2% whereas average cost decreased by 1.1% from 7.7% to 6.6% which resulted interest expense decreased by MNT2.4 billion.

Insight to the 2021 net interest income growth of MNT 202 billion:

- An average of income generating assets grew by 19%, while in opposition, the average rate of return on assets decreased from 10.0% to 9.1%, resulting in an increase of net interest income by MNT 90.0 billion,
- Increase of total funding by 21.6%, drop in term deposit interest rate, stopping interests on demand deposits in accordance with the amendment made to the Law on prevention and relief of COVID-19 pandemic on January 29, 2021, had a positive impact of MNT 112.0 billion in regards to net interest income.
- Even though average return on assets decreased from 9.8% to 9.2%, average income generating assets increased by 15.4% which resulted in increase of net interest income by 15.4%.
- Though total liabilities increased by 15.6%, interest rate of term deposit decreased, also the Government decisions on stopping interest for the current account as a measures to ensure financial and economic stability during the Covid-19 pandemic is continued as well as stopped interest for term deposit had positive impact on net interest income of MNT 112 billion.

The table below shows Khan Bank's average balance of assets, interest income, average interest rate and average balance of interest bearing funding, interest paid for funds and average expenses for the last 3 years

An average of net interest income margin is at 4.7% for the past 3 years, increased from 4.9% (2019) to 5.2% in 2021.



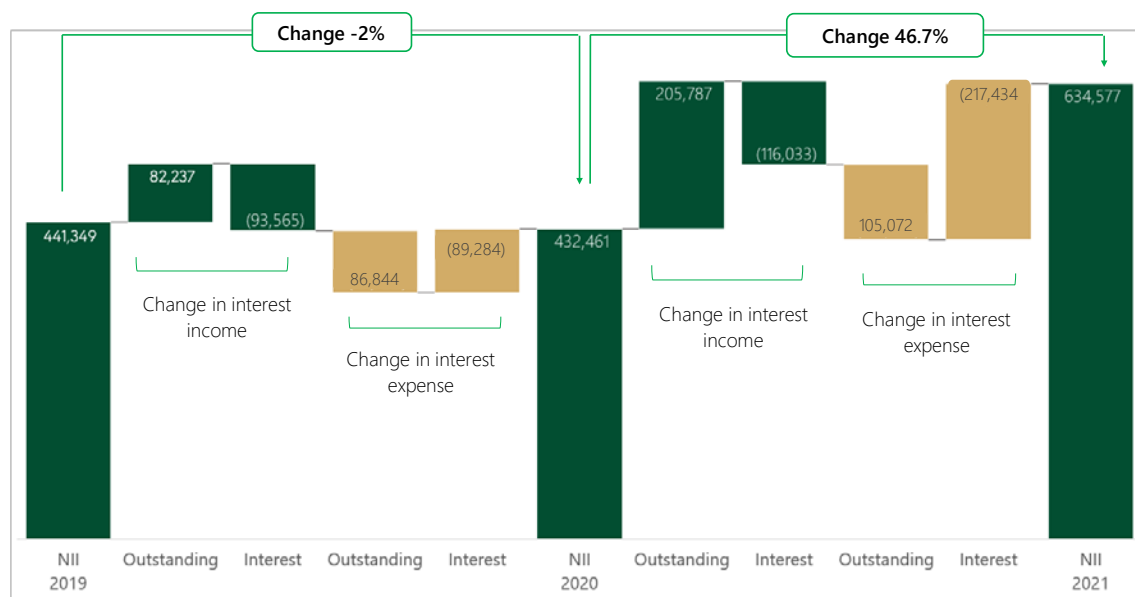
Table 89. Average balance of assets and interest rate for the past 3 years

	2021			2020			2019		
	Average amount	Interest Income/Expense	Interest %	Average amount	Interest Income/Expense	Interest %	Average amount	Interest Income/Expense	Interest %
Loans and advances to customers	5,757,391	874,807	15.19%	4,777,246	798,483	16.71%	4,403,664	803,877	18.25%
Cash and cash equivalent	5,453,686	236,117	4.33%	4,841,254	200,056	4.13%	3,656,579	203,052	5.55%
Financial investments	747,819	53,007	7.09%	686,341	68,651	10.00%	706,189	75,837	10.74%
Deposits at Other banks	42,700	2,187	5.12%	102,428	10,683	10.43%	203,963	8,001	3.92%
Other bonds	131,473	12,651	9.62%	105,446	11,140	10.57%	95,509	9,576	10.03%
<b>Total interest earning assets</b>	<b>12,133,069</b>	<b>1,178,769</b>	<b>9.72%</b>	<b>10,512,715</b>	<b>1,089,014</b>	<b>10.36%</b>	<b>9,065,903</b>	<b>1,100,342</b>	<b>12.14%</b>
<b>Total non-interest earning assets</b>	<b>654,239</b>	<b>0</b>	<b>0.00%</b>	<b>640,046</b>	<b>0</b>	<b>0.00%</b>	<b>567,424</b>	<b>0</b>	<b>0.00%</b>
<b>Total assets</b>	<b>12,787,308</b>	<b>1,178,769</b>	<b>9.22%</b>	<b>11,152,761</b>	<b>1,089,014</b>	<b>9.76%</b>	<b>9,633,327</b>	<b>1,100,342</b>	<b>11.42%</b>
<b>Liabilities:</b>									
Due to other banks and financial institutions	30,840	3,019	9.79%	67,445	1,071	1.59%	161,605	12,797	7.92%
Repurchase agreement	402,847	33,135	8.23%	191,381	5,711	2.98%	150,138	2,639	1.76%
Customer deposit	9,791,148	452,519	4.62%	8,294,308	558,596	6.73%	6,705,473	508,824	7.59%
Borrowed funds and subordinated debts	1,182,752	54,106	4.57%	1,269,300	89,394	7.04%	1,447,795	132,263	9.14%
Other liabilities	122,862	1,413	1.15%	118,974	1,781	1.50%	89,362	2,470	2.76%
<b>Total liabilities</b>	<b>11,530,447</b>	<b>544,192</b>	<b>4.72%</b>	<b>9,941,407</b>	<b>656,554</b>	<b>6.60%</b>	<b>8,554,373</b>	<b>658,993</b>	<b>7.70%</b>
Total equity:	1,256,861	0	0.00%	1,211,354	0	0.00%	1,078,954	0	0.00%
<b>Total liabilities and equity</b>	<b>12,787,308</b>	<b>544,192</b>	<b>4.26%</b>	<b>11,152,761</b>	<b>656,554</b>	<b>5.89%</b>	<b>9,633,327</b>	<b>658,993</b>	<b>6.84%</b>
Net interest income	634,577			432,461			441,349		
Net interest income margin	5.20%			4.10%			4.90%		

Average balance is calculated based on the balance at the beginning of the reporting year and at the end of the quarter

The graph below shows the impact analysis of net interest income:

Figure 56. Impact analysis of net interest income



## Net fee and commission income

Khan Bank's fee and commission income has increased by an average of 26.5% for the past 3 years. In 2019, it increased by 35% from the previous year, in 2020 by 13.5%, and in 2021 by 32.1%, respectively.

Table 90. Net fee and commission income for the past 3 years

(in millions of MNT)

Net fee and commission income	2021	2020	2019	2021/2020 Change		2020/2019 Change	
	Amount	Amount	Amount	%	Amount	%	Amount
Commissions on operations with plastic cards	105,921	79,167	75,683	33.8%	26,754	4.6%	3,484
Commissions on mobile and internet services	85,416	60,830	45,037	40.4%	24,586	35.1%	15,793
Commissions on settlement transactions	12,426	11,641	12,274	6.7%	785	-5.2%	(633)
Commissions on documentary business and guarantees	3,014	3,087	2,217	-2.4%	(73)	39.2%	870
Commissions on cash operations	705	903	1,139	-21.9%	(198)	-20.7%	(236)
Commissions on transfer payments	293	363	489	-19.2%	(70)	-25.8%	(126)
Other	4,311	3,635	4,615	18.6%	676	-21.2%	(980)
<b>Fee and commission income</b>	<b>212,086</b>	<b>159,625</b>	<b>141,453</b>	<b>32.9%</b>	<b>52,461</b>	<b>12.8%</b>	<b>18,173</b>
Commissions on operations with plastic cards	11,522	8,530	8,892	35.1%	2,992	-4.1%	(361)
Commissions on settlement transactions	4,162	3,093	2,272	34.6%	1,069	36.2%	821
Commissions on foreign exchange operations	705	684	532	3.0%	21	28.6%	152
Commissions on risk participation	1,088	0	0	0.0%	1,088	0.0%	-
<b>Fee and commission expense</b>	<b>17,478</b>	<b>12,308</b>	<b>11,695</b>	<b>42.0%</b>	<b>5,170</b>	<b>5.2%</b>	<b>612</b>
<b>Net fee and commission income</b>	<b>194,609</b>	<b>147,318</b>	<b>129,757</b>	<b>32.1%</b>	<b>47,291</b>	<b>13.5%</b>	<b>17,560</b>

### Fee and commission income from card services

In recent years, Khan Bank has been investing in digital service accessibility, as a result, in 2021, the Bank is providing high-quality service through its 1,431 ATMs, 33,047 POS machines, 254 E-POS and 215 Kiosks.

In addition, we have successfully enabled customers to order cards and get them delivered digitally. Subsequently, having customers aware of the services and helping potential customers in ordering cards, the Bank has gained 1.8 million cardholders.

Table 91. Fee and commission income from card services

(in millions of MNT)

Commissions on card related services	2021	2020	2019	2021/2020 Change		2020/2019 Change	
	Amount	Amount	Amount	%	Amount	%	Amount
ATM fee	5,378	7,153	10,277	-24.8%	(1,775)	-30.4%	(3,124)
POS fee	58,299	40,861	33,940	42.7%	17,437	20.4%	6,921
Other card service's fee	42,245	31,153	31,466	35.6%	11,092	-1.0%	(313)
<b>Total</b>	<b>105,921</b>	<b>79,167</b>	<b>75,683</b>	<b>33.8%</b>	<b>26,754</b>	<b>4.6%</b>	<b>3,484</b>

In 2021, the Bank increased the number of POS to 33,047, and the number of active cards from 1.2 million to 1.5 million, resulting in the increase of POS transaction fee by 42.7%, and card fees by 35.6%.

### Fee and commission income from Mobile and Internet banking service

In recent years, the Bank has been investing in developing a system by making digital channel services easy and simple, increasing the range of services and channels available to customers, as well as helping users

improve their knowledge in terms of digital products. Consequently, the amount of fee and commission income increased by 53.1% in 2019, 35.1% in 2020, 40.4% in 2021.

Table 92. Fee and commission from mobile and internet banking services

(in millions of MNT)

Commissions on mobile and internet services	2021	2020	2019	2021/2020 Change		2020/2019 Change	
	Amount	Amount	Amount	%	Amount	%	Amount
Internet bank fee	33,566	20,026	12,188	67.6%	13,540	64.3%	7,838
Mobile bank fee	7,451	7,593	6,305	-1.9%	(142)	20.4%	1,288
SMS alert fee	44,372	33,183	26,500	33.7%	11,190	25.2%	6,683
Digital bank other fee	27	29	45	-4.7%	-1	-36%	-16
<b>Total</b>	<b>85,416</b>	<b>60,830</b>	<b>45,037</b>	<b>40.4%</b>	<b>35,635</b>	<b>35.1%</b>	<b>15,793</b>

As a result of the Bank's investment in digital banking and other relevant measures, the number of digital banking customers/users has increased rapidly, accounting for 98.3% of transactions and 90% of the fee and commission income.

Table 93. Transaction types

(in millions of MNT)

Transaction by	2021			2020			2019		
	Tran. number %	Tran. amount %	Fee income	Tran. number %	Tran. amount %	Fee income	Tran. number %	Tran. amount %	Fee income
Teller	1.7%	30.2%	20,704.9	2.9%	38.8%	19,560.6	4.6%	47.4%	20,630.1
Digital bank	98.3%	69.8%	191,381.5	97.1%	61.2%	140,064.5	95.4%	52.6%	120,822.5
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>212,086.4</b>	<b>100%</b>	<b>100%</b>	<b>159,625.1</b>	<b>100%</b>	<b>100%</b>	<b>141,452.5</b>

## Operational expenses

Operational expenses increased by 20.6%, 8.6%, and 14.5% in 2019, 2020, and 2021, respectively. The increase was mainly due to the rise in direct business expenses, such as technical and technological upgrades made under the framework of the Bank's digitalization strategy, their depreciation and maintenance, and the service standardization of branches and sub-branches in preparation for the digital transformation.

As a result of digitalization, 98% of transactions are processed through digital channels.

The cost-to-income ratio has been relatively stable, ranging from 53.7% to 43.7% for the past three years.

Table 94. The Bank's operational expenses

(in millions of MNT)

	2021	2020	2019
Salaries, wages and bonuses	111,884	106,570	101,372
Contribution to social and health fund	12,514	5,874	11,929
Depreciation of property and equipment	54,369	52,902	40,676
Amortisation of intangible assets	17,703	10,897	11,667
Depreciation of right of use assets	7,511	7,171	6,383
Equipment repair and maintenance expense	56,251	42,130	34,679
Information and telecommunication services	21,096	17,150	12,355



Deposit insurance fee	20,429	14,327	15,798
Premises repair and maintenance expense	11,759	10,084	14,814
Other	54,063	54,055	46,133
<b>TOTAL EXPENSES</b>	<b>367,579</b>	<b>321,161</b>	<b>295,805</b>

### Provisioning of assets other than loans

The Bank recognizes provision using loss rate by multiplying probability of default with loss given default on cash and cash equivalents, mandatory reserves with the Bank of Mongolia, due from other banks, debt instruments at amortized cost, debt instruments at fair value through other comprehensive income. We measure grouping financial assets on a collective basis and at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of a default occurring over the remaining life of the financial instrument.

As of December 31, 2021, the total provision of financial instruments other than loans and advances to customers reached MNT 47.8 billion, an increase of MNT 21.9 billion compared to December 31, 2020. Out of the total increase, MNT 19.2 billion is related to an additional provision created for the receivable in relation to the counter-guarantee. In addition to that, the MNT 3.7 billion increase in provision is related to the MNT 158.6 billion increase in exposure on debt instruments of the Mongolian government as well as the fact that probability of default of above instrument increased by 20 basis points

Table 95. Provision for assets other than loans

	(in millions of MNT)		
	2021	2020	2019
Cash and cash equivalents	114	(202)	1,442
Mandatory reserve at Bank of Mongolia	607	2,191	1,249
Debt instruments measured at amortised cost	3,675	4,627	(4,680)
Due from banks	(1,921)	375	(1,024)
Debt instruments measured at FVOCI	228	(732)	1,502
Reposessed collaterals	6	260	19
Other assets	19,203	3,716	(32)
<b>Total</b>	<b>21,912</b>	<b>10,236</b>	<b>(1,524)</b>

### Income statement shown by business segment

Khan Bank operates in business segments such as Retail Banking, Small and Medium Business, Corporate Banking, and Treasury/ International Banking, and the profitability of each segment is shown in the table below:

Table 96. Income statement by business segment

	(in thousands of MNT)					
Income statement	Consumer	SME	Corporate	Asset management	Head office	TOTAL
Interest income calculated using effective interest rate	611,298,973	103,529,239	111,259,686	282,119,068	31,744,670	1,139,951,636
Other interest and similar income	–	–	–	38,817,302	–	38,817,302
Interest expense calculated using effective interest rate	(428,003,799)	(4,247,570)	(16,735,241)	(91,375,866)	(3,829,506)	(544,191,982)

Intersegment interest income/(expense)	240,310,435	(55,526,415)	(47,345,776)	(193,245,154)	55,806,910	–
<b>Net interest income</b>	<b>423,605,609</b>	<b>43,755,254</b>	<b>47,178,669</b>	<b>36,315,350</b>	<b>83,722,074</b>	<b>634,576,956</b>
Fees and commission income	114,884,261	903,188	2,824,995	1,933,684	91,540,279	212,086,407
Fees and commission expense	–	–	(1,088,252)	(4,783,707)	(11,605,565)	(17,477,524)
<b>Net fee and commission income</b>	<b>114,884,261</b>	<b>903,188</b>	<b>1,736,743</b>	<b>(2,850,023)</b>	<b>79,934,714</b>	<b>194,608,883</b>
Gains from trading in foreign currencies	5,873,330	444,958	1,455,803	13,512,474	–	21,286,565
Loss from financial derivatives	–	–	–	(202,377)	–	(202,377)
Foreign exchange translation gain/(loss)	–	–	–	(1,696,534)	209	(1,696,325)
Other operating (expense)/income	493,242	6,085	–	(2,326,529)	(4,788,992)	(6,616,194)
<b>Total operating income</b>	<b>544,856,442</b>	<b>45,109,485</b>	<b>50,371,215</b>	<b>42,752,361</b>	<b>158,868,005</b>	<b>841,957,508</b>
Allowance for impairment losses	(19,230,684)	(24,487,928)	(20,517,165)	(22,921,637)	(662,026)	(87,819,440)
<b>Net operating income</b>	<b>525,625,758</b>	<b>20,621,557</b>	<b>29,854,050</b>	<b>19,830,724</b>	<b>158,205,979</b>	<b>754,138,068</b>
Operating expenses	(185,147,840)	(4,349,699)	(3,741,320)	(3,128,117)	(171,212,009)	(367,578,985)
<b>Segment profit(loss) before taxation</b>	<b>340,477,918</b>	<b>16,271,858</b>	<b>26,112,730</b>	<b>16,702,607</b>	<b>(13,006,030)</b>	<b>386,559,083</b>
Income tax expense	(80,977,081)	(3,869,994)	(6,210,484)	(3,972,441)	–	(95,030,000)
<b>Profit for the year</b>	<b>259,500,837</b>	<b>12,401,864</b>	<b>19,902,246</b>	<b>12,730,166</b>	<b>(13,006,030)</b>	<b>291,529,083</b>

### 2.3.8 Risk management, three lines of defense

Khan bank manages Credit, Liquidity, Market, Operational, Legal, Compliance, Information security and Information technology risks. These risks are managed and monitored in accordance with the following policies and procedures within the scope of the Risk management general policy approved by the Board of Directors (BOD) and the Risk appetite framework policy:

- Credit risk management policies and procedures
- Non-financial risk management policy
- Khan bank's stress testing policy and procedure
- Compliance policy
- Anti-money laundering and financial crimes policy
- Information security policy
- Procedures for measuring and managing foreign exchange risk
- Khan bank's interest rate risk measurement and management procedures
- Khan bank's liquidity risk management procedures
- Information security risk management procedures
- Information technology risk management procedures

In order to continuously and effectively implement the process of identifying, assessing, taking action, reporting and monitoring risks, responsibilities are properly allocated and reflected in risk management policies and procedures, and every bank employee is responsible for reporting, managing and monitoring

potential risks. The roles of the BOD and the Executive management are defined by the Risk management general policy.

The Bank adheres to the following basic principles in its risk management:

- Involvement of relevant stakeholders is important in the implementation of the risk management process, and participants are regularly provided with risk information, that is new, clear and that will be potentially used.
- Risk management is based on factual information and is part of the decision-making process.
- Risk management is organized, up-to-date, flexible and contributes to the bank's strategy and objectives.
- Effective internal controls are in the risk management process.
- The implementation of risk management takes into account the potential negative impacts on the environment and society.

Risk management reporting is bottom-up, and oversight and accountability are top-down. Risk management units prepare risk reports and report to the Vice President Chief Risk Officer (VP CRO) and the relevant level committees. The VP CRO regularly reports to the BOD and Board risk committee on the Bank's risk management reports and other key risks and issues.

### Risk appetite

Risk appetite refers to the types and amounts of risks recognized by the BOD in order to protect the interests of all the Bank's customers, shareholders and employees, as well as to achieve its objectives. The BOD reviews and approves the Bank's Risk appetite statement (RAS) on an annual basis. Within the scope of RAS implementation, the Bank defines principles of risk appetite framework, RAS, statement requirements, stakeholder responsibilities, which are approved by the BOD.

The Bank adheres to the following principles within the scope of Risk appetite policy:

- Relationships within the Bank shall allow horizontal and vertical communication about acceptable risks;
- Risk appetite is an integral part of the bank's risk culture;
- The Bank's risk appetite changes accordingly to the bank's external (political, economic, legal, social, technological) and internal circumstances, which affect strategic and business objectives;
- Risk appetite covers all types of risks that may arise from the Bank's operations, both external and internal;
- Bank managers at all levels are regularly provided with adequate information and reports on the implementation of the RAS;

The Executive management is responsible for the implementation of the RAS and shall provide guidance to all relevant units on how to comply with the RAS. The VP CRO reports to the BOD and the Board risk committee on a monthly basis.

### Three lines of defense

Khan bank uses the "Three lines of defense" model to manage risk by appropriately allocating risk management responsibilities.

#### First line of defense: Business lines and their supporting functions

Risk owner: Responsible for the risks that may arise in their business and operations, and manages them effectively on an ongoing basis. These include: all branches of the Bank, clearing houses, all departments in charge of the Head office's business operations, other support departments, offices and related operational committees.

