



ARIG BANK

20  
20

ANNUAL REPORT



## WHO WE ARE

**A**rig Bank (former Erel Bank) is one of oldest commercial bank of Mongolia, founded in 1997. The Bank offers a full range of financial products and services maintaining its operational stability.

Our philosophy at Arig is very simple. Take care of those who take care of you. So, who takes care of us, or any other business? That is, who keeps the lights turned on? Who funds our salaries? Customers! If you are one of our customers, then it is you too.

## VISION

Intelligence, Will, Creativity our Ever Innovative People build The Greatest Customer Experiences

## MISSION

Be the frontier bank with the greatest customer experience delivering handful integrated products and services using technological advances both in electronic and physical channels, and be the best Corporate Social Responsibility Bank.

# ARIG LOGO REPRESENTS 4P VALUES



“Creativity is just connecting things. It connects experiences and synthesizes new things.” /Steve Jobs/  
By connecting the 4 qualities, we show how we identified our essential 4 elements and that by working creatively and hard, we shape “Creativity”. By connecting our 4 elements, we also form the letter “A”, the first letter of the word Arig.

“Pure, Transparent”, the meaning of the word Arig is incorporated in the logo through a graphic design method called “transparent technique”. The main characteristic of this technique is in the fact that colors, shapes, and elements used in the design are transparent, and do not override or hide others. With this technique, we state the transparency and quality of our principles, operations and corporate governance.

OUR VALUES DEFINE WHO WE ARE AS AN ORGANIZATION AND MAKE US DISTINCTIVE.

## PEOPLE Caring, Intuitive, Energized

Everything starts with People. Only with the right, intuitive, caring people a team, an organization, a service provider can exist. Therefore, we have our people in the center – enabling everything else and holding everything together. Diversity is symbolized by the various shapes, sizes, and colors. Communicating gender, age, nationality, work experience, background, etc

## PRODUCTS Anticipative, Problem-solving, Derived from real life

The right of the two strong pillars is Products. Products and services delivered from Arig will be “anticipative - of - customer - needs”, “problem - solving”, and “derived - from - real - life”. It is depicted in Red, portraying warmth, unique brightness and visibility, and the blazing energy of a fire.

## PROCESSES Effective, Innovative, Simple

The left of the two strong pillars is processes – how products and services are prepared, presented and delivered to end users/customers. Along the way we, service organizations, don’t always realize how complicated/cumbersome some things get when looked at through customers eyes. Our processes, depicted in Green, should be flowing smoothly as if we had the Green Light.

## PREMISES Welcoming, Comfortable, Warm

Everyone who visits us should feel welcomed, comfortable and warm. We expressed this with the color Purple. The color Purple symbolizes contemporariness.



## FOREWORDS BY THE CEO

DEAR STAKEHOLDERS,

We are presenting herewith the year of 2020 performance.

However the year of 2020 was challenging year worldwide for any business with shrinking economy due to the Covid -19 pandemic impact, the Arig Bank has successfully implemented its risk mitigation plan ensuring its financial stability. We focused in strengthening governance and improving risk

competency by fulfilling the MONGOLBANK's requirement to increase its Capital Share up to MNT 50 bln.

With 22 years of experience, Arig Bank has built a strong commitment in strengthening customer experiences and maintaining its position by enhancing unique opportunities to learn from its challenges via identifying and fixing problems so they do not happen again to become better and stronger. In the past year, we considered more in Board and shareholders support and their commitment in strengthening sustainable governance.

We ensured once more our competency and liability for our deemed customers by reaching MNT 50 bln Capital Shares, and other Prudential Ratios such as Capital Adequacy Ratio - 35.4%, Liquidity - 63.4%. Furthermore we agree that we will continue and will do our best in our transformation which is grounded

of satisfying our customers' financial needs and helping them succeed financially.

On behalf of management of Arig bank, we thank all our stakeholders including our esteemed customers, partners, shareholders and all those, who were with us for their support and trust rendered during the pandemic challenges faced in 2020. We will endeavor in the coming years to ensure good governance practices and to develop and deliver more customer – oriented new products and services.