**Second line of defense: Risk functions and risk management support functions**

Risk moderator: Directs the risk management of first line of defense. These functions have the authority to monitor and test the risk management processes of first line units as part of their policy and regulatory responsibilities. These include the units responsible for risk management, the relevant departments, offices and risk committees of the Head office.

**Third line of defense: Internal Audit Function**

Independent approver: Independently audits the Bank's risk management system, risk management and internal control to ensure its effectiveness. The internal audit function performs its responsibilities independently of Lines 1 and 2 and reports to the Board.

**2.3.8.1 Credit risk management**

The Bank defines credit risk as "potential losses due to non-performance of contractual obligations responsible by the Borrower or Contractor". Khan bank implements credit risk management within the framework of the Risk Management General Policy, Credit Risk Management Policy and other relevant operational procedures. Credit risk management considers the credit risk of a particular unit and the credit risk of a portfolio.

The BOD annually approves an acceptable RAS that includes a credit risk management strategy and goals and objectives of the year. Under this RAS, the Bank sets internal limits and restrictions, establishes an independent system for detecting, assessing, managing and monitoring credit risk, and reports performance to the Executive Management and the Board risk committee.

**Credit committees**

The structure of the Bank's loan committees is organized according to the quality of the loan portfolio, customer segments, loan size and type. The Bank established the following types of loan committees to handle and monitor loans.

The Head office credit committee (HOCC) will consider and decide on loans of more than MNT 3 billion and up to 5% of the Bank's equity, depending on the risk category of the borrower. Depending on the risk category of the borrower and the size of the loan, it is regulated by the BOD. The HOCC sets and approves the powers of lower-level credit committees:

- Head office credit sub-committee (HOCSC) discusses and resolves loan proposals of up to MNT 3 billion in excess of the authority of lower-level credit committees.
- The Business center credit committee discusses and resolves loans of up to MNT 800 million of Small and medium businesses of business centers affiliated with the Bank.
- The Mortgage credit committee decides on mortgage loans with a total loan offer of up to MNT 500.0 million.
- The Ulaanbaatar branch credit committees decide on loan proposals for all branches and units of Ulaanbaatar Citizens' Bank, except for mortgage loans with a total loan offer of up to MNT 500.0 million.
- The authority of the Rural branch credit committees is to decide on loan proposals with a total loan offer of up to MNT 500.0 million.

**Credit risk units**

The following units are established under the VP CRO for credit risk management, policy coordination and implementation of appropriate strategies. These include:

- Retail Credit Risk Department



- Corporate Credit Risk Department
- Credit Policy and Regulation Department

The main functions of credit risk units are to develop credit risk policies and procedures, monitor the limits set in the RAS, conduct credit risk analysis and research, provide independent risk assessment and evaluation of specific loan proposals, provide risk management guidance and advice to business units, and provide relevant training.

*Corporate Credit Risk Department:*

- Assess, identify and manage large (material) credit risk;
- Regularly monitor risky lending activities and business loan portfolios within the scope of acceptable risk limits, and report regularly to the Executive Management Committee and the Board risk committee;
- Implement an early warning system to identify "Watch-list" loans, plan activities, and regularly monitor "Watch-list" loan portfolios;
- Implement pre-issuance controls for corporate banking and high-value SME loans;
- Development and improvement of credit risk assessment system and monitoring;
- Take relevant measures to develop a strategy to reduce non-performing loans and cooperate with outsourcing companies to reduce non-performing loans;
- Establish a credit risk fund in accordance with the Bank of Mongolia's "Regulation on asset classification and provisioning and its disbursement" and IFRS 9;
- Monitor and report on loan portfolio quality ratios from international lending institutions;
- Carry out and evaluate collateral and construction projects, set benchmarks for real estate, apartments and houses, and update them regularly;
- Provide training and advice to business units on business credit risk management and foster a risk culture;

*Retail Credit Risk Department:*

- Identify the factors influencing the quality of individual loan portfolios and support them in preventing, mitigating and maintaining portfolio risk at an acceptable level;
- Define the strategic direction and principles of loan control and repayment of individual loan portfolios and support their implementation;
- Improve the loan portfolio of individuals and its risk-related activities, providing necessary instructions and recommendations, and cooperating with relevant units;
- Participate in loan decision-making and monitoring processes within specific products and operating procedures;
- Develop measures to improve the quality, risk, scoring, risk prevention, risk reduction and quality improvement of retail loan portfolios;
- Extract data required for consumer credit risk management, prepare reports, develop and improve Behavioral Scoring and Application Scoring assessments and other required assessment modeling, and coordinate with them;

*Credit Policy and Regulation Department:*

- Develop credit policies, loan product regulations and operating procedures;
- Cooperate and coordinate with third parties on project and green loan products;
- Responsible for loan process automation projects, loan software development and improvement;
- Coordinate activities and relationships related to leasing products;



- Carry out secondary analysis and sale of loan-backed bonds, provide services for sold packages, and cooperate with relevant units;
- Conduct market and competition research, and be responsible for loan product prices and other conditions;

### Credit risk management tools

The Bank uses credit risk management tools based on product types and purposes, such as consumer loans and business loans.

Individual loans include all types of consumer loans, mortgage loans, agricultural loans, and small business loans.

- The Bank developed and utilizes Application scoring - AS (since 2015), Behavioral scoring - BS (since 2020), Credit history assessment (since 2012), Flow rate assessment (since 2018), and New volume quality assessment (since 2018).
- In the case of individual loan portfolios, the loan portfolio risk is managed by regularly monitoring the quality indicators for each product, evaluating and taking necessary measures whenever warning signs are detected.
- The Bank has developed a new "Behavioral Scoring" and started using it in August 2020 for consumer loan and low value business loan decision making and portfolio quality management. BS is a risk assessment model with key features and advantages, as it regularly updates the financial behavior assessment of all customers of the bank in a fully automated manner. This model is constantly being improved using machine learning.
- Individual loan decisions are made using AS assessment, BS assessment and Credit History assessment automatically or through the loan committee, depending on the borrower's risk assessment scores, income type and product characteristics, and appropriate pricing and risk policies for these are implemented.
- Debt collection integrated risk management software is used to deal with overdue and non-performing loans and to provide integrated information to branches and departments.

Business loans cover all types of business loan products, except for small business loans.

- The Risk rating model has been implemented in business loan decision making and credit risk management since 2008 and has been improved in 2020 as part of the consulting services provided by the Frankfurt school. The model determines the value of the borrower and the specific loan.
- For business loans, portfolio limits are set and monitored for each special and high-risk business sector, and portfolio risk management is implemented.

### Credit risk monitoring and reporting system

A comprehensive monthly report on the performance and monitoring of the Bank's credit risk limits is prepared and submitted to the BOD and the Board risk committee on a monthly basis, and appropriate action is taken if necessary. Khan Bank's activities in relation to identification and oversight on loan quality deterioration as well as early detection and early warning of potential credit risks are carried out within the framework of the following two systems.

- **Early warning system** determines whether a customer with a business loan balance of more than MNT 500 million should be included in the "Watch-list" list by monitoring the risk signals for their business operations.
- **Periodic review.** At least once a year, the unit in charge of financial and non-financial supervision of all types of business loan balances of more than MNT 500 million shall present to the relevant risk



committee and shall present “Watch” loan identification, action plan development and frequent monitoring reports to Board risk committee.

#### Credit concentration risk and control

Concentration risk levels are considered when political, economic, or any other change in the activities of customers operating in the same type of business or in the same geographical area or in a particular economic sector will have a similar effect on their contractual obligations.

In order to avoid the over-concentration of credit risk, the Bank manages its portfolio risk through its policies and procedures. The Bank monitors and manages loan portfolio risk by carefully reviewing loan applications, setting interest rates based on risk levels, setting and monitoring loan portfolio limits by indicators such as single borrower and economic sector to manage concentration risk. According to the Banking Law, the Bank is obliged to comply with the following restrictions in its operations. These include:

- The total loan amount to be provided to one borrower and its related parties and the total amount of other loan equivalent assets shall not exceed 20% of the Bank's equity.
- The amount of loans provided by the Bank to related parties and other loan-equivalent assets shall not exceed 5% of the Bank's equity and their total amount shall not exceed 20% of its equity.

In addition to the above restrictions, the Bank defines the following internal constraints related to the concentration of the economic sector in accordance with the Bank's risk definition.

- The total loan amount to be issued to one borrower and its related parties and the total amount of other loan equivalent assets not to exceed 10% of the Bank's equity;
- Total loan portfolio in the construction sector not to exceed 10% of the total loan portfolio;
- Loan portfolio in the mining sector not to exceed 10% of the total loan portfolio;
- Loan portfolio in the agricultural sector not exceed 5% of the total loan portfolio;
- Foreign currency loan portfolio that is not hedged against exchange rate risk not to exceed 5% of the total loan portfolio;
- Loan portfolio of fuel import and trade not to exceed 7.5% of the total loan portfolio;

#### Stress test

The Bank conducts credit risk stress testing using econometric tools based on the historical database of the loan portfolio. It uses key macro indicators, as well as quarterly data on the probability of non-payment of the loan portfolio for each product.

In terms of methodology, the indicators that characterize the quality of the loan portfolio are calculated from the correlation coefficients based on the macroeconomic explanatory variables, and the variables with the highest percentage are selected as the explanatory variables. An indicator of the macroeconomic environment has been developed using macroeconomic explanatory variables, and criteria for normal and stress conditions are identified using historical time distribution data. Future scenario for macro indicators is based on a historical time series regression model of the probability of loan portfolio default.

#### 2.3.8.2 Liquidity risk management

Khan Bank meets the criteria set by the Bank of Mongolia and international financial institutions in its liquidity risk management activities and adheres to an integrated risk management system. Under this system, the risk is borne by the Assets and Liabilities Committee (ALCO), which approves the acceptable risk statements, strategies and policy documents for the year, and the relevant departments work together on a day-to-day basis. In order to improve liquidity risk management and increase efficiency, the trading limits of money market instruments are updated every 6 months. It also develops contingency plans and reports stress tests and sensitivity tests at regular intervals. In addition, the ALCO meets weekly for monitoring.

In order to be prepared for potential liquidity risks, liquidity ratios are identified, reserves are established and measures are adopted on a case-by-case basis. In addition, a comprehensive, timely and accurate risk measurement system is established and regularly reported.

In terms of risk control, one of the prudential ratios required by the regulatory bank, the Bank of Mongolia, is the Quick Ratio (QR), and the key liquidity ratios of the Basel III standard required by international clients are the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The NSFR is maintained at an appropriate level. It also regularly monitors and manages the maturity gap (GAP) of assets and liabilities. Quantitatively, in 2021, these indicators averaged 49.13% (QR), 187.57% (LCR) and 197.24% (NSFR).

Due to the specifics of the business segment, the majority of the Bank's resources are current accounts and deposits attracted from customers, and the concentration of resources is relatively low. In previous years, total deposits increased steadily, reaching MNT 8.83 trillion, MNT 10.75 trillion and MNT 12.1 trillion at the end of 2019, 2020 and 2021\*, respectively. In addition, long-term project and program loans from foreign investors are less concentrated in terms of maturity.

### **2.3.8.3 Market risk management**

Market risk is the risk that the fair value of the Bank's financial instruments or future cash flows will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and price changes. Within the scope of business plan and strategic objectives, the Bank reviews and gets approval for the annual RAS from the BOD and within the scope of these statements the Bank establishes, measures and monitors internal market risk limits.

#### **Quantitative and qualitative analysis of foreign exchange risk**

In order to align potential losses from exchange rate fluctuations with the Bank's risk tolerance, the Bank adheres to the Bank of Mongolia's restrictions on individual and total foreign exchange positions, and uses internal assessment methods such as "Value at Risk - VaR", Sensitivity Analysis and Stress Test Analysis. The VaR methodology is based on feedback methods that determine exchange rate fluctuation assessment models and the quality of their assessments by comparing them with actual data in accordance with the requirements for model assessment defined by the Basel Committee.

The Bank's own VaR software can assess daily exchange rate fluctuations by variation-covariance, historical sources and expected loss models, as well as calculate the portfolio's VaR and monitor the implementation of internal limits on a daily basis. The Bank is continuously developing its internal foreign exchange risk assessment software by expanding the models and review methods to improve the reliability and accuracy of risk assessment, and improving the quality of management information systems.

In addition to developing an action plan in the event of instability in the foreign exchange market, the Bank conducts quarterly foreign exchange risk stress tests to determine the material adverse effects on the Bank's financial condition. When selecting a foreign exchange risk stress test scenario, the following three types of scenarios are selected based on the coefficient of possible macroeconomic risk events. These include:

- Based on historical events;
- Stress VaR method;
- Extreme value theory;

In addition to quantitative analytical methods, the Bank focuses on the quality of foreign exchange assets and sets internal limits based on the level of credit risk of its customers, in order to reduce the settlement risk and credit risk of foreign exchange transactions. The Correspondent Bank's credit risk assessment methodology includes macro-environmental analysis, financial analysis, and quality adjustment of the country in which the bank operates, based on a credit rating model developed by an international rating agency and best practices.





### Quantitative and qualitative analysis of interest rate risk

The Bank adheres to the Basel Committee's Recommendations on Measurement of Interest Risk as part of its effective interest rate risk management. If there is an interest rate, it is divided into time categories according to the next reevaluation period and the impact of the bank's projected net interest income and economic value on equity as a result of global interest rate shock scenarios. However, the impact of interest rate changes is estimated by modeling cash flows using standard methodologies and standard parameters based on the characteristics of hidden assets, liabilities and off-balance sheet items, product conditions and historical information. These include:

- Long-term, fixed-interest loan portfolio with high interest rate;
- Use of credit cards and other credit lines;
- Stable and volatile current demand deposits;

In addition, the price risk arising from the decline in the market value of commercially held assets due to changes in interest rates is measured and managed within the scope of interest rate risk in trading records. The risk is calculated based on the general interest rate risk and credit spread risk indicators in accordance with the Basel Committee's standard valuation methodology for commercial accounting. The Bank also meets the limits on reevaluation differences within the framework of the financial risk ratio requirements set out in bilateral agreements with international financial lenders.

In addition, the Bank is required to assess its risk tolerance, to withstand potential losses from large contingencies, to determine its adequacy of capital and solvency, to build up the necessary resources to cope with difficulties, and to increase the effectiveness of contingency plans. We measure and monitor market risks that are considered to be material, which are not considered in the regulatory requirements of the Bank of Mongolia.

### 2.3.8.4 Operational risk management

The Bank defines Operational risk as an event that affects the Bank's strategy and objectives due to inadequacies in the Bank's internal operations and due to personal and external factors. Operational risk includes the following subcategories:

- Internal fraud
- External fraud
- Health, life threats and employment violations
- Errors and omissions in products and services
- Damage to physical property
- Business interruptions
- Performance errors and omissions

The BOD is generally responsible for the Bank's operational risk management, while the VP CRO directs the day-to-day operations of the bank. The Bank established a "three lines" of operational risk defense as follows.

- First line of defense: The Head office departments and branches are responsible for managing operational risk on a day-to-day basis.
- Second line of defense: The Operational Risk Department is responsible for developing and improving the operational risk management framework and related methodologies. In addition, the Operational Risk Department provides guidance to the units in First line of defense on the identification, assessment and monitoring of risks. In addition, the Operational Risk Department submits a consolidated non-financial risk report to the Risk Management Committee on a monthly basis.



- Third line of defense: Internal Audit provides external oversight of the operation of first and second lines of defense.

Khan Bank implements operational risk management policies, procedures and tools in line with international standards and implements them in its day-to-day operations and decision-making in order to effectively implement operational risk management. The Governance risk compliance (GRC) system supports operational risk management, which ensures the transparency of risk information and allows for timely reporting. Operational risk methodologies include the unit risk dashboard, the Risk and control self-assessment (RCSA), the Loss database, the Key risk indicator (KRI), and the Issue Management.

#### **2.3.8.5 Information security risk management**

Khan Bank manages information security risks affecting business operations and information technology and keeps these risks at a low level. In order to systematically identify, analyze, assess, take action and report on information security risks, the Bank uses internationally recognized theories and methods in accordance with ISO:31000 (Risk Management Principles and Guidelines) and ISO:27005 (Information Security Risk Management) in its operations.

The Bank implements an information security management system in accordance with ISO27001:2013, which is an internationally risk-based information security standard aimed at ensuring the security of information assets. The Bank regularly organizes the Information Security Risk Sub-committee to effectively manage the risk of confidentiality, integrity and accessibility loss related to informational assets including taking advantage of their weaknesses. The Information Security Department identifies and assesses information security risks that may occur in the operations of the Head Office's units and departments, in Ulaanbaatar and local branch settlement centers, and that are registered on the Information Security Sub-committee dashboard.

The Information Security Risk Sub-committee regularly monitors the Bank's Information Security Risk Management Framework and Risk Management Process in accordance with Khan Bank's Risk Management General Policy and Non-Financial Risk Management Policy and has the main purpose to identify, evaluate, effectively manage, discuss action plans and strategies of information security risks. The Bank regularly conducts internal audits in accordance with the requirements of International Standards for Information Security Management System & Payment Card Security and Information security policies and procedures.

#### **2.3.8.6 Legal and Compliance Risk Management**

##### **Legal risk management**

The Bank's legal risk means failure to comply with Mongolian legislation, rules, regulations, instructions and standards approved by the state authorities, failure to amend active contracts according to new legislation changes, and subjectivity to judicial review of any banking dispute.

The process of identifying, assessing, taking action, monitoring and reporting legal risks is carried out in accordance with the Non-Financial Risk Management Policy. Legal risks are ranked according to their level of importance, and information on risk limit breaches is presented to the committees and relevant decisions are made. Reports and information related to legal risks are reported to the Operational Risk Subcommittee and the Risk Management Committee.

In order to prevent and reduce legal risks, the Bank implements the following risk management measures on a daily basis:

- Supervision of contracts and policies and procedures - reviewing and harmonizing banking standards and non-standard contracts, policies, procedures and other legal acts in accordance with changes in legislation and decisions of banking authorities;



- To receive information on legal reforms and amendments from time to time, to comment on draft laws and regulations affecting the interests of the bank and related to banking activities, to conduct research on the amendments and prepare for compliance with the bank's activities;
- Protect the rights and legitimate interests of bank through judicial and non-judicial procedures, participate in litigation, conduct research on the causes of disputes and take necessary measures to prevent the recurrence of such disputes;

### Compliance risk management

Compliance risk is risk of fines imposed by regulatory authorities, and financial and reputational loss due to failure to comply with Anti-money laundering legislations, rules, procedures as well as bank's Code of Conduct. The purpose of Khan Bank's compliance risk management is to effectively identify, evaluate and prevent compliance risks through creation of effective compliance risk management mechanism that enable full compliance of relevant legislation. To this end, rights and responsibilities of the Board and Executive management are well-defined to ensure effective high-level oversight on compliance risks.

The Bank's BOD and Executive management review and approve the Bank's internal compliance control program, policies and procedures. The BOD authorizes the Executive management to conduct day-to-day monitoring of compliance risk management, and the Executive management reviews reports and escalations pertinent to compliance risk while providing instructions and guidelines for immediate remedial action. The Head and senior staff of the Bank's divisions are responsible for distributing compliance policies and procedures to all employees and monitoring their implementation.

Khan Bank's Chief Executive Officer appoints the Head of Compliance, defines the functions and organizational structure of the Compliance Department, provides the human resources, technology, software and facilities requisite for to carry out its functions, and ensures the independence of the Compliance staff.

### *Anti-money laundering activities*

Mongolia is a member of the Financial Action Task Force (FATF) Asia-Pacific Group (APG) and has a system of national legislation to combat money laundering and terrorist financing. The Financial Intelligence Unit under the Bank of Mongolia monitors the implementation of anti-money laundering and anti-terrorist financing legislation, standards, rules and regulations issued in accordance with them.

Khan Bank implements international best practices and standards in the fight against money laundering and terrorist financing and is a leading domestic leader in the fight against financial crime. Furthermore, all employees and management are fully aware of their duties in protecting the customers and integrity of the financial system.

Khan Bank develops and approves its internal policies and procedures in accordance with the requirements set forth in Anti-money laundering and counter terrorism financing (AML/CFT) laws and regulations. The Bank's internal policies and procedures related to risk management and control include the Anti-Money Laundering and Financial Crimes Policy, the Anti-Corruption policy, the Sanctions Policy, and the Policy on Politically Exposed Persons, Money Laundering and Terrorist Financing Prevention Procedure, Customer Identification and Registration Procedures, Sanctions Procedures, Procedure on Termination of Customer Business Relations, and Restriction of Banking Services, Transaction Monitoring Procedures and Procedure on Reporting Suspicious Transactions and Activities. In accordance with the Bank's internal document management procedures, the implementation and effectiveness of the above-mentioned policies and procedures are monitored and updated annually.

The Compliance Department has the following general functions: to monitor the implementation of the policies and procedures related to the AML/CFT in an integrated manner, to take appropriate measures to address any deficiencies and issues, and to report to management. These include:



- General compliance /KYC control
- Transaction monitoring and reporting,
- Sanctions control,
- Financial crime risk management and
- Compliance training and development

Khan Bank adheres to any sanctions compliance requirements prescribed by Mongolian law and covenants concluded with partner institutions. Those include sanctions imposed by the UN Security Council and international organizations such as the European Union, the United Kingdom and the United States. To this end, Khan Bank's special sanctions control program has been developed and approved by the Executive Management, and is constantly updated to ensure compliance and implementation at the bank level.

Within the framework of compliance risk management, all types of AML/CFT trainings for the Bank's employees are systematically conducted on regular basis, using various delivery methods such as online and in-house trainings. In addition, awareness materials and technical guidelines are distributed throughout the bank. Khan Bank's core values are reflected in the Code of Ethics, which is communicated to all employees, and incorporates anti-bribery and corruption requirements. This universal requirement for responsible and ethical banker acknowledged and understood by every employee. Khan Bank's Anti- Bribery & Corruption Policy has been developed in accordance with international standards and domestic legislation, and the document is strictly followed at all levels of operations.

#### **2.3.8.7 Information technology risk management**

The entire IT risk is managed and monitored by the Vice President Chief Information Officer, and the Information Technology Business Governance Department is responsible for identifying, assessing, taking action, monitoring and reporting on IT risks. The Bank's information technology management and service system improvement and implementation activities are based on the internationally recognized COBIT and ITIL frameworks. IT audits based on the COBIT system are conducted by an external auditor every two years, and the assessment confirms that the level of risk management capacity has been significantly improved.

Khan Bank manages and monitors information technology risks related to the use, introduction and management of information technology, information technology services and business continuity in accordance with the Information Technology Risk Management Regulations and the Information Technology Risk Subcommittee. The Bank regularly reviews information technology risks by the Information Technology Risk Subcommittee and makes relevant decisions. It also discusses and reviews issues and recommendations identified during IT audits, their implementation, and information technology policies and procedures.

Regular thematic risk assessments are performed on key systems that affect information technology processes and customer service in line with the Bank's business strategy and objectives. The risks identified in the IT risk assessment are recorded on the board of the IT risk subcommittee and action is taken. Information technology staff are regularly trained to identify potential risks in their day-to-day operations.



## 2.3. Mid-term business plan overview

### 2.4.1. Business objectives

In the current operating environment with COVID-19 pandemic spreading across the globe, major shifts are taking place in global and Mongolian economy and financial market.

In 2021, Mongolian economy grew by 1.6 percent while the systemic total loan portfolio grew by 22 percent.

Khan Bank's total lending portfolio increased by 32.9 percent owing largely to increase in SME and corporate loans. The state's policy measures taken in efforts to stabilize economy, such as maintenance of monetary policy rate, providing financial allowance to each citizen, incentives for vaccinated individuals, benefits for those without pension loans, and one-time support for herders, have had considerable effects on Bank's operation and profitability. Despite the turbulent and unpredictable operating environment, Khan Bank was able to maintain its leading position in net profit after taxes, which accounted for over half of the banking sector's net profits.

In the past few years, the COVID-19 pandemic served as accelerator for digital service adoption in banking sector. It is at this time that the Bank reviewed and reinstated its mid-term or three-year business development strategy. In this plan, the bank emphasized its strong focus on the best and prompt service to ensure customer satisfaction with equally strong focus on digital transition objectives with view to increase the array of services delivered through digital channels with enterprise-wide risk management frameworks. . The priorities to reflect the above commitment are as follows::

#### Customer centricity

- Improve customer satisfaction by offering products and services based on data analytics and artificial intelligence; provide customer experience exceeding expectations; and instill customer-centric mindset and culture within the organization;
- Support and strengthen loyal customer base through supporting them through provision world class, top notch Customer Information Center experience

#### Business growth and risk management

- Expansion of market position in retail and SME sectors;
- Ensure growth in key business areas through phased shifting of all products and services to digital channels;
- Under business objectives, priority banking will offer innovative new products and services tailored to its target customers' needs and demands;
- To effectively mitigate novel global risks in technology, cyber, strategy, third party and model areas, the Bank plans fully implement methodologies(Risk and Control Self-Assessment and Key Risk Indicator and so on) to ensure early detection and effective management thereof through proper resource allocation; while improving risk awareness across the bank and establishing an integrated enterprise risk management (ERM) system

#### Beyond banking - Digital banking vision and strategy

Khan Bank shall sustain the long-term competitiveness of the Bank through adaptation to the changing environment constant evolution. Khan Bank aims to provide customized products and services that seamlessly tailor to individual lifestyle of customers. As part of this plan, following priorities are set:

- Become everyone's primary choice of bank by creating an everyday lifestyle-synched ecosystem through cooperation with third party partners;



- Offer products and services tailored specifically to customer needs with help of data-analytics and AI technology;
- Design thinking and robotic process automation will be applied to product development process to improve the user experience.

#### Organizational development

- Define, identify and enhance digital skills of employees required to achieve digital banking strategy;
- Adopt agile management that supports innovation, speed, simplicity and productivity;
- Enhance governance principles, support stakeholders' collaboration and principle of transparency will be followed. Additionally, strengthen sustainable development policy and introduce principles of sustainable development into operations.

## 2.4.2. Financial assumptions

### Macro-economic assumption in the baseline scenario

- Mongolian economic growth: Projected at 6 percent in 2022, 7 percent in 2023, and 5 percent in each year during 2024-2026;
- Inflation: Projected at 7 percent in 2022, and 6 percent in each year during 2023-2026;
- Policy rate: projected at 6 percent during 2022-2026;
- Exchange rate USD/MNT: Projected at MNT 2,990 in 2022, increase of 3.9 percent in 2023, 3.6 percent in 2024, 2.9 percent in 2025, and 2.9 percent in 2026, respectively.

### Financial projection in the baseline scenario

- Loan growth: Projected at 7.7 percent growth in 2022, 13 percent in each year from 2023 to 2026;
- Core deposit growth: Projected at 14.6 percent in 2022, 12 percent in each year from 2023 to 2026;
- IFI borrowings: To maintain at 300-350 million USD between 2022-2026;
- Loan to deposit ratio: Projected to be 57.5-63 percent during 2022-2026;
- Loan quality: NPL ratio projected at 6.1 percent in 2022, 6.7 percent in 2023, to be 6-5 percent during 2024-2026; LLP to total loan ratio projected to be 6.6-6.7 percent during 2022-2024;
- Net interest income: Projected to grow by 12.2 percent in 2022, by 10.7 percent in 2023, and by 8.3-9.4 percent during 2024-2026;
- Fee income growth: Projected to grow by 1.1 percent in 2022, by 4.6 percent in 2023, and by 5 percent in each year during 2024-2026;
- Loan loss provision expense: MNT 82 billion for each year in 2022-2023, MNT 85 billion in 2024, MNT 92 billion in 2025, and MNT 100 billion in 2026;
- Operating expense: Personnel expenses are expected to increase by 16.2 percent in 2022, and by 10 percent in each year during 2023-2026; administrative expenses is expected to increase by 13.6 percent in 2022, by 9 percent in 2023, and 6.8-7 percent during 2024-2026;
- As a result, NPAT is expected to reach MNT 324.7 billion in 2022 (11.4%), MNT 360.4 billion in 2023 (11.0%), MNT 394.5 billion in 2024 (9.4%), MNT 421.7 billion in 2025 (6.9%), and MNT 452.8 billion in 2026 (7.4%).

Table 97. Balance sheet, Khan Bank financial forecast

(in millions of MNT)

	2021P	2022F	2023F	2024F	2025F	2026F
<b>Assets</b>						
Cash & Short term investment	2,049,274	2,737,986	3,374,025	4,036,596	4,888,165	5,706,141

MongolBank Bills	3,341,596	3,183,465	2,918,387	3,334,169	3,249,014	3,196,444
Government Securities	768,455	814,847	837,404	859,660	884,916	910,918
RMBS, other Bonds & Investment	155,756	608,945	641,581	340,730	377,610	414,490
<b>Total Loans</b>	<b>7,004,826</b>	<b>7,543,208</b>	<b>8,523,826</b>	<b>9,631,923</b>	<b>10,884,073</b>	<b>12,299,002</b>
KB Core Loans	5,709,795	6,484,649	7,833,417	9,348,271	10,858,915	12,273,845
Government Program Loans	1,295,031	1,058,560	690,408	283,651	25,157	25,157
Less: Provision for losses	(309,379)	(417,013)	(487,013)	(562,013)	(647,013)	(742,013)
Net Other Assets	583,566	644,122	693,675	737,386	769,876	777,185
<b>Total Assets</b>	<b>13,572,325</b>	<b>15,115,561</b>	<b>16,501,884</b>	<b>18,378,452</b>	<b>20,406,641</b>	<b>22,562,167</b>

#### Liabilities and Capital

Current Accounts	2,892,770	3,007,297	3,360,468	3,755,557	4,197,567	4,691,031
Demand Savings	1,763,182	2,224,947	2,507,499	2,824,891	3,181,360	3,580,732
Time Savings	5,179,655	6,197,187	6,931,203	7,752,721	8,672,209	9,699,146
Government Deposits	222,175	97,787	110,749	125,339	141,759	160,188
Borrowings	799,529	1,040,989	1,050,598	1,114,537	1,131,193	1,051,261
Special Purpose Deposits	390,325	271,389	283,869	296,349	308,829	321,309
Trade Finance	21,511	29,108	30,254	31,341	32,263	33,212
<b>Total deposits</b>	<b>11,269,148</b>	<b>12,868,705</b>	<b>14,274,640</b>	<b>15,900,735</b>	<b>17,665,180</b>	<b>19,536,879</b>
MongolBank loans	620,933	250,294	157	163	167	172
Other liabilities	278,775	317,863	317,863	317,863	317,863	317,863
<b>Total Liabilities</b>	<b>12,168,856</b>	<b>13,436,862</b>	<b>14,592,660</b>	<b>16,218,760</b>	<b>17,983,210</b>	<b>19,854,914</b>

<b>Equity</b>	<b>1,403,469</b>	<b>1,678,700</b>	<b>1,909,224</b>	<b>2,159,691</b>	<b>2,423,431</b>	<b>2,707,253</b>
Statutory Capital	172,098	202,468	202,468	202,468	202,468	202,468
Paid-in capital	-	195,867	195,867	195,867	195,867	195,867
Treasury Stock	-	-	-	-	-	-
<b>Total Liabilities and Equity</b>	<b>13,572,325</b>	<b>15,115,561</b>	<b>16,501,884</b>	<b>18,378,452</b>	<b>20,406,641</b>	<b>22,562,167</b>

Table 98. Income statement, Khan Bank financial forecast

(in millions of MNT)

	2021P	2022F	2023F	2024F	2025F	2026F
<b>Total Interest Income</b>	<b>1,194,790</b>	<b>1,268,781</b>	<b>1,359,845</b>	<b>1,486,050</b>	<b>1,617,683</b>	<b>1,769,082</b>
Loan Income	864,121	942,383	1,019,147	1,143,561	1,281,046	1,430,455
Investment Income	330,669	326,397	340,698	342,489	336,638	338,627
<b>Interest Expenses</b>	<b>570,223</b>	<b>567,833</b>	<b>583,927</b>	<b>637,050</b>	<b>698,222</b>	<b>766,347</b>
<b>Net Interest Income</b>	<b>624,566</b>	<b>700,948</b>	<b>775,918</b>	<b>849,000</b>	<b>919,462</b>	<b>1,002,736</b>
<b>Non-Interest Income</b>	<b>234,600</b>	<b>239,910</b>	<b>253,193</b>	<b>266,419</b>	<b>280,014</b>	<b>288,917</b>
Service Fee Income	212,906	215,320	225,238	236,500	248,325	260,741

Net FX Trading & Revaluation income	19,590	21,000	22,050	23,153	24,310	25,526
Swap gain/loss	(202)	2,630	5,131	5,574	6,124	1,329
Other income	2,306	960	774	1,192	1,254	1,322
<b>Net Income from Interest and Fees</b>	<b>859,166</b>	<b>940,857</b>	<b>1,029,111</b>	<b>1,115,419</b>	<b>1,199,475</b>	<b>1,291,652</b>
Loan Loss Provisions	64,814	70,000	70,000	75,000	85,000	95,000
Other assets provision	26,135	12,000	12,000	10,000	7,000	5,000
<b>Income Before Operating Expenses</b>	<b>768,218</b>	<b>858,857</b>	<b>947,111</b>	<b>1,030,419</b>	<b>1,107,475</b>	<b>1,191,652</b>
Personnel Expense	123,482	143,461	157,818	173,546	190,901	209,991
<b>Total Operating Expenses</b>	<b>258,176</b>	<b>293,295</b>	<b>319,571</b>	<b>341,876</b>	<b>366,198</b>	<b>391,015</b>
Administrative expenses	165,675	195,306	208,978	223,606	239,259	256,007
Depreciation	72,072	76,053	80,450	84,515	89,138	92,680
Deposit insurance fee	20,429	21,935	30,143	33,756	37,801	42,328
<b>Income before Taxes</b>	<b>386,559</b>	<b>422,102</b>	<b>469,723</b>	<b>514,996</b>	<b>550,377</b>	<b>590,647</b>
Provision for Taxes	95,030	97,366	109,292	120,529	128,637	137,825
<b>Net Profit After Taxes</b>	<b>291,529</b>	<b>324,736</b>	<b>360,431</b>	<b>394,467</b>	<b>421,740</b>	<b>452,822</b>



## 2.5. Risk factors and management

Khan Bank's risk management is governed by the Board of Directors, Board Risk Committee, Internal Audit, Risk Management Committee, Asset and Liability Committee, Credit Risk Committees and Compliance Committee where the Bank's risk management framework is reviewed to effectively implement, report and monitor the risks. As part of continuous improvement of its operations, the Bank adopts international standards, including but not limited to "ISO27001:2013 Information Security Management Framework Standard", "PCI DSS Payment Card Security Standard", "ISO27701:2019 Privacy Information Management" and "General Data Protection Regulation".

The framework of Khan Bank's Risk management general policy and Risk appetite policy identifies, monitors and manages Credit risk, Liquidity risk, Market risk, Operational risk, Legal risk, Compliance risk, Information security risk, and Information technology risk. (Please refer to the chapters of 1.6.2.5 and 2.3.8 of this prospectus for details on the Bank's risk management)

The reader of this prospectus is advised to carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in the Shares. The Bank's business, financial condition and results of operations could be materially and adversely affected by any of these risks.

### 2.5.1 Risks relating to the business

**The Bank may be required to pay additional deposit insurance fees.**

According to the Law of Mongolia on Deposit Insurance, commercial banks must pay a mandatory insurance fee to the Deposit Insurance Corporation of Mongolia ("DICOM"). For this purpose, the Bank pays a deposit insurance fee of 0.25% per annum for all core deposits to the DICOM.

As per the Law, the fee range is up to 0.5%. Annually, the National Committee at DICOM revises the deposit insurance fee of each bank based on the bank's risk level. If the insurance fee rate is increased from the current level, the Bank's financial condition could be adversely affected.

**The failure of meeting capital adequacy requirements may negatively impact the Bank's financial position.**

Following two factors may cause the potential breach of the capital adequacy ratio:

- **Adequacy of risk-weighted assets may deteriorate:** The capital adequacy ratio could be adversely affected by the factors, such as deteriorating loan portfolio quality due to macroeconomics and market conditions resulting in borrowers' financial difficulty, credit rating downgrading of financial institutions, heavily disbursing loans to the customers with foreign exchange risks, and failing to meet open position ratio in foreign currencies, as well as mismanagement of assets and liabilities.
- **Capital amount may reduce more than planned:** The Bank's profitability may decline due to the major factors, such as a significant increase in unplanned operational expenses and additional provisioning needed for deteriorating asset quality. The Bank aims to maintain strong capital adequacy in line with the Bank's strategic goal and aggregate risk exposure while meeting the ratio requirements set by the Bank of Mongolia ("BOM") and international financial institutions. Within the Risk appetite statements approved by the Board, the Bank conducts a monthly monitoring by getting the relevant internal limits and action plans approved by its Asset and Liability Committee.

The Bank's capital adequacy ratio is calculated by the sum of the BOM's capital adequacy minimum requirement and the Bank's risk buffer. During 2019 and 2021, the BOM's total capital adequacy ratio reduced from 14% to 12% while Tier1 capital adequacy ratio increased from 9% to 10%. The BOM's Tier1 capital adequacy ratio is in process of increasing to 13% in 2022.

At the year-end of 2021, the Bank's total and Tier1 capital adequacy ratio stayed at 15.6%, fully complying with the ratio requirements set by the BOM and international financial institutions.

### Retail credit risks

The Bank offers variety of retail loan products, including residential mortgage loans, personal business loans, credit cards, and other consumption loans to individuals. As of December 31, 2021, the Bank's retail loans represented 58.9% of the total loan portfolio. The following risks may occur:

- The Bank may not be able to obtain all information required for assessing consumer loan risks in a timely manner or to verify such information. This is related to the weak and still developing credit information system in Mongolia, and there is no integrated information database on the specific types of income.
- Compared with the customers of other business lines, individual customers are generally more vulnerable to adverse changes in their financial situations, such as deteriorating personal income, losses from personal-owned business, prolonged unemployment or unexpected medical expenditures or deaths.
- Due to a higher number of consumer loans with a lower amount, consumer loans collection process requires more manpower and duration when compared to other types of loans.
- Mongolia has four seasons with a dominating pastoral livestock husbandry and it is possible to do agricultural farming only in warmer seasons. With these specific features, if the natural disasters such as harsh winter known as 'Dzud' and drought in summer occur, the risks in herder loans and agricultural loans could increase significantly. Also, an outbreak of animal contagious diseases covering extensive areas could lead to the increased risk in the herder loans.

In spite of the Bank's multiple risk control measures in connection with the above risks and other potential risks, there can be no assurance that such measures can effectively or fully manage the risks. Any increase in non-performing consumer loans may materially and adversely affect the business, financial condition or results of operations.

### Corporate and SME credit risks

- *Ongoing COVID-19 spread.*

The COVID-19 pandemic has shown a significant impact on the economies worldwide and on the people's way of living, and its new mutated version of Omicron continues spreading rapidly.

The number of COVID-19 cases remain high and the new mutated version is spreading in Mongolia as well. This causes disruptions at the border checkpoints and customs, bringing uncertainties in the business and economic environment in the short and medium term. In case of the lingering COVID-19 effects, continued disruptions in customs and logistics, and fluctuating commodity prices may adversely affect our loan portfolio quality.

- *Rising prices may lead to deterioration in collateral value.*

In Mongolia, the prices of residential apartments, real estates, and cars have been increasing rapidly due to the COVID-19 restriction measures such as repeated lockdowns, border closures, and delays in import goods at the border, as well as the supply chain disruptions, and increasing costs of logistics and transportation around the globe.

The Bank conducts market price surveys on a regular basis and calculates its collateral by risk assessed price in order to prevent any potential price decline. With the prolonged inflation in prices, however, the Bank's collateral valuation would increase. If economic difficulties emerge from demand-driven factors, the value of the collateral securing our loans may recede and fall to levels below the outstanding balance of such loans.

- *The procedures for liquidating or otherwise realizing the value of collateral are time-consuming under the current laws and legislations in Mongolia.*

Mongolian banks, including the Bank, may not be able to fully recover amounts owed to them through enforcement of collateral due to the legal uncertainties in enforcing such rights and a lack of regulations on bankruptcy and repossessed assets. Moreover, the court decision and enforcement are lengthy processes, for example, a mere complaint from a payer goes through the three levels of court. During such period, the physical condition and market value of the collateral can deteriorate. All of the foregoing factors could adversely affect our ability to realize the value of the collateral securing our loans in a timely manner or at all.

Also, there is a lack of regulations on the non-judicial means of resolving non-performing loans and no legislative regulations regarding asset management companies. The Bank submitted a proposal to the Mongolian Banking Association and the BOM for revising the current framework which is time-consuming for fulfilling contractual obligations in a judicial way.

- *The Bank's credit loss allowance may become insufficient.*

Changes in accounting standards may require us to change our provisioning practice for impairment on financial assets, thereby leading to material changes to previously reported financial results. Financial accounting and reporting standards, which govern the content of the Bank's financial statements, are subject to changes from time to time. Such changes are beyond our control, and can be difficult to predict and may materially impact how we record and report the result of our operations. The Bank adopted IFRS 9 model where a loss event will no longer need to occur before an impairment allowance is recognized. The estimate of expected credit losses adopted in the impairment model of IFRS 9 takes into account of many macroeconomics factors beyond the Bank control. Thus, there is no assurance that our assessment and expectation would be accurate or the impairment allowance will be sufficient to cover all losses we may actually incur in the future. Any of these could materially and adversely affect our results of operations.

#### **The Bank may incur losses from its investment and asset management activities.**

The Bank aims to increase its profitability through its treasury activities by trading foreign exchange, physical gold, and monetary market and investment instruments. The profit generated from foreign exchange in 2019, 2020, and 2021 accounts for 9.4%, 16.1%, and 6.7% of the Bank's net profit after tax, respectively.

The Bank offers 13 types of foreign exchange to meet its customers' needs. Each currency rate is subject to fluctuation depending on the demand and supply in foreign exchange market, politics, economic and social environment, and other external factors. This volatility in the foreign exchange may impact the Bank's profitability (gain or loss) depending on the foreign exchange open position.