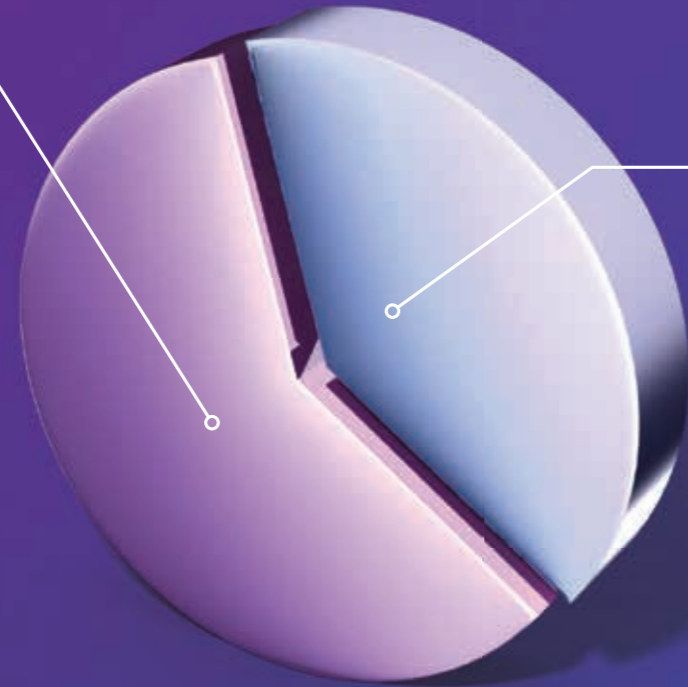
**Ariunjargal. B**  
**Acting CEO**

# SHAREHOLDERS

60.46%

## DEM FINANCIAL GROUP LLC

The holding company of "Arig Bank" LLC which invests in banking and financial sector. The Company holds 60.46 percent of the bank's total shareholding. "Dem Financial Group" LLC is solely owned by Erdenebat B.