The vaccination rate in Mongolia is relatively high. As of 2021 year-end, 69.7%, 66.7%, and 30.6% of the total population received their first, second, and third shots of vaccine, respectively. Mongolian economy is expected to accelerate in 2022 as a result of weakening impact of the pandemic and support programs of "MNT 10 trillion" implemented by the Government. Also, the World Bank projected in January 2022 that the economic growth of China would decelerate to 5.1% in 2022 and to 5.3% in 2023. For this reason, the price of copper, coal and iron ore may decline.

There is a high risk of declining export income and outflowing of foreign currencies with the reasons of accelerating economy due to the support programs of "MNT 10 trillion", increasing import volumes, and declining commodity prices on the global market. In case that the demand and supply in the foreign exchange market become unbalanced by bringing a sudden shock in foreign exchange, the Bank may face difficulties in managing its foreign exchange open position and incur trading losses.



The Bank's physical gold purchased from its customers is directly dependent on gold prices in the international market. Therefore, the unhedged physical gold may show adverse impact on the Bank's foreign exchange profitability.

The Bank invests in low-risk and short-term assets including the Central bank bills, government bonds, companies' securities, and instruments of interbank markets.

In 2021, the Bank purchased 42.6% of the Central bank bills traded in the primary market while performing well above the prudential liquidity level.

During 2021, the policy rate was kept at a historical low level of 6%, which mainly affected the declined earning from investment activities.

The inflation rate reached 13.4% at the end of 2021, (6%±2%) higher than the target level set by the BOM. Given the risks of Tugrik real yield falling lower than zero, the BOM is expected to increase the policy rate, thereby raising investment earnings from the Central bank bills.

The Bank aims to improve its profitability by placing its foreign denominated assets in low-risk and interest earning assets. From Euro bond issued by the Government of Mongolia listed on the international market, the Bank holds US\$249.19 million worth bonds. From this, 72% of the total Euro bond portfolio is held at amortized cost (AC) – held to maturity and 27% at fair value (FV) – available for sale. The Federal Reserve started tightening its support policy and is expected to increase its policy rate from 2022, affecting U.S. dollar interest rate curve to change. Due to this change and potential downgrading of the Government credit rating, the Bank may book losses from its Euro bond portfolio classified at FV that issued or guaranteed by the Government of Mongolia.

#### **The Bank is exposed to exchange rate risk.**

In accordance with the accounting principles, the Bank books and reports its assets and liabilities denominated in foreign currencies and off-balance sheet items by converting them into the national currency (Tugrik). Thus, the Bank is exposed to exchange rate risks from its open position due to the changes in foreign exchange rates. Volatility in foreign exchange rates may negatively impact the Bank's borrowers, which may in turn adversely impact the Bank's asset quality, thereby affecting the Bank's business, financial condition and results of operations.

In its annual Risk appetite statements, the Bank sets a maximum limit on the unsecured foreign currency loan portfolio by tying the limit in its foreign currency lending policy and processes. As a result, a small portion of the Bank's loan portfolio is denominated in foreign currencies.

As of December 31, 2021, the Bank had U.S. dollar denominated loans (including the accrued interest, impairment allowance and deferral) of MNT 179,793.79million (US\$63.1 million), which accounted for 2.6% of total loans. U.S. dollar denominated customer deposits reached MNT 1,457,726.5 million (US\$511.7 million), which accounted for 14.3% of total customer deposits.

In addition to our core deposits, the Bank raises long-term U.S. dollar funding from international financial institutions in order to diversify its funding base, and manage the assets and liabilities mismatch. The Bank concludes long-term U.S. dollar swaps with the BOM to hedge cash flow risk arising from foreign exchange fluctuations.

As of December 31, 2021, the outstanding of borrowed funding in U.S. dollar (including the accrued interest and deferral) from international financial institutions amounted MNT 822,310.8 million (US\$288.7 million), accounting for 69.0% of the total borrowed funding.



Official foreign exchange rate of U.S. dollar against Tugrik was MNT 2,848.80, MNT 2,849.51, and MNT 2,733.52 at the end of 2021, 2020, and 2019, respectively.

If the Tugrik depreciates significantly when the Bank has a significant net open position denominated in foreign currencies, such depreciation could cause it to suffer losses, reduce its capital adequacy ratio and require it to seek additional capital or, failing that, breach capital adequacy ratio set by the BOM. The Bank cannot assure that any additional required capital would be available in a short term.

### **The Bank is exposed to interest rate risk.**

Most commercial banks' performance, including the Bank's, is highly dependent on net interest income. To mitigate its interest rate risk, the Bank monitors the fluctuation in market interest rates and term mismatches in its assets and liabilities. Nevertheless, any significant interest rate fluctuation in domestic and/or international markets may reduce the Bank's net interest income or financial instruments fair value, thereby bringing a material adverse impact on the business, financial condition, and operational results of the Bank. For example, in a declining interest rate environment, the Bank's interest income would fall. In a rising interest rate environment, the Bank may face challenges such as reducing fair value of fixed interest rate assets, increasing funding costs, lowering overall demand for loans, limiting loan disbursements, and leading to customers' insolvency.

The net interest income in 2019, 2020, and 2021 accounted for 75.0%, 72.4%, and 75.4% of our total operational income.

In 2018, the BOM jointly with the Ministry of Finance, the Financial Regulatory Commission and the Deposit Insurance Corporation issued the national "Strategy for lowering interest rates for 2018-2023". As the institutional capacity in Mongolia is still weak, within the framework of the strategy, it is crucial to create a sustainable macroeconomics environment, especially to maintain the inflation target by keeping inflation rate at a lower level. However, the inflationary pressure is likely to occur in Mongolia as a result of the soft monetary and budget policies implemented against the COVID-19 pandemic, as well as transportation and logistics issues. Given the inflation related risks, the Bank's financial condition and results of operations could be adversely affected if the customers' deposit and income shift to other investment options with a higher value, the gap between interest-bearing assets and liabilities increases by requiring additional costs for adjustment, and the fair value of financial assets declines.

### **Risks and uncertainties related to Interest Rate Benchmark Reform**

Global regulators decided to phase out Interbank offered rates (IBORs) and replace them with a risk-free benchmark interest rate (RFRs). The RFRs reform and transition exposes the Bank to various risks, including but not limited to the following:

- Currently, national regulators lack definite regulations and guidelines on the RFRs reform. Thus, the Bank may stay passive assuming that "wait and observe" as the best strategy, which in turn, could lead to further challenges such as issues related to contracts subject to the RFRs reform;
- Our customers and market counterparties may not accept the RFRs related amendments to be made to their existing contracts with a long term interbank market rate;
- Due to the market disruptions resulting from the RFRs reform, the Bank and its customers may face financial risks;
- IBORs set by Financial Conduct Authority (FCA) of the United Kingdom of England is to be phased out by June 30, 2023. Until then, IBORs in U.S. dollar could not be a reasonable basis for market rate projections, which may show negative impact on the Bank's financial reports;
- The Bank's financial reports may vary during the interest rate transition in case that RFRs fluctuate more than IBORs;





- Relevant authorities issuing RFRs could make changes to the interest rates, and in case of significant changes, the Bank's reporting could be changed materially;
- International financial institutions and investors could shift to various RFRs, which could adversely affect the Bank's financial condition and sustainability;
- Price risk may rise from insufficient market information in the cases that RFRs liquidity decline or become illiquid, or unobservable in the market;
- Operational risk may arise from changes to the Bank's IT systems and processes, and the risk of payments being disrupted if IBORs cease to be available;
- As financial instruments shift to RFRs, the Bank's income statement may be materially affected, especially financial accounting risk may emerge if the Bank's hedging relationships fail, thereby bringing adverse impact on the financial condition and operational results of the Bank.

#### **The Bank's treasury and investment activities may result in losses.**

The Bank manages its excess liquidity by investing in low-risk, high liquid, interest earning assets, such as the Central bank bills, government securities, and short-term deposits in both the domestic and international interbank markets. The Bank accounts for about 30% of market share in the foreign exchange market by delivering quality and timely foreign exchange services to its customers through its wide network.

In 2019, 2020, and 2021, the income generated from treasury activities accounted for 21.6%, 22.0%, and 22.5% of the Bank's total operating income, respectively.

The Bank books its trading positions by market value as for commercial securities available for sale. These trading positions are inherently volatile as the prices of trading assets are subject to general economic, political and market conditions that may fluctuate from time to time. Risks arising both from the Bank's trading and investment strategy and general market volatility, which is beyond the Bank's control, could cause potential losses and may materially and adversely affect the Bank's business, financial condition, and results of operations.

The Bank cooperates with domestic and international banks for the purpose of settlement, foreign exchange, financial derivatives, and other business activities. In doing so, the Bank may face credit risks if the counterparties fail to fulfil their contractual obligations due to their financial difficulty. There is no assurance that the above risks could be fully prevented despite the risk mitigating efforts, such as the law requirement on a single counterparty exposure limit based on risks factors and business needs, requiring collaterals in case of risky counterparties, pre-payments, or foreign exchange through digital marketplace (B-match).

#### **The Bank is exposed to risks related to transaction of derivatives.**

The Bank enters into derivative transactions in a smaller scale on the behalf of its customers for the main purpose of hedging risks. The Bank's financial derivatives mainly include the long-term U.S. dollar swaps concluded with the BOM to hedge cash flow risk arising from the funding received from international financial institutions. Related to these transactions, the Bank is exposed to market, credit, and operational risks.

Mongolia currently lacks experience in financial derivatives market in terms of sufficient regulatory documents, accompanying international standards and requirements for hedging parties, evaluation models, and information inputs. The court has a limited experience in resolving any disputes and issues related to these financial transactions, which could further increase the risks. In addition, the Bank's capability of properly monitoring, analyzing, and reporting these transactions depends upon its IT developments.

The fair value of these instruments could be highly volatile during a single reporting period depending on the changes in relevant market factors, which may bring material impact on the Bank's income statement, including profit and loss.





**The fulfillment of the Bank's strategical goals depends on the competition environment.**

Moving beyond the traditional competition areas of product terms, branch networks, and service quality, banks are now competing with their easier and simpler access to banking services, the development of digital products and services, as well as customer-centric services. Despite the Bank's competitive advantage of extensive branch networks, digital trend and capacity are becoming a higher priority given the evolving customers' need. Therefore, the digital trend, digital strategy and its performance in the competition environment would play a major role in our strategic plans.

Apart from our peer banks, there are growing number of Non-Bank Financial Institutions (NBFIs) who offer loan products and settlement services. These companies are usually technology-driven with more accessible and easier services at lower costs, which intensifies the competition among all banking sector players. The number of technology-driven NBFIs, offering modern loan products and settlement services through advanced technology solutions, increased from 532 in 2020 to 534 in 2021. By introducing the technology-based services into market in a faster and easier fashion without any fee, it is possible to attract customers. As such, the NBFIs tend to attract customers through their settlement services, and then offer credit facilities and loan products. Although the Bank could compete with pricing in the short term, the Bank aims to keep its competitiveness by satisfying our customers' needs in an easier, faster, and cost-efficient manner.

In any business industry, a company's income could be highly impacted by the increasing competition in products and services innovation, terms and condition, and price policy. Thus, the Bank needs to review its competition policy, capacity, and environment, and make revisions when necessary.

**The Bank may not be able to respond to rapid technological changes.**

With time, products and services based on advanced technology are widespread everywhere with the declining costs of technical developments and growing digital solutions accessible to public. The people's way of living is changing rapidly due to the advances, such as, smarter home appliances and equipment, and the possibility of managing everything through smartphones. This also changes the customers' requirements for financial services.

To keep up with the customers' rapidly evolving needs for financial services, the speed, data quality, and accessibility of digital solutions play a critical role. Thus, the optimal and cost-effective solution usually involves new technological systems and data base by using robotic machines.

The process of shutting down the Bank's previous data, data base, and equipment is being costly and challenging, which may show adverse impact on our business speed. Most companies are shifting its IT infrastructure into cloud environment and replacing physical equipment costs to rental payment to cloud service providers.

**Risks related to the fee-and-commission-based products and services.**

The Bank earns fee and commission income from its value added services, including payment cards, point-of-sale (POS) machines, online banking, account statement, information on income and expense, the Bank's statement, and insurance intermediation. It is inevitable that these services would be developed in a digital environment in the near future. For instance, the payment card service would be shifted from physical plastic transactions to token transactions via online. The card usage is expected to expand given the diminishing use of cash together with the Bank's promotion policy for supporting card usages. The widespread use of cards also ensures and supports POS services as well.

The Bank also generates income from its online banking service and transactions. This is one of the main services and its fee may vary as the competition gets fierce. It is a common practice for neo-banks in the



world to charge no fee at the start of their business in order to be known in the market. The same practice may also apply to Mongolia which makes this service and its pricing quite sensitive to competition.

In the era of technological evolution, the use of super app may increase in line with customers' digitalization needs. In that case, the Bank's fee and commission structure would change.

**The Bank's risk management policies, procedures, and methods are subject to revision, but are not fully developed.**

Although the Bank established a mechanism to manage and monitor our key risks, new risks and uncertainties keep emerging from various factors, such as, digital transformation, customers' attitude, the pandemic impact, the national economic and political situation. Thus, the Bank cannot assure the investor that any of its risk management policies or procedures will be fully effective all the time and prevent future risks and uncertainties.

Some methods of managing risks are based upon observed historical data. As a result, we may not be able to accurately or in a timely fashion predict future risk exposures. In addition, the information generated by different groups within the organization may be incomplete or obsolete. Risk management methodologies depend on proper evaluation of market information, customers, and other factors. This related information may not in all cases be accurate, complete, or up-to-date.

The Bank cannot assure the investor that these policies and procedures will operate in the way that the Bank anticipates. In the future, if the Bank is unable to acquire or develop the technology, expertise, and systems available to meet international standards, or if the Bank's standards are not as rigorous as international standards, the Bank's ability to manage these risks may adversely affect its business, financial condition and results of operations.

**The Bank's current risk management framework may not fully prevent credit risk, market risk, liquidity risk, operational risk, and other risks.**

The Bank's capability of managing risks is limited by its information availability, tools, technologies, and other resources. For instance, it may not be able to effectively monitor credit risks due to a lack of information sources or tools of obtaining such information. Over the last years, in order to enhance the Bank's risk management, the Bank revised the risk evaluation methods and processes in the areas of credit risk, market risk, liquidity risk, and other non-financial risks. Moreover, the Bank further develops its information technology and improves its information security controls.

However, the effective implementation of the risk management efforts depends on the regular monitoring and controls, and there is a need for continuous improvement. The Bank's asset quality, business, and financial condition may be negatively impacted in case of the failures of effective implementation and continuous improvement on the risk management and internal control policy, procedures, and framework or not reaching its planned outcomes in a timely manner.

**Reliance on certain key personnel including the Bank's executive management and decision making bodies.**

The Bank's human resources policy aims for retaining highly potential employees, key management executives, decision makers, and highly qualified specialists, who are instrumental for the Bank to keep its leading position in the market. However, the Bank may not be able to retain all of its key people due to socio-economic situation, business environment, market competition for talents. In the recent years, the Bank implemented comprehensive "Succession planning" program and "Talent management" program for retention and development of key personnel.

The local labor market has a high demand for IT specialists who are essential for managing and implementing digital transformation, cyber and information security development. This may pose a threat to the Bank's effort



of retaining these specialists and building a pipeline for the talented employees. Despite actions taken in line with the human resources policy, law, and regulations, the Bank may not be able to fully control turnover and movement of these employees.

The Bank organizes Virtual Job Fair and Paid Internship Program aim at attracting IT students and jobseekers by advertising. A revised onboarding program too was implemented. As a result, IT job filled rate stayed above 90%, IT turnover rate reduced from 12% in 2020 to 11% in 2021.

**Natural disasters, epidemics, and accidents may have a material adverse effect on the operations of the Bank**

The Bank developed its Business Continuity Policy (BCP) in the framework of the ISO22301:2019 international standard. In BCP necessities that Head Office units and branches have their own business continuity plans. This policy aims to regulate the timely actions to be taken during the disastrous events, including natural disasters /of climate, geology, biology/ and accidental damages /with technological causes, social causes/. It is increasingly difficult to mitigate the actual risks from potential natural disasters in Mongolia which has 4 seasons and extreme weather. For instance, it is common to have snowstorm during the winter and drought during the summer. Over the last years, sandstorm, drought, and desertification are becoming a threat at both country and regional levels. As the country has branches in all 21 provinces and soums, the natural disasters could bring risks of cutting operations on a single branch or a group of branches of the Bank. On a country-wide level, strong snowstorm, and sandstorm occurred 56 times, 38 times, and 91 times in 2019, 2020, and 2021, respectively.

In the first nine months of 2021, there are a total of 2795 disastrous events occurred, especially a natural disaster of earthquake increased 6 times from the previous year. The earthquake with a magnitude above 3.5, strong enough to damage buildings, reached 39, 59, and 277 in 2019, 2020, and in the third quarter of 2021, respectively. In Ulaanbaatar area, a total of 847 earthquakes are registered as of the third quarter of 2021. Of which, there were 30 cases with a magnitude between 2.0 and 5.9 registered, which proves the risk that the three Head Office buildings of the Bank could be damaged at the same time.

We are also exposed to biological caused threats including human health epidemics and animal contagious diseases. During the epidemic, the Government may decide to impose lockdowns and suspend the Bank's branch operations during the epidemics, which is beyond our control. For instance, our retail banking branches could not be able to operate on their normal timetable in case of the outbreak of animal contagious diseases and partial lockdowns imposed in the regions where we conduct business.

During the human health epidemics (the COVID-19 pandemic), the Bank may fall short of workforce resources, causing business disruptions in its branches or units.

The policy documents also identified public disorder, act of war or terrorism, and cyber-attacks as special conditions. However, the banks in Mongolia, including our Bank, did not face a major incident in this area since the inception of the two level banking system in Mongolia. This lack of experience at the system-wide level may undermine our ability to take timely actions in case of actual risk events.

**The Bank may not be able to detect and prevent fraud or other misconduct committed by its employees or third parties on a timely basis or at all, and is exposed to other operational risks.**

The Bank is susceptible to fraudulent activities and other misconduct committed by employees or third parties, which may result in financial losses, claim from third parties, or the regulatory bodies' penalty, thereby damaging the Bank's reputation. The Bank's internal policies and procedures may not fully efficient or sufficient to detect, terminate, or prevent such fraudulent actions and misconducts all the time. Moreover, the third parties related dishonest acts, such as frauds, stealing customers' information for illegal purposes, and criminal attacks, may adversely impact the Bank's business, financial condition, and operations.



**The Bank's reputation may damage due to inaccurate press and media coverage.**

The Bank's business operation hinges on its customers' trust, thus any unverified or unsourced information related to the Bank through public media and social media may severely affect its reputation. In case of such reputational risks, customers may lose trust, withdraw their deposits, or even cancel their cooperation with the Bank, thereby bringing direct and indirect adverse impact on the Bank's financial capability and normal operations.

The Bank's reputation and operation could adversely be affected if inaccurate and incomplete information is released through public media means regarding the Bank and its employees' act of breaching laws, or the Bank's ownership, the Board, financial status, and prudential ratio performances. Thus, the Bank aims to take necessary actions in a timely manner in the event of such press releases.

**Exposure to information security risks**

When the operations of larger companies in IT, business, and financial sectors expand, there is a higher potential risk of well-organized cyber-attacks targeted to their website, information technology, and infrastructure. The rapid IT development and advances also cause a weak spot on the previously used technologies, making it possible for unauthorized or illegal access to the systems. Thus, identifying these side effect should go hand in hand with the further developments, requiring for a continuous improvement.

Also, unauthorized external parties, with a help of the Bank's employees or third-parties, may try to access to the Bank's information, system, and network through cyber-attacks or fraudulent actions (phishing) in order to obtain customers' information, card information, username and password, and other confidential information of the Bank.

Although the Bank identifies and prevents cyber-attack attempts targeted at our information system, it still may face future challenges including potential cyber-attacks, human errors, system vulnerability and disruptions, and other information security related incidents. Despite its efforts aimed at preventing cyber-attacks and information security incidents through the Bank's IT systems, equipment, and security controls, there is no assurance that all potential threats could be fully prevented.

The potential incidents of information security could result in operational disruption, information inaccessibility or loss, which may bring damages to the Bank's reputation and branding, and cause the potential breach of laws and regulatory bodies, as well as result in financial losses.

**The Bank may not be able to identify or prevent information losses caused by intentional and unintentional acts of its employees, third-parties, or customers.**

The Bank pursues international standards and requirements on personal information security in order to protect the Bank's highly confidential information, including personal, business, and operational information. In this regard, the Bank also concludes labor contract and confidentiality contract with its employees, and provides regular information through its internal policy, procedures, and knowledge trainings to mitigate the potential risks of employee-caused information leaking, financial and reputational damages, and regulatory penalties. Still, the Bank is exposed to risks caused by intentional or unintentional human acts, such as fake email attacks (phishing), loss of the Bank's information and files through poisonous codes in the email and internet environment, and intentional information disclosure. The Bank may not be able to identify, fully control, or prevent these risks all the time.

The Bank aims to ensure information confidentiality by concluding labor contract and confidentiality contract with its employees. However, we encourage our investors to consider the risks that customers may undergo cyber frauds due to their negligence or irresponsibility and our reputation could also be damaged. The Bank may not be able to fully identify, monitor, or manage the above risks.



**The Bank's confidential information may be disclosed by third parties.**

The Bank cooperates with various third parties in the areas of IT, system development, product supply, external audit, and financial institutions. In the recent years, the third-party related risks are emerging and the number of cases, where the third parties disclosed the Bank's confidential information intentionally and unintentionally, tend to increase. The risk of disclosing information may be caused by insufficient internal controls and operations on information security of the third parties. To mitigate this risk, the Bank conducts remote control through its Checklist for Information Security Risks on the third-parties with contractual cooperation. In evaluating information security risks, the Bank carries out contractual controls and detailed assessment based on the third parties and their operational areas, respectively. The Bank registers the risks and control results on the third-party risk dashboard of the Bank's Information security risk sub-committee, and takes necessary remedy actions.

**Information security risks related to products and services based on cloud technology.**

In the current laws, legislations, and regulatory environment in Mongolia, there is a lack of integrated regulations and requirements for products and services based on cloud technology, which may increase the Bank's information security risks in offering such products and services.

**Risks related to information technology continuity and sustainability**

Information technology process is one of the leverages for sustaining the Bank's business growth, implementing business strategy, and ensuring continues and sustainable operation of its business and yet it always has risk exposure system failures, disruptions, and issues, which could adversely impact business continuity, reputation, and other business goals of the Bank.

The Bank considers internal and external factors which may impact its operation continuity. The internal factors include insufficient operations of information technology, structural changes, employee skills, mistakes, incomplete policy and procedures whereas external factors include legal and regulatory requirements, and operational disruptions of IT service providers.

For instance, spontaneous the Government decision (allowance money for citizens) could impact the Bank's system operation by causing overload in internet banking and card transactions. Also, the Bank cooperates with IT service providers (i.e. POS, network) and system failures caused by these third-parties may adversely affect the reliable and continuous operation of the Bank's systems.

**Legal risks related to the Bank's operation.**

In accordance with the Banking Law of Mongolia and Law on Special Licensing to Companies, the Bank runs banking operations on the areas of deposit, settlement, credit, value storage, foreign payments, insurance intermediation, and custodian services within its banking license issued by the BOM and Financial Regulatory Commission.

The Bank, as an entity operating in Mongolia, must follow Mongolian laws and regulations. Still, the banking operation is exposed to legal risks due to the financial industry specifics and other factors in the legal environment in Mongolia.

Moreover, the failure to comply with the Banking Law of Mongolia and applicable rules, regulations, and guidance issued by the regulatory bodies could result in legal penalties, and suspension or loss of regulatory permits.

## **2.5.2 Risks relating to the banking industry**

The Bank defined its potential risks, risk factors, and future uncertainties pertinent to credit operations—the main business domain of the banking sector as follows.



**The Bank of Mongolia's temporary regulation in connection with the COVID-19 pandemic may reduce the borrowers' willingness to repay loans and bring default risks.**

The BOM implemented measures such as extending the maturity of consumer loan borrowers whose income deteriorated due to the pandemic, keeping the asset classification unchanged, and postponing both principal and interest payment of subsidized mortgage loans.

As of December 31, 2021, 19.4% of our total loan portfolio is restructured due to the COVID-19 pandemic.

The BOM's temporary regulation aims to prevent borrowers from financial difficulties by making it possible to restructure the COVID-19 impacted loans without changing asset classifications. However, the repeated restructuring by postponing loan repayments may undermine the borrowers' interest of repaying loans in the future and may lead to deterioration in loan portfolio quality when the temporary regulation expires.

**Lowering the interest rates on savings accounts may encourage depositors to invest in riskier assets with higher returns.**

To curb the economic difficulties caused by the spread of COVID-19 and to support the economy by soft monetary policy, in 2020, the Monetary Policy Committee of the Bank of Mongolia lowered the policy rate from 11 percent to 6 percent step by step. As a result, commercial banks lowered their interest rate on loans and savings accounts. By December, 2021, the weighted average interest rate reached 7.04 percent; this fall in interest rates encourages depositors to invest in riskier financial instruments with higher returns.

In 2021, the Mongolian stock market intensively activated. The total volume of trading made through Stock Exchange was MNT 244.1 billion in 2018, MNT 143 billion in 2019, MNT 65 billion in 2020 whereas it reached MNT 1.4 trillion in 2021. The market value of the Mongolian Stock Exchange exceeded 5.9 billion in 2021. Taking into account this growth, the global leader in business and financial data, new and insight - Bloomberg - named the Mongolian Stock Market as the market with the highest growth.

In the fourth quarter of 2021, an increasing trend of offering cryptocurrencies in domestic markets, and individuals purchasing and holding these cryptocurrencies was observed.

Unprofessional investors lack financial literacy to analyze and choose risk-free instruments, to recognize reliable companies and purchasing their products. Therefore, there is a risk of making risky investments and losing money.

**Lack of awareness by customers regarding the obligations set forth in Anti-money laundering and counter terrorism financing legislations may jeopardize the compliance with KYC requirements**

According to the Mongolian Law on Combating Money Laundering and Terrorism Financing (AML/CFT), banks are required to know their customers, monitor their transactions, detect suspicious transactions, and report them to the appropriate regulatory authorities. At the national level, this activity has only recently been introduced in the banking and financial sector, thus, there is a lack of understanding among general customers.

In accordance with its legal obligations, banks are required to know their customers, obtain documents related to the identification of each customer, as well as the evidence and documents related to the transactions of customers. However, it is common for customers to refuse to comply with these requirements, provide false information, or use social media to attack the Bank's reputation and complicate the banking operations.

As a result, risks of using banking products and services to "launder" criminally obtained illegal funds, attempt to transfer illegal funds through payment systems, and avoid bank control is present in day-to-day operations. In order to reduce or prevent these risks, banks sometimes close customers' accounts, terminate business relationships, restrict or terminate services, which can adversely affect business efficiency and profitability.



It is appropriate for the Bank to take the above-mentioned strict measures against the customers who do not comply with the legal requirements set by the Bank for long-term sustainable operations of the Bank, as the Bank may be subject to severe penalties, loss of reputation and even revocation of its operating license due to non-compliance with the AML/CFT law.

### **2.5.3 Country risks**

**The slowdown in key economic sectors may negatively impact our loan portfolio quality.**

Mongolian overall economy is highly dependent on few sectors, especially on the mining sector. For instance, the changes, such as the weak coal and copper prices and the delayed progress in the further development of mining operations at Oyu Tolgoi and Tavan Tolgoi, tend to show impact on all economic sectors directly and indirectly. Despite the Bank's efforts to limit direct exposure to the mining sector with its share in the total loan portfolio not exceeding 10 percent, the actual impact on our loan portfolio could be higher due to the fundamental reliance of all sectors on the mining sector.

**Risk of declining prices in main export commodities.**

The Mongolian economy heavily relies on its export and the commodity export constitutes about 90 percent of the total export income. In General State Budget, the budget income is planned to reach MNT 16.4 trillion in 2022 based on the commodity price projection at a historical high level. For instance, the prices of copper, gold, coal, and petroleum oil are projected at US\$8,915.6, US\$1821, US\$130-140, and US\$65, respectively.

As the COVID-19 impact eases and economies start recovering, the commodity prices revoked in the second half of 2020. Based on this, the 2022 budget reflected higher commodity prices in its projection while there is still a risk that the commodity prices would decline. The commodity prices are highly dependent on the demand from China, the second largest economy in the world. The World Bank projected that the Chinese economy will grow by 5.1 percent in 2022 and 5.3 percent in 2023, indicating slower economic growths. This may negatively affect the demand and prices of commodities. The coal transportation capacity is estimated to increase by 30 million tons per year after commissioning the railway connecting Tavan Tolgoi and Gashuunsukhait route by July 2022. However, the budget targets could not be reached in case that the railway commission is delayed and the border and customs operations are restricted.

If the commodity prices and export volume decline, the export income would be lower than the projection, thereby failing to reach the budget income target reflected on the General State Budget. In this case, the Government may need to issue bond in the domestic market where the major buyers are commercial banks. If the banks engage in the bond trading and issue credit to the Government, the commercial lending may decline by undermining the customers' access to credit. With this, it may be difficult to reduce the interest rate levels in the market and may adversely affect credit quality.

**The risk of currency depreciation due to the declining foreign exchange reserves and external debts of the country.**

At the end of 2021, the Bank of Mongolia's official foreign exchange reserves reached US\$4.3 billion, which is sufficient to meet the import demand for eight months. The decline in export revenues has an effect of reducing the foreign exchange reserves. In addition, the maturity of Euro bond issued by the Government of Mongolia in the international market is putting pressure on official foreign exchange reserves.

For instance, it is scheduled to make repayments of US\$1.3 billion in 2023, US\$850 million in 2024. A decrease in official foreign exchange reserves could adversely affect the ability to repay the external debts and there is a risk that refinancing bonds and attracting new investments could be affected adversely. In case of foreign exchange reserves shortage, exchange rate volatility may increase and the Mongolian Tugriks may depreciate sharply. In addition, commercial banks attract medium and long-term US dollar financing from foreign



investors, and convert it into Tugriks by concluding long-term swap agreements with the Bank of Mongolia. The second transaction of the long-term swap agreements takes in the form of deliverable and non-deliverable. Commercial banks may face difficulties in repaying their obligations to international financial institutions and investors if the Bank of Mongolia's official foreign exchange reserve declines or the Bank of Mongolia is unable to meet its payment obligations under the swap agreements, or is unable to supply foreign currency at auction.

**Uncertainties with respect to the Mongolian legal system could bring risks.**

Mongolian legal system is still in its developing phase, therefore, it is common for laws and legislations enacted by the Mongolian Parliament and legal acts approved by the state authorities are ambiguous or unclear as to their interpretation. This leaves a wide discretion to judges and state officials for interpreting and applying certain clauses differently, which causes legal risks for the Bank.

Moreover, financial products and services based on digital platform are emerging in the market as the banking and financial industry develops rapidly. Yet, laws and legislation regulating such relations may lack sufficient rationale and research, or be too binding and limited, or leave some relations unregulated. This could bring further legal risks to the banking operation.

**The Bank may face legal risks due to the political situation.**

It should be noted that the Bank's legal environment is highly dependent on the political situation of the country, which is one of the factors causing the Bank's legal risks. The political biased approval of changes in laws and regulations related to banking operations without including opinions of banks and financial institutions, the unrealistic timing of measures to be taken in accordance with the legislation, the need for short-period changes to execute political decision may pose legal risks in banking operations.

**There is a risk that the correspondent banking relationship is terminated and foreign settlement transactions are delayed.**

In order to transfer its customers' foreign transactions quickly and bring its products and services in line with international standards, the Bank needs to cooperate with foreign banking and financial institutions and receive foreign correspondent banking services. However, the Financial Action Task Force (FATF) placed Mongolia on a "grey list" of countries with strategic deficiencies to combat money laundering, terrorist financing, and proliferation of weapons of mass destruction. This led to a tightening of controls and requirements by foreign banks and caused delays in foreign transactions and rising fees. Although the FATF decided to remove Mongolia from the "grey list" on October 23, 2020, it assigned a planned task to take certain measures.

Thus, if the obligations given by the FATF are not fully fulfilled in Mongolia, there is a risk of being included in the "grey list" again. This will not only affect the banking operations and foreign settlements, but also carries a high risk of adversely affecting the country's foreign relations, economy, international trade and investment.

## 3. OFFERING DETAILS

### 3.1. Resolution on Offering

The issuer has decided the following as per its shareholders' resolution No 7 dated 20 April, 2022:

- To approve changing the form of the company to joint stock company
- To approve issuing new shares of 191,219,800 (one hundred ninety-one million two hundred nineteen thousand eight hundred) in addition to outstanding common shares of 1,720,978,200 (one billion seven hundred twenty million nine hundred seventy-eight thousand two hundred) each with par value of MNT 100 and offer to the public through primary market trading of "Mongolian Stock Exchange" JSC ("Mongolian Stock Exchange")
- To set the par value of each shares of 191,219,800 new shares at MNT 959 (nine hundred fifty-nine)
- To waive the shareholders' pre-emptive rights to purchase shares specified in the Company law of Mongolia

Annex No 22. The resolution by the authorized parties to issue securities

### 3.2. Decision and rationale of the share offering price to the public

"BDO Audit" LLC, an independent asset valuation firm, duly authorized to provide services to securities' market participants, carried out the valuation of the Issuer's assets and business pursuant to the contract No. 568 concluded with the securities Issuer on May 13, 2021.

#### Asset & business valuation outcome

As a result of the business and asset valuation of Khan Bank LLC by BDO Audit LLC, an independent valuation organization, the asset and business valuation of the issuer were as follows. These include:

- Asset valuation: Khan Bank LLC's assets are valued at MNT 13,475,612 million based on the asset-based cost approach. These include financial assets at a fair value of 946,472 million MNT, cash at MNT 4,526,980 million, required reserves with the Bank of Mongolia at MNT 809,082 million, amortized financial assets of MNT 6,583,290 million, and non-financial assets at MNT 609,788 million.
- Business valuation: The valuation company selected the primary valuation approach using the Residual Income approach, which concluded that Khan Bank LLC had a market value of MNT 1,643,338 million for 100% of the business as of the valuation date.



### 3.3. Share public offering summary - Type, quantity, form and offering price

Table 99. Share offering summary

Issuer of shares	Khan Bank LLC
Type of the shares	Common shares
Total number of outstanding shares	1,720,978,200
Offering as new issue	191,219,800
Percentage of offering as new issue	10%
Percentage of total offering	10%
<i>Of which::</i>	
Offered to the strategic investors	85% or 162,536,830 shares
Offered to retail investors	15% буюу 28,682,970 shares
Total number of shares after the offering	1,912,198,000
Offering price per share	<b>MNT959</b>
Total capital to raise	<b>MNT183,379,788,200</b> (One hundred eighty three billion, three hundred seventy nine million, seven hundred eighty eight thousand and two hundred mongolian tugrik)
Use of proceeds	The Bank will use 35% of the proceeds to invest in information technology, digital product development and innovation to accelerate the digital transition of banking products and services; the remaining 65% to finance long-term investment loans and energy-efficient green projects.
Share offering method	Fixed price issue method
Mongolian stock exchange registration tier	Tier I of Mongolian Stock Exchange

### 3.4. Banking Law Amendments

With the enactment of the Amendments to the Banking Law on January 29, 2021, systemically influential banks are required to change their company form from limited liability company to joint-stock company; and the percentage constituent of shares and securities owned by any one shareholder individually or jointly with its affiliated parties in the bank is decreed to not exceed 20 percent of total issued shares of the bank.

Within the framework of this law, the Bank of Mongolia and the FRC jointly developed the "Interim Procedure for Developing, Implementing, Reporting and Supervising the Bank's Restructuring in the Form of a Joint Stock Company, Shareholder Structure and Share Amendment Plan" and "Procedure for approval of changes in the share capital and shareholder structure of a bank in the form of a joint-stock company."

Under this regulation, systemically influential banks are required to approve a comprehensive plan to restructure into an open joint-stock company, associated timeframe within which to change the shareholdings to conform with the legal limits, action plan of share issuance incorporating share price forecast, and a survey of potential investors, and obliged to submit the plan to the Bank of Mongolia and the FRC by July 1, 2021.

It is further required that the plan reflects the bank's commitment to reorganize itself from limited liability company to a joint-stock company and make corresponding changes to the state registration by June 30, 2022; and to change the structure, composition, and share capital constituent of the bank's shareholders by December 31, 2023.

Khan Bank has submitted the relevant plan to the Bank of Mongolia and the FRC, and the regulatory authorities approved the plan as feasible.

### 3.5. Change in shareholding structure

Within the framework of the legal provisions specified in 3.4 of this Prospectus, the Issuer shall offer up to 10% of the total issued shares or 191,219,800 shares to the public.

The Issuer plans to reduce the shares of other influential shareholders by December 31, 2023, under the requirements of Article 5 of the Law on Procedures for Enforcing the Law on Amendments to the Banking Law.

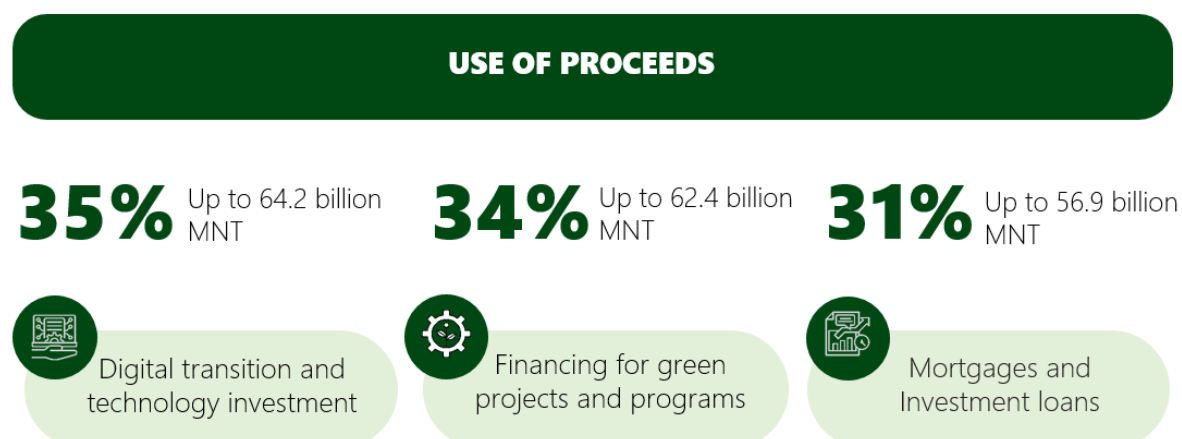
*Table 100. Restructuring of the issuer's shareholding*

Shareholders	Before issuing shares		After issuing shares	
	Number of shares	Ownership percentage	Number of shares	Ownership percentage
HS Holdings Co., Ltd	783,882,300	45.55%	783,882,300	40.99%
Tavan Bogd Trade LLC	435,653,100	25.31%	435,653,100	22.78%
D. Khulan	252,738,000	14.69%	252,738,000	13.22%
HS International	167,856,050	9.75%	167,856,050	8.78%
Employees	80,848,750	4.70%	80,848,750	4.23%
Public	-	-	191,219,800	10.00%
<b>Total</b>	<b>1,720,978,200</b>	<b>100%</b>	<b>1,912,198,000</b>	<b>100%</b>

### 3.6. Use of proceeds

By offering common shares, Khan Bank plans to invest 35% of its proceeds in information technology investment, digital product development and innovation to accelerate the digital transition of banking products and services, and 65% in long-term investment loans, mortgages, and green projects.

Figure 57. Use of proceeds



After deducting the fees and commissions of the relevant primary market trading organizations from the total funds raised, the Bank shall spend the remaining funds as follows.

Table 101. Use of proceeds (percentage, amount)

Use of proceeds	Percentage (%)	Amount (in billions of MNT)
Information technology investment	16%	29.3
Digital product development and innovation	19%	34.8
Financing for green projects and programs	34%	62.4
Long-term loans / Mortgage and investment loans /	31%	56.9
<b>Total</b>	<b>100%</b>	<b>29.3</b>

In the medium term, the Bank aims to increase customer satisfaction and the range of remote delivery services, implement its digital transformation goals to improve its competitiveness, to maintain and expand its market position. The following items to be implemented using the proceeds shall have greatly propel the bank towards achievement of these objectives.

#### Information technology investment

As the use of the Bank's core business systems and number of transactions increase year by year, information technology is constantly being improved and updated. For this purpose, the Bank plans to spend MNT 29.3 billion on technology projects and programs. Highlights of these projects, programs, and activities include:

#### Technological improvements

The Cohesity platform has been installed to improve the reliability, security, and flexibility of database and data backup of critical systems. It is planned to continue to increase the capacity of this platform.

Data processing and storage equipment has been upgraded, and the transfer of critical business systems to these devices has been completed. In the coming years, the bank aims to increase the base capacity of this storage device.

#### Technological innovation and automation

A data lake has been created to use artificial intelligence and machine learning to improve customer products and services utilizing data-driven analysis, and the latest innovations are planned to be developed based on international best practices.

DevOps Automation and its improvements have been launched to reduce software development and implementation time and improve quality. As part of this work, DevOps has started being used on the most commonly upgraded systems. In the coming years, the bank will continue the improvements and will aim to implement projects and programs in a shorter period to ensure realization of digital strategy objectives. .

In addition, one of the many new technologies associated with e-transition is robotic process automation, which is designed to automate suitable business processes, reduce manual labor, and reduce human involvement in repetitive tasks using artificial intelligence.

#### Digital product development and improvement

Khan Bank provides its customers and cardholders with easy, fast, and highly secure non-cash payment services based on modern technology. Moreover, constant and continued improvement thereof and increase in customer satisfaction are the main focal points in development of investment plan.

The Bank aims to expand its card payments market share to 70% and the POS payments market share to 55% by 2024. Under this goal, the Bank will invest MNT 34.8 billion of the proceeds in the development of non-cash payment products. In this regard, the following activities are planned.