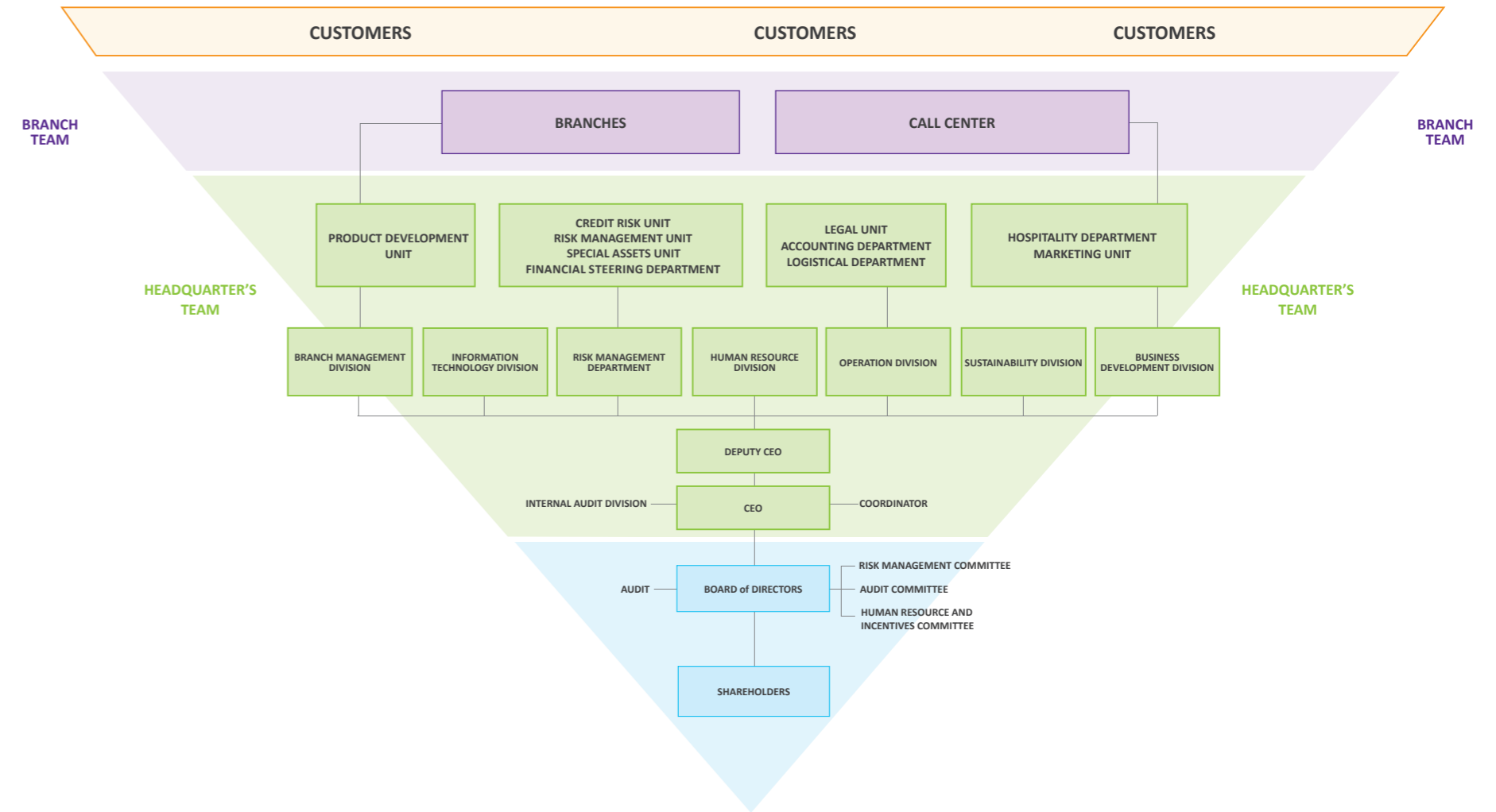


39.54%

## ULAANBAATAR IMPEX LLC

The holding company of "Arig Bank" LLC which focuses on investments in banking and financial sector. The Company holds 39.54 percent of the bank's total shareholding. "Ulaanbaatar Impex" LLC is owned by Bayarsaikhan Sh. and "Nomin Realtor" LLC with 73.18 percent and 26.82 percent shareholding respectively.

# ORGANIZATIONAL STRUCTURE



# BOARD OF DIRECTORS



**MUNKH-ERDENE  
Purev**

Chairman of the Board,  
Independent Member



**SAINBAT  
Sanjaa**

Board Member



**BAYARSAIKHAN  
Shagdarsuren**

Board Member



**KHOSBAYAR  
Sengedorj**

Board Member



**TUVSHINTAMIR  
Deleg**

Independent Member  
of Board

## THE BOARD OF DIRECTORS

The Board of Directors of the Arig Bank (BoD) is governed by the rule of law and it respects all related laws and regulations including “Company Law of Mongolia”, “Banking Law of Mongolia”, “Internal Rules of Arig Bank” and “Rules and Procedures of Board of Directors”.

The Board’s organizational structure, rights, and duties should be regulated by the “Rules and Procedures of BoD”.

Board Meetings shall be convened and presided over by the Chairman of the Board of Directors. BoD meeting agendas and the Meeting minutes of resolving issues by affixing the signatures shall be delivered to shareholders and to the Bank of Mongolia and within the legal period prescribed in law.

The relevant committees exercise control over the rights and obligations, and shall comply with the Company Law, in the case of large amount negotiations and negotiations associated with conflicts of interest.

The BoD is responsible for regular monitoring of the Bank’s operations, and the Bank’s shareholders have the right to nominate, appoint and dismiss the members of the Board of Directors. (Independent member shall be selected by the Shareholders’ Meeting with the Mongol Bank’s permission).

## RISK MANAGEMENT COMMITTEE

Responsible for taking analysis on the bank’s credit, market, liquidity, operations, legal, reputation, information technology risks and responsible for monitoring whether other types of risk management measures are adequate or not. The implementation of the regulation shall be reviewed on a yearly basis and propose to make an appropriate adjustment to the Board of Directors.

## AUDIT COMMITTEE

Responsible for the accuracy, integrity of the bank’s financial statements, monitor the internal and external auditors’ activities. The Board of Directors and Shareholders are responsible for offering the names, selecting, remunerating,

rewarding, dismissing, determining the range and frequency of audit, getting acquainted with the report, disadvantages of the internal control system of the bank which described in the audit conclusions. The committee monitors executive management’s timely and lawful performance.

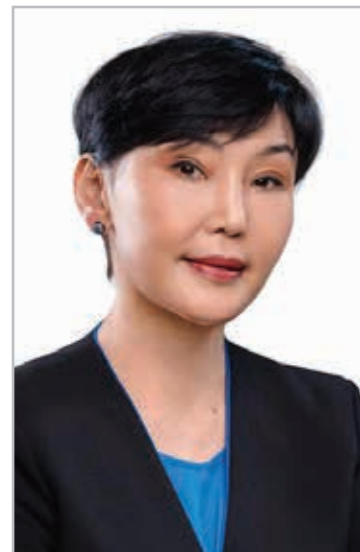
## HUMAN RESOURCE, WAGES AND INCENTIVES COMMITTEE

Responsible for supporting Board for its governance duties effectively. The Committee is responsible for developing policy and strategy on the adequate staffing to maintain the steady employment and defining strategy for incentives that facilitates sustainable business development by achieving the business goals.