#### Equipment upgrades:

- A total of 23,000 POS devices will be purchased and used by public and private service providers and merchants throughout Mongolia.
- Purchase of a modern laser card printing module to upgrade the equipment will improve color, design, and longevity of the payment card.
- In 2022, 100 kiosks will be purchased and placed in Ulaanbaatar, rural branches and large shopping centers.
- In the future, a kiosk without a printer will be purchased to eliminate the use of paper, and documents from the kiosk machine will be digitally signed. It will allow providing a full range of e-banking services.

#### Product and service development:

- To improve the card security, strip card will be completely replaced by an EMV chip card by 2024.
- Based on customer needs credit card products will be continuously developed as per international standards. Make online sales channels easier and faster, which will increase the number of customers, and improve the efficiency of packages. The value and use of the product will be constantly improved, accompanied by a flexible and effective regular incentive programs related to card usage.
- In 2023, the bank will re-engineer its ATMs and introduce innovative products and services based on customer needs.



Khan Bank plans to maintain its competitiveness in the long run by adapting to and changing alongside its operating environment, recognizing customer's needs, offering products and services tailored to their needs, lifestyle and investing in activities that provide fast, easy-to-use services. For this purpose, the Bank shall perform the following activities.

1. Collaborate with third parties to create an ecosystem tailored to the customer's lifestyle and will be at the forefront of customer choice;
2. Offer products and services based on the database and artificial intelligence to meet specific customer needs;
3. Design thinking will be used in the product development process to simplify the customer's journey, and robotic process automation will be introduced in products and services;
4. With the introduction of Express Bank 2.0, which will make equal banking products and services accessible to all citizens living in every corner of Mongolia, it will be possible to open Express Bank to bring bank closer to customers in remote districts and rural areas, as well as in densely populated districts and apartment complexes.

#### Financing for green projects and programs

It is planned to spend about MNT 62.4 billion to finance green projects and programs. These include:

- MNT 3 billion for household and business loans to reduce air pollution;
- MNT 23 billion to green business loans and to energy efficient household appliances to promote energy efficiency;
- In addition, about MNT 36 billion will be used to finance other green projects.

#### Long-term loans / Mortgage and investment loans /

MNT 56.9 billion will be used to fund mortgage loans and long-term business investment loans.



### 3.7. Offering details

The Issuer shall trade 191,219,800 shares or 10% of the total issued shares in the primary market as per the requirements of article 36.1, 36.11, and other relevant laws and regulations of the Banking Law.

The Issuer shall offer securities to the public on the primary market at a fixed price of 959 tugriks. The fixed price method is the process of issuing and trading securities at a certain price stated by issuer.

The issuer shall simultaneously submit request to both MSE and the FRC to register its securities and shall publicly offer its shares following relevant permits to register the securities are granted from the regulatory authorities.

The Underwriter shall organize the primary market trading of the shares offered to the public following Article 7.2 of the "Securities Registration Procedure" of FRC.

Primary market trading may be arranged by the Underwriter and the Issuer in combination with other methods depending on the demand for the securities and market conditions.

#### *Trading allocation on primary market*

The Issuer and Underwriter shall offer up to 85 percent of the initial public offering of 191,219,800 common shares to strategic investors and the remaining shares to retail investors.

Table 102. Primary market trading allocation

Investors	Percentage of shares offered to the public	Number of shares to be issued	Offering price (MNT)	Total capital to raise
Strategic	85%	162,536,830	959	155,872,819,970
Retail	15%	28,682,970	959	27,506,968,230
<b>Total</b>	<b>100%</b>	<b>191,219,800</b>		<b>183,379,788,200</b>

A strategic investor shall enter into a securities purchase agreement for MNT 250 million or more from the primary market and shall be conditioned to not trade the securities for 6 months after the start of the secondary market trading.

The Underwriter will follow the principle of 100% execution of the issuer's strategic investors' subscriptions and execute full base amount depending on total number of order as per below table and allocate remaining shares on pro-rata basis if the initial market subscription exceeds the supply.

Term	Number of Order	Base amount
1	Up to 30,000	500,000₮
2	Above 30,001	300,000₮

### *Primary market trading*

The Underwriter and the Issuer shall conduct the primary market trading as follows.

Figure 58. Primary market trading general diagram



#### *1. Approval to trade in the primary market*

Upon registration of the securities, the Underwriter and the Issuer shall submit the primary market trading plan and request, which includes information on the timing and schedule of the initial public offering, to the FRC for approval at least 3 business days before the commencement of the primary market trading.

#### *2. Introduce the securities to the public*

After the FRC has given the permit to issue and trade the securities in the primary market, the introduction of the securities to the public within the period specified in the primary market trading plan shall be organized as follows.

- Provide information about securities through media;
- Organize a roadshow;
- Pitch the Prospectus to potential investors;
- Pitch to international investors;
- Following Article 7.4 of the "Securities Registration Procedure" by FRC, it can be presented to strategic and professional investors before the public presentation;
- The securities will be presented in other ways as per the marketing plan.

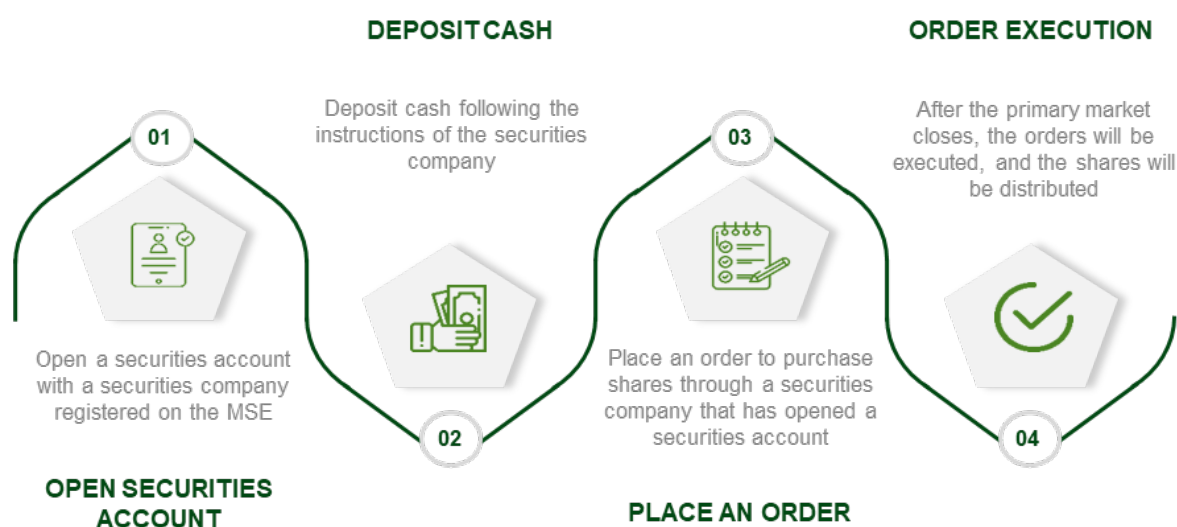
#### *3. Primary market offerings*

Following the Issuer's primary market trading plan, the primary market trading will start, and the order book will be formed.

Investors shall participate in the Issuer's primary market trading under the following instructions.



Figure 59. Instructions on how to participate in the primary market offering



### *Open a securities account*

If an individual intends to participate in the primary market offering and has a securities account, they may purchase Issuer's shares through the securities company with which they interact.

If an individual intending to participate in the primary offering does not have a securities account, a securities account shall be opened electronically or in-person through a securities company registered with the MSE. The account will be opened within 1-2 business days.

### *Deposit funds*

#### *For underwriting company's clients:*

If the investor is a client of a securities company that provides underwriting services to the Issuer, they shall place the money to purchase the securities as per its instructions.

#### *For clients of other securities companies:*

Funds intended to purchase Issuer's shares may be deposited to the account of your name registered at the Central Securities Depository via any commercial bank as per the following instructions.

Table 103. Instructions for depositing cash for customers of other securities companies

Instruction for transaction	
Beneficiary Bank:	Central Securities Depository /bank with code 95/
Beneficiary's account number:	____ (Securities Company code) _____ (Customer' securities account)
Beneficiary:	Account owner's name
Amount	Offering price + Securities Company's brokerage fee
Description:	Full name and registration number

An individual, who intends to participate in the primary offering shall pay a service fee calculated as a percentage of the transaction amount, which includes the amount of the regulatory agency's fee. Please note that the fees of securities companies vary and fees should be included in transaction amount when deposit funds.

### *Order Placement*

An investor can subscribe to the bank IPO in-person or electronically through their securities company. Securities companies confirm their orders by entering investors' purchase orders into the IPO system. Order placement for the IPO shall be 5 business days as per clause 7.3 of "Regulation on securities registration" approved by FRC.

### *Order execution*

The Underwriter will allocate shares according to the order outlined in the Issuer's primary market trading plan. Order placement by the strategic investor shall be executed by 100% while other retail investors' order shall be executed on pro rata basis in case of oversubscription.

### *4. Start of the secondary market trading*

The underwriter shall sell the Issuer's publicly offered shares to investors and submit a detailed report on the subscription result together with the MSE's conclusion to the FRC within 3 business days from the date of successful raising of the amount.

The FRC will review the report within 3 working days and, if the Issuer's initial public offering of shares is considered to have been successful, FRC will consent the CSD to register ownership rights and the MSE to start trading in the secondary market.

The CSD shall register the ownership rights of the Issuer's shares within 5 working days following the FRC's approval and notify the FRC and the trading authority.

Following the registration at the CSD, the MSE will arrange for the issuer to start trading on the secondary market within 2 working days.

With the start of secondary market trading, investors who have purchased shares on the primary market can trade their shares on the MSE.

### 3.8. Dividend policy

Following the restructure of Khan Bank into a joint-stock company, the Board of Directors plans to adopt and implement the following dividend policy.

#### The purpose of dividend policy

The purpose of the dividend policy is to develop the dividend policy, terms, and conditions of dividend distribution to be followed by the Board of Directors ("Board") of "Khan Bank" JSC (hereinafter referred to as the "Bank") in conformity with the Banking Law, Company Law and Corporate Governance Code, "The Regulation On The Implementation Of The Corporate

Governance Principles For Banks", and applicable rules and regulations issued by the regulatory body.

#### Dividend payout percentage

The Bank shall distribute dividends as per the Bank's dividend policy and shall strive to distribute dividends as much as possible under the principles of regular and fair shareholding of the Bank's profits and reasonable dividends, but shall not have the obligation to distribute dividends. In the event the Bank decides to pay dividends, it will seek to distribute more than 40 percent of the company's net profit after tax in form of dividends.

Dividends on preferred shares may be distributed from a especially established fund.

Dividends may be paid in cash, in-kind, or in the form of Bank shares or securities of others.

Equal dividends will be distributed to same share type .

The Bank shall calculate and deduct taxes and other deductions from dividends as per the laws and regulations in force at the time of distribution.

#### Terms of dividend distribution

The Board of Directors may decide to pay dividends more than once a year, provided that the requirements of the relevant legislation and the Bank's dividend policy are met.

#### Common share

The Bank may pay dividends on common shares if the following conditions are met: These include:

- The Bank shall be solvent/liquid after the payment of dividends;
- Following the dividend payout, the Bank's equity shall exceed the sum of unpaid dividends on preferred shares, the amount to be paid at the time of liquidation, and the amount of share capital specified in the Bank's charter;
- The Bank shall have repurchased or shall have enough funds if required to repurchase its shares at the shareholders' request or bonds and promissory notes at maturity;
- Following the dividend payout, meet the prudential ratios set by the Bank of Mongolia.

#### Preferred shares

The Bank shall distribute dividends to holders of preferred shares as first priority and pay dividends to preferred shares in the following cases. These include:

- The Bank shall be solvent after the payment of dividends;
- The Bank shall have repurchased all of the preferred shares that are required to be repurchased.

#### Dividend distribution decision

The Board of Directors shall decide whether to distribute dividends and report the decision to the regular shareholders' meeting. The board shall have decided whether to pay dividends within 50 days of the end of the fiscal year.

If the Board of Directors decides not to distribute dividends, it shall report its reasons to the regular shareholders meeting.

### 3.9. Security price stabilization

The Underwriter shall cooperate with the Sub-underwriters and other securities companies on contractual basis as per Article 8.3 of the "Securities Registration Regulations" by FRC to ensure the stability and liquidity of the Bank's common shares in the secondary market.

The Underwriter plans to implement measures to prevent oversupply of common shares issued by the Bank in the secondary market and to stabilize the price within one month under the following conditions:

Supply in the secondary market: The Issuer and the Underwriter shall take measures to lock up the shares of the shareholders holding the majority of the shares for a certain period. This measure can prevent an oversupply in the secondary market and adverse effect on the price.

- Up to 85% of the shares issued to the public will be offered to strategic investors with lock-up condition of up to 6 months.
- Before the issuer's registration with the FRC, shares of a person who previously owned 5% or more of the bank's shares individually or jointly with party of affiliated interest shall be locked up for 6 months.
- To provide liquidity and prevent significant price drop : Repurchase of shares on the secondary market:  
Underwriters with other securities companies in the price stabilization process shall arrange for the repurchase of shares in the amount of up to MNT 1,000,000,000 (one billion) in the event the secondary market price of the Bank's shares decreases by more than 5 percent from the initial public offering price.
- Improve Issuer's liquidity:  
To improve the liquidity of the Issuer, the shares of influential shareholders of the Bank may be supplied to the secondary market in case of excessive demand or excessive price increase in the secondary market. To implement this, as per the requirements outlined in Article 36.1 of the Banking Law and Article 5 of the Law on Procedures for Enforcing the Law on Amendments to the Banking Law, the Bank's liquidity shall be improved by partially releasing the shares of influential shareholders for market supply.

In addition, the Underwriter plans to purchase shares in the amount of up to MNT 25,000,000,000 (twenty five billion) from the primary market offering as per Article 3.5.3 of the Securities Registration Regulations by FRC for further offer to its own clients. This shall reduce oversupply in the secondary market.



### 3.10. Rights and obligations certified by publicly offered securities

A securities holder shall have the following common rights and obligations as per the Company Law of Mongolia, the Securities Market Law, the "Procedure for approval of changes in the share capital and shareholder structure of a bank in the form of a joint-stock company," and the draft charter of the securities issuer.

#### Rights of securities holders

- Participate in the shareholders' meeting and vote on the issues discussed at the meeting in proportion to the number of shares held;
- Receive dividend payments in the number of shares held, when the board decides to distribute dividends;
- As per Article 38 of the Company Law and the Company's Charter, purchase additional shares subsequently issued by the company and related securities in proportion to the shares held at first priority;
- A shareholder who has voted against a decision made at a shareholders meeting within the scope of matters specified in Article 53.1 of the Company Law, or who has not participated in the voting, may demand that the company redeem its shares;
- A shareholder holding more than 5 percent of common shares may submit additional proposals on the agenda of the regular shareholders meeting by March 1 of each year and run for the counting commission of the general shareholders' and the board meeting;
- Holders of more than 10 percent of common shares may conduct an audit of the company's business and financial operations;
- A holder of more than 10 percent of common shares may submit a proposal to the Board of Directors to convene an extraordinary shareholders' meeting, convene a meeting if the proposal is not accepted by the Board without proper justification, and may demand the list of shareholders entitled to attend the meeting;
- A shareholder may file a court complaint for damages caused to the company by competent official who has failed to fulfill or violated the obligations outlined in the Company Law and Article 8.2 of the Company Charter;
- A shareholder shall exercise and reserve the rights specified in other relevant laws and regulations and the company's charter.

#### Obligations of the securities holder

- Pursuant to Article 4.2 of the Company Law, a shareholder shall be obliged to inform the registrar of the company's securities holders of its name, address, and the number of securities held, as well as any changes thereto;
- Any individual who becomes a shareholder of the bank through a securities company shall accurately submit the description of the shareholder of the bank specified in Annex 1 of the "Procedure for approval of changes in the share capital and shareholder structure of a bank in the form of a joint-stock company" to the securities company;
- Any individual who becomes a shareholder of the bank without the legal entity authorized to operate as a securities company shall accurately submit the description of the shareholder of the bank specified in Annex 1 of the "Procedure for approval of changes in the share capital and shareholder structure of a bank in the form of a joint-stock company" to the bank;
- In case a shareholder becomes an influential shareholder of the bank, individually or collectively with an affiliated party, they shall obtain permission from the Bank of Mongolia as per Article 36.11 of the Banking Law;





- If an influential shareholder of the bank acquires an additional 1 percent or more of the bank's total shares, they shall obtain permission from the Bank of Mongolia, as per Article 1.2 of the "Procedure for approval of changes in the share capital and shareholder structure of a bank in the form of a joint-stock company" approved jointly by the Bank of Mongolia and the FRC;
- An influential shareholder of the bank and its affiliated parties are prohibited from being influential shareholder of another bank;
- Tax regulation: :
- If a shareholder residing in Mongolia is an individual, they shall pay 5% tax on "dividend income" specified in Article 21.5 of the "Personal Income Tax Law";
- If a shareholder residing in Mongolia is a legal entity, they shall pay a 10% tax on "dividend income" specified in Article 9.1.3 of the "Corporate Tax Law," and Income from the sale of securities shall be taxed as specified in Article 20.1;
- If a non-resident shareholder is an individual, they shall pay 20% tax on dividend income and income from the sale of securities as per Article 21.2.5 of the "Personal Income Tax Law";
- If a non-resident shareholder is a legal entity, they shall pay 20% tax on dividend income and income from the sale of securities as per Article 20.2.4 of the "Corporate Tax Law";
- Other obligations specified in relevant laws, regulations and the company's charter.



### **3.11. Conflict of interest**

Pursuant to Article No. 3.5.5 of “Regulation on Registration of Securities” of FRC, the Issuer and consultants, BDSec JSC as Underwriter, “MGL Attorneys” as a legal advisor (including legal firm with whom the legal advisor shall cooperate on legal opinions), “Ernst & Young Mongolia Audit” LLC as auditor, “BDO Audit” LLC as a valuation (Independent expert) company, and their competent management, affiliated parties declare to be free of conflict of interest and further declare to prevent any conflict of interests.



## 4. ISSUER PARTNERS

### 4.1. Lead Underwriter's introduction



Registration number:	2052482
State Certificate number:	9010001030
Address:	BDSec building, Zaluuchuud Avenue, 27/1, 8th khoroo, Sukhbaatar district, Ulaanbaatar city, Mongolia
Telephone:	7555-1919
E-mail:	<a href="mailto:info@bdsec.mn">info@bdsec.mn</a>
Website:	<a href="http://www.bdsec.mn">www.bdsec.mn</a>

BDSec JSC is a leading securities company in Mongolia, which has been operating continuously for 30 years since the Privatization period in Mongolia and founding of the stock market. The company became the first securities company to publicly offer its securities in 2006 through an IPO on the Mongolian Stock Exchange.

The lead underwriter offers comprehensive range of securities market services to its clients under due operating licenses issued by the Financial Regulatory Commission in underwriting, broker-dealership, investment advisory service, in addition to license to mediate in the sale and purchase of securities in foreign securities markets obtained in 2017. and.

Currently, BDBSec JSC is licensed to provide stock market services in Ulaanbaatar and 8 provinces, with the largest brokerage network in Mongolia serving approximately 310,000 local and international clients.

The Company has been actively participating in the securities trade on the MSE over the past decade, accounting for the highest i.e. 91% of the securities trading on the local stock market in 2012.

Furthermore, the Company has worked as underwriter to 23.3% of IPO, 90.9% of FPO and 75.1% of public corporate bonds issued on the Mongolian Stock Exchange.

#### 4.1.1. Underwriting license of the lead underwriter

In 2005, BDBSec JSC was granted a 3-year underwriting rights per license No. 32 pursuant to decision no. 32 of the former Securities Commission. The license was initially extended by 3 years pursuant to FRC resolution no. 136 dated 12th of June, 2008 and further 3 years pursuant to FRC resolution no. 170 dated 12th of June, 2011, respectively.

Subsequently on 24th of May 2013 "The Securities Markets Law of Mongolia" was amended by the parliament of Mongolia updating all related rules and regulations and enabling the underwriting licenses to be granted permanently. Consequently, BDBSec now holds a permanent underwriting license, as per the said law.

*Appendix N°14: License of the leading underwriter*

#### 4.1.2. An underwriting agreement with Lead underwriter

The “Underwriting agreement” was concluded between the Issuer, Khan Bank and Underwriter on May 5th, 2021. In accordance with the agreement, the Issuer and Underwriter have the following rights and obligations:

##### Rights and obligations of Underwriter:

- The Underwriter shall provide works and services prescribed in clause 3.1. of the Agreement (but not limited to), in professional, timely and successful manner while maintaining integrity and conformity with the laws and legislations of Mongolia;
- The Underwriter shall employ their best effort required in publicly offering and selling Issuer's securities;
- The Underwriter undertakes to not provide works and services prescribed in clause 3.1. of the Agreement to other commercial banks or to cooperate in any way in IPO process of the same during the Agreement tenure. However, the Underwriter retains the right to provide brokerage services to other commercial banks in their process of ensuring compliance with 36.1 of Banking Law;
- The Underwriter shall have the obligation to prepare and provide template or drafts of resolutions, decisions as well as other relevant documents required in connection with the activities being undertaken by the Issuer;
- The Underwriter may provide brokerage services such as opening of securities account and order placement when and if new shareholders of the Issuer choose the Underwriter as their broker;;
- The Underwriter has the obligation to provide the Issuer with all relevant information and advice relating to the capital market and the works and services prescribed in the Agreement;
- The Underwriter shall perform operations related to the primary market listing of securities through opening securities account of the Issuer and offering the securities to the public;
- The Underwriter has the obligation to provide any and all information, data and research results related to the raised capital of the Issuer;
- The Underwriter has the obligation to cooperate with auditors, other independent entities and legal advisors providing consultant services to the Issuer on any issues specified in the Underwriting agreement and promptly take necessary measures to resolve;
- The Underwriter has the obligation to actively work to promote and provide securities information to the prominent customers and strategic investors within the scope of terms agreed with the Issuer;
- The Underwriter has the obligation to identify potential local and foreign investors and to develop a strategy for retail investors and to conduct the public offering of securities of the Issuer;
- The Underwriter shall co-organize, participate in and provide advice in the securities offering meeting with each potential investor;
- As per agreement with the Issuer, the Underwriter has the obligation to supply detailed and accurate information on methodology for the implementation of the IPO subscription process in the securities Prospectus;
- The Underwriter shall prepare the securities Prospectus and check opinion of legal and audit firms, and other relevant necessary documentary requirements for the IPO (excl. content);
- The Underwriter shall manage cooperation among co-underwriters and other consultants;
- The Underwriter has the obligation to organize, oversee and advise the Issuer in preparation, print, translation and distribution of the securities Prospectus and other relevant materials in cooperation with the working group members appointed for the IPO;
- The underwriter has the obligation to cooperate with the Issuer in preparation of the marketing materials and presentations for investors and marketing meetings;
- In the process of cooperation with the Issuer, legitimate interests of the investors shall be upheld.

##### Rights and obligations of the Issuer:

- The Issuer has the obligation to accurately disclose the Underwriter about its lawful activities, services, financial condition, agreement with other parties and other facts;



- The Issuer shall be responsible for the accuracy of the information provided and the Issuer shall be liable for any damages caused by failure to fulfill this obligation;
- The Issuer has the obligation to ensure conformity with, to take necessary actions to ensure conformity with laws and regulations relevant to the securities issuance;
- The Issuer has the right to demand the Underwriter to fulfill its obligations under the agreement;
- In the process of cooperation with the Underwriter, legitimate interests of the investors shall be upheld;
- Other rights and obligations predetermined by law;

*Appendix №16: Agreement with the leading underwriter*

## 4.2. Co-Underwriter's introduction

### "Tavanbogd Capital" LLC



Registration number:	5469112
State Certificate number:	9011286006
Address:	BDSec building, Zaluuchuud Avenue, 27/1, 8th khoroo, Sukhbaatar district, Ulaanbaatar city, Mongolia
Telephone:	7272-7282
E-mail:	<a href="mailto:cr@tavanbogdcapital.com">cr@tavanbogdcapital.com</a>
Website:	<a href="http://www.tavanbogdcapital.com">www.tavanbogdcapital.com</a>

"Tavanbogd Capital" LLC is a subsidiary of Tavan Bogd Trade LLC with 85% investment. "Tavan Bogd Capital" LLC was founded in 2011 providing brokerage services. The Company obtained licenses of underwriting, investment advisory, introducing brokers to purchase or sell securities from the foreign market, and cash omnibus account from FRC in 2021 in order to provide a comprehensive range of securities market services.

### 4.2.1. Underwriting license of the co-underwriter

Tavan Bogd Capital LLC obtained broker rights with license No. TZ 301/84 by the resolution No. 207 of FRC dated June 30, 2021. Furthermore, the Co-underwriter obtained dealer, investment advisory and underwriting licenses by the resolution NO. 433 of FRC dated October 13, 2021 and licenses of introducing brokers to purchase or sell securities from the foreign securities market and cash omnibus account by the resolution NO. 476 dated October 28, 2021 respectively.

*Appendix №14: License of the co-underwriter*

### 4.2.2. An underwriting agreement with Co-underwriter

BDSec JSC as a lead underwriter, entered into a "Co-underwriting agreement" with Tavan Bogd Capital LLC on January 25th, 2022 in consultation with the Issuer. Under the co-underwriting agreement, Tavan Bogd Capital LLC shall make their best effort to introduce, offer and sell securities of the Issuer to its clients. In addition, the parties have the following rights and obligations:



#### Rights and obligations of the Co-underwriter:

- The Co-underwriter shall identify investors, including individuals and legal entities to invest in the Issuer through using KYC form and verify source of the investor's funds within the scope of Mongolia's Law on Combating Money Laundering and Terrorism Financing, "Approval rules on amendments to the shareholders structure and shareholders' equity of the joint stock banks" approved by the Bank of Mongolia and FRC and other relevance laws;
- In order to successfully complete the IPO issuance, the Co-underwriter is obliged to inform subscription of the Co-underwriter, operational process and other relevant information, which is disclosed to the public, to the Lead underwriter on a timely basis;
- The Co-Underwriter shall promptly notify or inform any changes in its shareholders and managements to the Lead-underwriter and such changes may be the reason to terminate the agreement;
- The Lead Underwriter shall immediately inform the Co-underwriter if any circumstances arising that, for reasons beyond the control of the Co-underwriter, adversely affect its service's quality or performance;
- Responsible for the proper and timely performance of its services under the agreement;
- Shall have a right to claim payment for its services under the agreement during the period specified in the agreement;
- The Co-underwriter shall introduce the Issuer to the potential investors in order to raise the necessary capitals for the Issuer;
- Shall have a right to receive/require all information, statistics, financial reports and other relevant materials for investors from the Issuer and Lead underwriter;


#### Rights and obligations of the Lead-underwriter:

- The Lead underwriter shall wholly manage IPO processes to register securities of the Issuer, offer the securities to the public and raise capitals;
- The Lead underwriter shall lead the Co-underwriter to complete IPO process;
- The Lead underwriter is obliged to pay the Co-underwriter the commission and remuneration in compliance with the agreement upon offering securities of the Issuer to the investors and raising capitals successfully;
- There is no restriction to the Lead underwriter to enter into agreements or cooperate with other companies and third parties;
- The Lead underwriter shall mention its and Co-underwriter's name in any advertisement material, information distributed to the public.

*Appendix №16: Agreement with the co-underwriter*



### 4.3. Auditor introduction

	Registration number:	2665247
	State Certificate number:	9019015029
	Address:	Suite 200, Naiman zowkhis building, Seoul street 21, 1th khoroo, Sukhbaatar district, Ulaanbaatar city, Mongolia
	Telephone:	7013-4032, 7013-2005
	E-mail:	<a href="mailto:info@mn.ey.com">info@mn.ey.com</a>
	Website:	<a href="http://www.ey.com">www.ey.com</a>

Ernst & Young Mongolia Audit LLC is a member of Ernst & Young Global as one of the top four accounting firms in the World and the Company obtained its audit license from the Ministry of Finance in 2001 and started its operation in Mongolia. Ernst & Young Global operates in more than 150 countries with over 700 branches and 310,000 employees around the world.

Ernst & Young Mongolia Audit LLC is a highly experienced team with more than 100 local and international employees, providing auditing services to its client.

#### 4.3.1. Audit license

Ernst & Young Mongolia Audit LLC extended its audit license for 3 years by resolution number 12 of the Minister of Finance dated 23th of January, 2020. Moreover, the Company was registered as a legal entity to provide audit service to the participants in the securities market by the resolution number 23 of FRC dated 29h January, 2014.

*Appendix №14: The audit company's license*

#### 4.3.2. An agreement with audit company

Khan Bank, the Issuer, established the agreement with Ernst & Young Mongolia LLC on 23th April, 2021.

Within the scope of the agreement, Ernst & Young Mongolia Audit LLC is to obtain reasonable assurance about whether the financial statements of the Issuer as a whole are free from material misstatement, including whether the balance sheet as at December 31, 2021, income statements and cash flow statements for the year ended in December 31, 2021 are in accordance with International Financial Reporting Standards and to issue an audit report.

The audit company shall provide services in accordance with the international standards on auditing approved by the International Accounting Standards Committee. Within this framework, the Audit is obliged to provide professional and services independently of the Issuer.

The Issuer's managements shall be responsible for keeping accounting reports of the Issuer according to the International Financial Reporting Standards and be responsible for an accuracy of the financial statements



and any records related to the Issuer's transactions, as well as they are obliged to accurately inform the Audit about the Issuer's financial statements, including balance sheet, income statements, and cash flow statements;

In addition, the Issuer's managements are obliged to provide accounting reports and other related documents/information deemed necessary for the Audit services to the Issuer, and other additional information and evidence as required by the Audit. Furthermore, in case of inaccurate and incomplete documents, the Issuer is obliged to prepare necessary documents in accordance with the Audit requirement, provide data-based information and certify the required documents by the competent authority.

*Appendix №16: Agreement with the audit company*



## 4.4. Independent expert introduction



Registration number::	2546442
State Certificate number::	9018001010
Address:	Door 1502, Level 15, Union Building-B, Unesco Street, Sun Road 62, 1th khoroo, Sukhbaatar district, Ulaanbaatar city, Mongolia
Telephone:	7740-4040
E-mail:	<a href="mailto:info@bdo.mn">info@bdo.mn</a>
Website:	<a href="http://www.bdo.com">www.bdo.com</a>

BDO is one of the World's leading audit, accounting and advisory organizations. The Company operates in 154 countries with 1,400 branches and more than 64,300 employees worldwide. BDO branch in Ulaanbaatar was founded in December, 2012, under the name of "BDO Mongolia" on the basis of "Itgelt Audit" LLC with 15 years of audit, accounting and advisory services in Mongolia. BDO Mongolia has a single office located in Ulaanbaatar and comprises three legal entities under the BDO name: BDO Consulting LLC providing advisory and consulting services, BDO Audit LLC providing audit and assurance services, and BDO Tax TMZ LLC providing taxation services. Moreover, BDO in Mongolia has two partners and approximately 50 professionals. The Company provides services to the legal entities operating in key sectors of Mongolia, such as mining, manufacturing, finance, and technology.

### 4.4.1. Valuation license

BDO Audit LLC was granted 3-year audit and valuation rights with license No. 009-1997 by the decision NO. 287 of the Minister of Finance dated December 27, 2012. The license was extended for 3 years in 2015 and 2018 respectively. The license has expired in December 2021, so the Company has submitted their request to extend its license to the Minister of Finance.

*Appendix №14: The valuation company's license*

### 4.4.2. An agreement with valuation company

The Issuer, Khan Bank, and BDO Audit LLC signed asset and business valuation agreement on May 13, 2021. Within the scope of this agreement, The issuer's business and assets are valued and reported by the Valuation company as of December 31, 2021, in accordance with the International Valuation Standard, Appraisal Law of Mongolia and other relevant laws.

#### Rights and obligations of the Valuation company:

- Within the scope of the agreement, the Valuation company shall conduct the valuation services in a professional manner and in conformity with the laws and legislations of Mongolia;
- The Valuation company has a right to require the Issuer to fulfill its obligations under the agreement and refuse any requirement of the Issuer that violates laws and terms in the Agreement

- Provide no promises and/or guarantee to the Issuer about the results of its valuation / the Valuation company shall not predetermine the cash or payment arising from the result of the valuation and conduct any valuation based on this payment/;
- The Valuation company shall objectively prepare the asset and business valuation of the Issuer in accordance with the related laws and international standards;
- The Valuation company shall completely prepare all necessary materials to be attached in the report of business and asset valuation;
- The business and asset valuation shall be done in professional manner and in conformity within the scope of the agreement;
- Business and asset valuation report shall be done pursuant to Article No. 9.2 of the Law on Asset Valuation, prepared in Mongolia and English, and provide it originally and through online;
- Business and asset valuation shall be objective, reasonable and substantial;
- The services under this agreement shall not be transferred to the third party without permission of the issuer;
- The valuation company has permanent appraisers licensed to value assets and worked under the agreement which met the requirements of the Appraisal Law of Mongolia, Business Valuation Method approved by the joint-resolution of Minister of Finance and Chairman of FRC, international valuation standard, and other laws and regulations;
- The Valuation company is obliged to cooperate with underwriter, auditor, legal advisor and others providing consultant services to the Issuer on any issues specified in the agreement and promptly take necessary measures to resolve;
- The Valuation company shall introduce the result of the asset and business valuation to the Issuer and its clients;
- The Valuation shall be done within the scope of international three main valuation methods and their substitution. An International method to value Fintech company shall be considered. When using the market approach method, the Valuation company shall try to do a comparable valuation with similar international banks, traditional and fintech banks.
- When doing a valuation, the Valuation company shall use more suitable method for the Banking business combined market, income, and cost approaches;
- When doing a valuation, the Valuation company shall have examined the valuations for financial companies similar with Khan Bank within the BDO Global network;
- The detailed research on Bank's digital transformation shall be included in the valuation;
- Other

#### Rights and obligations of the Issuer:

- Under the agreement, the Issuer is obliged to accurately inform the Valuation company about all necessary information and documents not prohibited by the laws;
- The Issuer has a right to require the Valuation company to fulfill its obligations and terms under the agreement;
- Shall have a right to investigate operation and control of the Valuation company in order to meet requirements of the information security;
- Shall have a right to conduct internal audit under the agreement;
- Shall have a right to require the Valuation company to fulfill its obligations under the agreement, value the Issuer's asset and business according to the requirements of the agreement and other laws and regulations, and receive the valuation report from the Valuation company;
- The Issuer is obliged to enter professionals of the Valuation company to its office, hold meeting, receive necessary materials for the valuation, provide working place for the valuation, appoint authorized people for the valuation process, provide other necessary materials accurately;
- Other rights and obligations granted by law;

*Appendix №16: Agreement with the valuation company*





## 4.5. Summary of independent valuation report

### 4.5.1. Business valuation

By the agreement signed between BDO Audit LLC and Khan Bank LLC on May 13, 2021, BDO Audit LLC conducted a valuation of Khan Bank's shareholders' equity on December 31, 2021, and prepared the valuation report. The valuation aims to professionally report Khan Bank's business and capital market values from an independent standpoint for the first public offering (IPO) of Khan Bank's shares on the Mongolian Stock Exchange.

#### Valuation results:

BDO Audit LLC used the Residual Income approach to estimate the Bank's shareholders' equity market value in the summary value approach.

Based on BDO Audit LLC's 16.0 percent discount rate (equity cost) and Mid-Term Financial Assumption (2022-2026) submitted by Khan Bank, the pre-money shareholders' equity value of MNT 1,953,989 million was calculated prior to the IPO.

The pre-IPO value was MNT 1,643,388 million due to a 15.9 percent non-controlling adjustment (discount) for small shareholders.

BDO Audit LLC has released the final results in value ranges as continuing the uncertainty in the global economy and stock markets related to Covid-19. Using the residual income approach, the valuation company calculates the present value using the different discount rates (15.0% and 17.0%).

The post IPO, the estimated market value of Khan Bank's total shareholders' equity, including non-controlling adjustment, ranged from MNT 1.75 trillion to MNT 2.15 trillion, and in the baseline to MNT 1.93 trillion. For per share, it is estimated that between MNT 863 and MNT 1,062 per share, and in the base case, MNT 955.

Table 104. Summary of Khan Bank's Estimated Market Value

Table 10-1: Summary of Knauf Bank's Estimated Market Value				
Pre-IPO		Unit	Value	
Risk free rate of return		%	9.2%	
Equity Risk Premium		%	7.3%	
Re-levered beta		coef	0.83	
Cost of Equity		%	16.0%	
Terminal growth rate		%	3.0%	
ROE (2022-2026)		%	21.0% - 25.6%	
Shareholders' equity (as of valuation date)		million MNT	1,284,510	
Present value of residual income (2022-2026)		million MNT	434,260	
Present value of terminal value		million MNT	435,218	
Total of present value		million MNT	1,953,989	
Non-controlling adjustment for small shareholders		%	15.9%	
The market value, including non-controlling adjustment		million MNT	1,643,388	
Post-IPO	Unit	Bear	Base	Bull
Cost of Equity	%	17.0%	16.0%	15.0%
Pre-IPO	million MNT	1,485,468	1,643,388	1,827,835

Amount of proceeds	million MNT	165,052	182,599	203,093
Post-IPO	million MNT	1,650,520	<b>1,825,987</b>	2,030,928
Number of shares (post-IPO)	unit	1,912,198,000	1,912,198,000	1,912,198,000
Share price	million MNT	863	<b>955</b>	1,062

Source: BDO Audit estimate

### Financial projections:

BDO Audit LLC used Khan Bank's Mid-Term Financial Plan (2022-2026) in its valuation estimates based on the conclusion that it is realistic and feasible compared to the Bank's historical performance.

Table 105. Financial projections used in valuation

million MNT	2022	2023	2024	2025	2026
Net income	324,736	360,430	394,467	421,739	452,822
Equity	1,409,246	1,639,676	1,890,143	2,153,882	2,437,704
ROE	25.3%	25.6%	24.1%	22.3%	21.0%
Cost of Equity	16.0%	16.0%	16.0%	16.0%	16.0%
Difference	9.2%	9.5%	8.0%	6.3%	5.0%
<b>Residual income</b>	<b>118,806</b>	<b>134,502</b>	<b>131,597</b>	<b>118,715</b>	<b>107,516</b>

Source: BDO Audit estimate

### Valuation method:

BDO Audit LLC selected the Residual Income approach based on a professional analysis of the appropriate valuation approach to estimate the market value of the Bank's total shareholders' equity. The Residual Income approach is a valuation technique commonly used in valuing banks and financial institutions whose book prices are regularly updated.

### Discount rate:

BDO Audit LLC calculated the discount rate (equity cost) using the Capital Asset Pricing Model.

Table 106. Discount rate estimate

Cost of equity estimate	
Risk free rate of return	9.2%
Re-levered beta	0.83
Equity risk premium	7.32%
Specific risk premium	0.8%
<b>Cost of equity</b>	<b>16.0%</b>

Source: BDO Audit estimate

- The risk-free interest rate of return is based on a 10-year US dollar government bond traded on the international market and converted to a risk-free MNT using Fisher's equation.
- The median values of the peer companies's beta were used to calculate the re-levered beta, and the peer banks were selected based on the following criteria. These include:
  - Peer banks must operate in Asia or Central and Eastern Europe;

- GDP of the host country in 2019 (the year before Covid-19) must be more than 4 percent;
- The Bank's operations should be Financial Services >> Commercial Bank >> International Bank; Regional Bank; or be a National Bank;
- Return on equity (ROE) for the last 12 months must be at least 13 percent;
- Equity risk premium is based on Mongolian equity risk premium calculated by Aswat Damodaran, a professor at New York University, which is a commonly used source in valuation practice.
- Specific risk premiums are calculated based on the information provided by the Bank and the assumptions of Valutico, which provides discount rates and valuation services.

Based on the above estimates, the valuation company concludes that the shareholders have reason to expect a return of at least 16.0 percent to invest in Khan Bank's shares.

#### Terminal growth rate:

For the period after 2026, the terminal value of the business was determined using Gordon's constant growth model. The long-term growth rate is assumed to be 3%. This percentage was chosen because most of Mongolia's recent economic growth forecasts from international organizations have declined.

#### Non-controlling adjustment:

Suppose the purchaser is willing to pay a price higher than the market value of the shares to acquire a controlling stake in the company or become an influential shareholder. In that case, a controlled premium must be added to the business valuation results. Conversely, if the estimated market value includes a controlled premium, the uncontrolled discount should be subtracted to find the value of the uncontrolled interest.

Estimated values include controlled premium but may need to be adjusted for uncontrolled discounts if the valuation is intended to estimate the value of a minority interest. Given that the Company's current shareholders and the Board of Directors can influence the following decisions, the Residual Income approach based on Khan Bank's Mid-Term Financial Plan (2022-2026) can be considered to be contained the following control incentives:

- Appoint management and set salaries and bonuses;
- Listing of shares on the stock exchange;
- Declaration of dividends;
- Sale, Merger, or liquidation of the company;
- Buy, sell and pledge company assets; and
- Entering into significant agreements.

For this valuation, BDO Audit LLC is estimating the market value of Khan Bank's equity as a small portfolio of equity that can be freely traded on the MSE after the IPO, so it is necessary to calculate the non-controlling adjustment.

BDO Audit LLC used a study by BVR (Business Valuation Resources) to calculate non-controlling adjustment. The BVR estimated the median value of the controlled premium to be 18.9% in 2021, based on information from 2,818 financial transactions (not strategic). For 11,446 strategic deals, the median value of the controlling premium was 24%. Therefore, in the case of BDO Audit LLC, financial controlled premiums are considered more appropriate for Khan Bank's valuation assignment, with liquidity and a non-controlling adjustment of 15.9 percent  $[1 - 1 / (1 + \text{Financial Controlled Premiums})]$ .

### Validation of valuation results:

BDO Audit LLC validated the results of the Residual Income approach using the Relative Valuation model (analysis of peer companies) and the Dividend Discount Model. However, valuation models were not used as the primary valuation method due to following reasons. These include (i) no bank listed on the domestic stock exchange that can be compared to the Bank, and (ii) the Bank does not have enough history of distributing dividends.

- Relative Valuation model: Sixteen banks listed on international stock exchanges were selected as peer companies. As of the valuation date, these banks' median P/B ratio was 1.57, translating to 1.45 of P/B or MNT 1,172 per share as a Post-IPO.
- Dividend Discount Model: According to Khan Bank's Mid-Term Financial Forecast (2022-2026), the Bank plans to distribute dividends annually from 2022 onwards. BDO Audit LLC estimated the value of the shares as a Post-IPO from MNT 522 to MNT 1,145 (P/B ratio of 0.73x-1.42x) using the dividend distribution plan set out in the Mid-Term Financial Plan (2022-2026).

BDO Audit LLC concludes that the above results of the two models' valuation support the Residual Income approach results.

Figure 60. Pre-IPO market value of equity (million MNT)



Source: BDO Audit estimate

Figure 61. Pre-IPO price to book ratio



Source: BDO Audit estimate

Figure 62. Post-IPO market value of equity (million MNT)



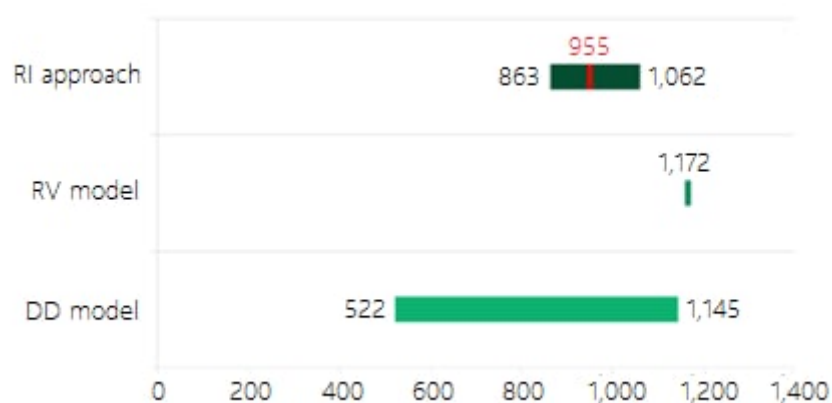
Source: BDO Audit estimate

Figure 63. Post-IPO price to book ratio



Source: BDO Audit estimate

Figure 64. Post-IPO share price



Source: BDO Audit estimate

Appendix №18: Business valuation report

### 4.5.2. Asset valuation

The asset valuation report reports the results of an asset-based approach called a cost method. The asset-based approach does not represent the market value of the business. It is only occasionally used to evaluate the business of start-ups and companies with asset-based businesses.

#### A cost method: the adjusted net asset method

Financial assets measured at fair value:

- These financial assets include open-traded equity and debt securities, Mongolian government bonds issued in the international market, loans denominated in real terms, MIK's senior and junior bonds, and derivative financial instruments.

Financial assets measured at amortized cost:

- These financial assets include loans to customers, advances, and government bonds.

Other non-financial assets:

- Other non-financial assets include property, plant & equipment, intangible, disposable, and other assets. Non-financial assets except property, plant, and equipment are measured at cost less accumulated depreciation and impairment.

Net equity:

- As of the valuation date, the fair value of the Bank's total equity, excluding internally created intangible assets, is MNT 1,296,673 million.
- Dividends: The Bank planned to distribute MNT 200 billion in dividends to current shareholders based on the annual results of 2021. Excluding this dividend, the equity of the Bank's net shareholders at the valuation date is shrunk to MNT 1,096,673 million.


Table 107. Adjusted net shareholder equity

mil MNT	Book value	Adjustment	Adjusted value
Financial assets measured at fair value	946,472	0.00	946,472
Cash and cash equivalent	4,526,980	-	4,526,980
Mandatory reserves with Bank of Mongolia	809,082	-	809,082
Financial assets measured at amortized cost	6,582,072	1,218	6,583,290
Other non-financial assets	598,843	10,945	609,788
<b>Total assets</b>	<b>13,463,449</b>	<b>12,193</b>	<b>13,475,612</b>
Less:			
Non-financial liabilities	(107,509)	-	(107,509)
Due to customers	(10,879,513)	-	(10,879,513)
Total capital	2,476,427	12,163	2,488,590
Borrowed funds	(1,191,917)	-	(1,191,917)
<b>Net shareholder equity</b>	<b>1,284,510</b>	<b>12,163</b>	<b>1,296,673</b>

Appendix №18: Asset valuation report

## 4.6. Legal Advisor introduction


The issuer has entered into a "Legal Advisory Services Agreement" with the following law firms to offer its shares to the public.

 <b>"MGL Attorneys" LLP</b>	Registration number:	5653576
	State Certificate number:	9022001140
	Address:	Suite 503, Global Business Center, Sambuu street 13/02, 4th khoroo, Chingeltei district, Ulaanbaatar, Mongolia
	Telephone:	7012-9665
	E-mail:	<a href="mailto:info@mjlattorneys.mn">info@mjlattorneys.mn</a>
	Website:	<a href="http://www.mjlattorneys.mn">www.mjlattorneys.mn</a>

MGL Attorneys LLP is a limited liability partnership providing comprehensive legal services and advisory services to the local and foreign individuals and legal entities. MGL Attorneys LLP was founded in 2021 and the Company provides the following legal services:

- Corporate and commercial law
- Capital markets and securities
- Merger and acquisition
- Bank, finance, and insurance
- Investment and intermediary
- Mining and minerals
- Petroleum, natural gas and energy
- Tax
- Real estate and construction
- Licensing and permissions
- Government relations and immigration
- Concession and tender
- Labor relations and employment
- Patent, trade-mark and intellectual property
- Infrastructure, road and transportation
- Arbitration and litigation
- Insolvency law
- Tourism and hospitality
- Media, telecommunication and technology
- Inheritance and family law
- Environment, health and safety
- Legal review
- Engineering, procurement and construction

## Legal Advisor

 <b>"KhanLex Partners" LLP</b>	Registration number:	6351034
	State Certificate number:	9022003026
	Address:	Suite 503, Global Business Center, Sambuu street 13/02, 4th khoroo, Chingeltei district, Ulaanbaatar, Mongolia
	Telephone:	7747-1122
	E-mail:	<a href="mailto:info@khanlex.mn">info@khanlex.mn</a>
	Website:	<a href="http://www.khanlex.mn">www.khanlex.mn</a>

KhanLex Partners LLP ("KhanLex") has long been one of Mongolia's premier law firms with a strong focus on finance, infrastructure, general commercial and corporate law and dispute resolution.

KhanLex Partners was founded in 2011 by Messrs. Enkhbat Batsukh and Batjargal Gombosuren, two former Mongolian government lawyers, focusing on cross-border transactions. The firm quickly built up a reputation of a "go-to firm" for local market knowledge as well as international law firms seeking Mongolian law advice for their clients. KhanLex Partners merged with another Mongolian law firm to create a merged firm under the name of "MDS KhanLex ". However, in 2018, the founding partners of KhanLex Partners, have de-merged and re-launched KhanLex Partners. Joining KhanLex Partners as a partner was Uchralbayar Iderkhangai, former senior associate of the merged firm "MDS KhanLex", bringing further expertise in dispute resolution and project finance. Since the establishment, KhanLex Partners have been providing legal advisory services in the broad range of fields such as bank, finance, capital market, securities, energy, infrastructure, company law, construction, real estate, amendments to the legislation and regulations, and dispute resolution.

#### **4.6.1. Legal advisor license**

MGL Attorneys LLP with certificate No. 047 joined in Mongolian Bar Association on October 1, 2015 and KhanLex Partners LLP with certificate No. 203 joined in the Association on May 16, 2019.

MGL Attorneys LLP was registered as a legal entity providing legal advisory services to the participants of the securities market by the resolution No. 429 of FRC dated December 17, 2015. KhanLex Partners LLP was registered as a legal entity by the resolution No. 338 of FRC dated June 10, 2020 respectively.

*Appendix №14: The Legal advisor's license*

#### **4.6.2. An agreement with legal advisory**

On March 1, 2022, Khan Bank, the issuer, entered into a tri-party legal consulting agreement with "MJL Attorneys" LLPs and "KhanLex Partners" LLPs. Under the contract, the parties have the following rights and obligations.

##### **Rights and responsibilities of the legal advisors:**

- The Legal Adviser is responsible for providing professional legal advice and other services specified in this Agreement under the generally accepted professional and practical standards following the laws of Mongolia. In addition, it is also responsible for protecting the issuer's legitimate interests.
- The legal advisor is obliged not to provide professional legal advisory services to other commercial banks and not cooperate in their process of issuing new shares to the public during the term of the agreement;
- It is obliged to provide detailed explanations and clarifications in case of requesting additional clarifications from the Bank regarding the content of the legal opinion specified in this agreement;
- Responsible for the accuracy, completeness, and reality of the information, advice, conclusions, and related documents provided to the Issuer during the Agreement;
- The Legal Adviser is responsible for providing the Issuer with accurate information and advice on a timely basis related to the activities and services specified in this Agreement;
- Obligated to cooperate with the underwriter, audit, valuation, and other consultants of the Issuer to promptly resolve necessary measures on any issues related to the performance of works and services specified in the Agreement;
- In the event of an internal audit of the issuer, the legal advisor is obliged to cooperate within the scope of the Contract by providing the necessary documents related to the work and granting free access to the papers;





- The Legal Advisor have to provide the Issuer with information on the list of documents required by the legislation and requirements for the documents within five working days after the entry into force of this Agreement;
- The organization, management, rights, duties, and responsibilities of two LLPs working as legal advisors are regulated by the cooperation agreement. They are obliged to submit this agreement to the Bank. The Bank has the right to request legal advisors to amend the cooperation agreement if necessary;

#### Rights and responsibilities of the issuer:

- The issuer is obliged to accurately inform the Legal Adviser about its activities within obtaining the services of a professional legal advisor;
- The issuer may have the legal advisors for additional work other than those specified in the contract.
- The issuer has the right to request information on activities related to legal advisory services from time to time;
- The issuer has the right to make and resolve requirements, suggestions, and requests related to the provision of professional legal advisory services;
- The issuer has the right to require the legal advisers to fulfill their obligations under the contract and to perform them properly;
- Other rights and obligations specified in the legislation;

*Appendix №16: Legal consulting agreement*



#### 4.7. Summary of legal advice

The State Great Khural of Mongolia discussed and approved the Amendments to the Banking Law and the Law on Procedures for enforcing the law to reduce the overconcentration in banks' shareholding structure and create a balanced ownership-management-supervision, on January 28, 2021 which entered into force on February 25, 2021. According to the Amendments to the Banking Law, Mongolian system banks are required to change their legal form to a joint-stock company by June 30, 2022.

Pursuant to the Legal Service Agreement No.310 entered into between MJL Attorneys LLP and KhanLex Partners LLP and Khan Bank LLC on March 1, 2021, they issued the Legal Opinion on the accuracy and validity of the information included in the prospectus in accordance with Article 11.14 of the Securities Registration Regulation approved by Resolution No. 225 of the Financial Regulatory Commission on June 11, 2021 and Article 2.6 of the Securities Registration Regulation approved by Resolution No. 2018/01 of the Board of Directors of the Mongolian Stock Exchange with respect to the initial public offering of the Issuer.

The law firm considered the following conditions and issued an opinion on 11 issues. These include:

- The documents and information provided by the parties involved in the securities issuance process, other authorized organizations, and their authorized officials are accurate and valid;
- The dates, signatures, stamps, and seals on the documents are accurate and valid and thus have the authority to sign and certify;
- If a copy of the document is received, it is an accurate and complete copy of the original;
- If a draft document is received, the document will be processed under the draft;
- The documents submitted to the law firm have not been amended or revoked;
- The Bank and other stakeholders have the full authority to prepare the document and have complied with its obligations under the relevant procedures;
- No one has been involved in deception or deception through intentional or unintentional acts or omissions. No person has been or will not be involved in any action to invalidate any part of this report;
- The research, conclusions, reports, and financial information provided by underwriters, auditors, and other professional participants in the securities prospectus and attached are accurate;
- If the facts and information contained in the securities prospectus are implemented in the future, these facts and information will be appropriately implemented under the law.

##### **1. Whether the Issuer was duly established and registered in accordance with the laws and whether the decision to issue securities was made in accordance with the laws**

###### Whether the Issuer was duly established and registered in accordance with the laws

The Bank is duly established and registered in accordance with the Banking Law of Mongolia, the Company Law, the Law on State registration of legal entities and other relevant legislation.

###### Whether the decision to issue securities was made in accordance with the laws

The decisions related to the issuance of securities are based on Articles 4.2, 28, and 29 of the Banking Law, Articles 62.1.3 and 62.1.4 of the Company Law and relevant legislation.

##### **2. Whether the Bank's authorized officials meet the requirements of the relevant legislation and the Mongolian Corporate Governance Code approved by the FRC, and regarding their management skills and experience**

Authorized officials of the Bank are required to comply with Article 84.3 of the Company Law and Article 2.1.2 of the "Regulation on determining persons suitable for conducting non-bank financial and non-financial business and professional activities" approved by the FRC Resolution No. 179 of April 8, 2020. In addition to the general requirements, certain officials such as board members and the CEO must meet the relevant requirements set forth in the Company Law, Banking Law, the Regulation on Permit for the establishment of



a bank approved by Annex to Order No.A-82 of the President of the Bank of Mongolia, dated March 22, 2019 and the Regulation on Nomination, Appointment and Dismissal of Independent Board Members of a Bank approved by Annex to Resolution No. A-86 of the President of the Bank of Mongolia dated March 22, 2021 and the Corporate Governance Code.

The law firms concluded that the authorized officials, their management skills and experience fully meet the requirements of the laws.

### **3. Whether the Issuer's internal procedures and procedures are in accordance with the relevant legislation and the Mongolian Corporate Governance Code approved by the FRC**

The law firm has analyzed the draft internal rules and regulations that are expected to be approved when becoming a joint-stock company of the Bank, and the total of 204 rules and regulations that are currently in force in the issuer's activities, which can be classified as follows:

1. Bylaws;
2. Draft of bylaws;
3. Governance Codes;
4. Boards' operating procedures;
5. Draft of Boards' operating procedures;
6. Procedures of the Board's Corporate Governance Committee;
7. Draft of Board's Remuneration Rules;
8. Rules of Board's Risk Committee;
9. Draft of Board's Risk Committee's rules;
10. Rules of Human Resources Committee;
11. Rules of Audit Committee;
12. Procedures related to Compliance and Risk Management;
13. Procedures related to internal control;
14. Procedures related to information security and confidentiality;
15. Draft of the policy related to information transparency and information presentation;
16. Draft of the procedure for convening a shareholders meeting;
17. Procedures related to ethical regulations of the Banks and its employees;
18. Procurement procedures;
19. Procedures related to consumer's right protection;
20. Procedures related to anti-money laundering and anti-terrorism;
21. Procedures related to banking operations;
22. Procedures related to employment relations and human resource management;
23. Policies and procedures related to lending activities;
24. Other policies and procedures;

The law firm reviewed the above rules and procedures for compliance with applicable laws and the Corporate Governance Code and concluded that they complied with the law.

### **4. Whether the sale and purchase, supply, loan and other agreements concluded by the Issuer with others that are important for the Issuer's activities are in accordance with the relevant legislation, and whether there is any adverse effect on the company's operations**

The Law firm selected and examined effective agreements concluded between the Issuer and others for the last 3 (three) years between 2019 and 2022 (the "Contract End Date").

According to the documents provided by the issuer, 5,860 agreements were concluded during the period, except for loans issued by the Bank and related agreements, and a total of 2,188 agreements are in force as of the date of termination. Assorted:



Table 108. Type of agreements

Nº	Type of agreements	Number
I	Sale and purchase agreements and Supply agreements	49
II	Bank loan agreement borrowed from others	16
III	Other agreements that are important to the operation	
a)	The agreement in connection with the custodian activities	3
b)	Agreement related to the Bank's premises and office spaces	315
c)	Cooperation agreement	12
d)	Agreements with the IT companies related to the application and internet bank	854
e)	Maintenance agreements	2
f)	Insurance brokerage cooperation agreements	10
g)	Other agreement	942

The law firm shall select and review several agreements from each of the above types of agreements, and as of the date of the Legal Opinion, these agreements shall meet the requirements of the content and form specified in the law or shall be under the law.

#### 5. Whether material and conflict-of-interest transactions made by the Issuer in the last 3 years are in accordance with applicable laws and regulations

##### Whether the conflict-of-interest transactions violate the laws

The Bank has entered into a total of 538 conflict-of-interest transactions in the last three years, of which 289 are in effect as of the date of this Opinion. The Law firm concludes that the conflict-of-interest agreements and transactions entered into under its charter are under applicable laws.

##### Whether the material transactions violate the laws

the Bank has not entered into a material transaction (i.e., a contract for MNT 2.2 trillion to 3.3 trillion) as defined in Article 87.1 of the Company Law as of the date of the Legal Opinion.

#### 6. Validity of the Issuer's licenses, permits, copyrights, patents, trademarks or service marks and whether there are conditions that can have a substantial impact on the Issuer's operations, including their expiration, revocation, and security for performance of any obligation

##### Validity of the Issuer's operating licenses

The licenses of the Issuer are valid as of the date of the Opinion, there are no grounds for revocation, and they have not been transferred or pledged to others.

##### Validity of the Issuer's permits, copyrights, patents, trademarks or service marks and whether there are conditions that can have a substantial impact on the Issuer's operations, including their expiration, revocation, and security for performance of any obligation.

22 trademarks, 3 industrial designs and 1 copyright have been registered and protected in the name of the issuer. As of the date of the Legal opinion, no pledge notice has been registered for the intellectual property rights registered in the name of the Issuer to secure the performance of any obligation.

Therefore, no circumstances could affect the issuer's activities, such as the validity of the issuer's license, copyright, patent, trademark, or service mark, their expiration, termination, or obligation to ensure the performance of any responsibility.

## **7. Validity of the Issuer's right to own securities, immovable and other properties and whether there are any obligations to secure the performance of any obligation**

### About the issuer's securities:

The securities held by the Issuer are valid. Article 2.2 of the Regulation on Pledge of securities approved by the Annex to the FRC Resolution No. 382 of 2018 states that "The pledge notices shall come into force upon registration and confirmation in the electronic database". According to our research made in the electronic database for registration of pledge notices of movable and immovable properties ([www.mpr.gov.mn](http://www.mpr.gov.mn)), as of March 1, 2022, the abovementioned securities registered in the name of the Issuer do not have pledge notices to secure the performance of any obligation.

Therefore, the issuer's right to own securities, immovable and other property is valid and is not obliged to ensure the performance of any obligation.

### About the issuer's land rights, immovable and movable property:

According to the law firm's research in the electronic database for registration of pledge notices of movable and immovable property ([www.mpr.gov.mn](http://www.mpr.gov.mn)), as of March 1, 2022, no pledge notice has been registered for the movable properties registered in the name of the Issuer to secure any obligation.

There is no registration of pledges to secure any obligation according to the inquiry and reference of the state registration of property rights in the unified state registration database of the General Authority for State Registration.

There is no notice indicating that the land possession right owned by the Bank has been pledged to secure any obligation according to the inquiry and references of the state registration of property rights in the unified state registration database of the General Authority for State Registration.

## **8. Whether the legal information included in the securities prospectus is confirmed by valid documents**

Upon verifying the accuracy of the information contained in the securities prospectus by comparing it with the founding and other key documents of the participants, and by obtaining clarifications and references from the participants and government authorities, we conclude that the information contained in the securities prospectus is correct and valid as the information included therein matches the documents.

## **9. The person exercising control over the Issuer and the ultimate owner based on the information about the parent, subsidiary, affiliate and sister companies**

All shareholders of the Bank are the persons exercising control of the Bank.

Based on the Reference letter from the Legal Entity Registration Office, the Law firm concludes that the ultimate owner legal entity of the Issuer is HS Holdings JSC (formerly Savada Holdings JSC), and the ultimate owner individual is Mr. Hideo Savada.

## **10. Whether the Issuer has been called as a defendant for crimes against business or civil and administrative cases**

During the last three years, the Issuer has participated as a defendant in a civil case decided by the Civil Court of First Instance and an administrative case decided by the Capital City Administrative Court of First Instance. It is determined by the Reference letter dated March 4, 2022 of the General Executive Agency of Court Decision that it complied with the effective court decisions and rulings voluntarily. As of the date of the Opinion, there are some ongoing disputes that are unlikely to adversely affect the Bank's operations.



#### 11. Whether there is an outstanding debt to the tax, social insurance, and court enforcement authorities

As of the legal opinion date, the Bank has no liabilities to the social insurance and court enforcement agencies. However, due to the specifics of the Bank's day-to-day operations, underpayments of MNT 8,826,194,759 and overpayments of MNT 13,640,469,267 have been registered in the Bank's name.

To sum up the above 8,826,194,759 MNT tax underpayment:

1. 91.7% of the underpayment of MNT 8,826,194,759 or MNT 8,093,019,484 is a disputed tax that a court is resolving;
2. Tax on motor vehicles and self-propelled vehicles of MNT 449,598,970 to be paid by the Borrowers following the loan agreement;
3. The tax of MNT 283,576,305 is a tax liability that has not yet been repaid. According to the Bank, the taxation of MNT 8,826,194,759 is equal to 0.59% of the Bank's equity.

*Appendix №19: Legal opinion*