## AUDIT OFFICE

Based on the quantitative and qualitative characteristics of the Bank, the Audit Office shall identify existing and potential risks, its prevention, shall determine the risk level, and identify the risk limits and shall carry out on-site auditing inspection. An on-site inspection plan of the Bank’s operations is approved by the Board of Directors, and results of the inspection and the necessary recommendations for actions shall be presented to the Board.

# EXECUTIVE MANAGEMENT



**ARIUNJARGAL  
Baldandorj**

Acting CEO



**BYAMBANOROV  
Bat-Ochir**

Deputy CEO



**DAMDINSUREN  
Tsend**

Director,  
Internal Audit Division



**NARANTSETSEG  
Jamiyan**

Director,  
Operation Division



**ORKHON  
Nanzadbayar**

Director,  
Human Resource  
Division



**OYUNTSETSEG  
Batsaikhan**

Director,  
Branch Management  
Division



**BAT-ERDENE  
Bayanjargal**

Director,  
Information Technology  
Division



**ALTANSUKH  
Badamaaraa**

Director,  
Business Development  
Division



**ODON  
Darjaa**

Director,  
Sustainability Division

# INDEPENDENT AUDIT REPORT





АРИГ БАНК

Ариг Банк № 5-213

Огноо 2021.04.09

Адрес: \_\_\_\_\_

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**"ARIG BANK" LLC**

*Statement by executives*

We, Ariunjargal Baldandorj, Acting CEO of "Arig Bank" LLC and Narantsetseg Jamiyan, Head of Operational Department of "Arig Bank" LLC (hereinafter referred to as the "Bank") are presenting hereby the financial statements set out on pages 1 to 53, financial position and results of the reporting year's operation and cash flows of the Bank as of 31 December 2020 in accordance with the with the International Financial Reporting Standards (IFRS) and Guidelines approved by the joint resolution of the Governor of the Bank of Mongolia and the Minister of Finance. We declare that this report is prepared truly and fairly.



**ARIUNJARGAL BALDANDORJ**  
ACTING CEO



**NARANTSETSEG JAMIYAN**  
HEAD OF OPERATIONAL  
DEPARTMENT OF  
ARIG BANK

Ulaanbaatar, Mongolia  
Date: 08 April 2021

Холбооны Огноо / Банк  
Ариг Банк  
Улаанбаатар хот 11001  
Монгол Улс

Бэлтгэгчийн утас  
7012 2222  
И-мэйл: info@arigbank.mn  
Вэб: www.arigbank.mn

Дархан тас  
7012 3060

**INDEPENDENT AUDITOR'S REPORT**

**TO: SHAREHOLDERS OF ARIG BANK LLC**

**Opinion**

We have audited the accompanying financial statements of the Arig Bank LLC (hereinafter referred as Bank) as of December 31, 2020, which comprise the statement of financial position, the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended, and significant accounting policies and notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December, 2020 and its financial performance and cash flows for the year then ended in accordance with the set of bank accounting guidelines developed in compliance with the International Financial Reporting Standards (IFRS) and approved by the joint resolution of the Governor of the Bank of Mongolia and the Minister of Finance.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (hereinafter referred as ISA). According to this ISA, the auditor's responsibilities for the financial statement audit stated in the auditor's responsibility part. We have complied with the ethical requirements stated in the Code of Ethics for Professional Accountants issued by International Federation of Accountants, relating to audit the financial statements and comply with the ethical responsibilities and other obligations under these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Emphasis of matter<sup>1</sup>**

During the period between the date of the financial statements as at 31 December 2020 and the date of auditor's report, the Bank has fulfilled the requirement to increase its minimum paid-in capital to MNT 50 billion in accordance with the Decree by the Bank of Mongolia issued in 2015. Thus, the Bank of Mongolia has terminated its provisional administration measures taken against Arig Bank and appointed its executive management. See Note 33 for more details.

**Liability of Executive Management and Governing Management Relevant to the Financial Reports**

The management is responsible for preparation and fair presentation of financial statements in accordance with the IFRS, whereas these responsibilities include identifying the internal control relevant to the preparation and fair presentation of financial statements that are free from fraud and error incurred from material misstatement.

The management is responsible for the conducting operations in accordance with the principle of continuous financial statement preparation based on going concern and constantly evaluating the company's ability management financial statements, except the cases of insolvency, or ceasing its activities, and to have to disclose additional clarification relevant to continuity of the accounting basis used for accounting.

<sup>1</sup> ISA 706: Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report.

\* "Khulegkhunnu Audit" LLC  
Ulaanbaatar, Mongolia  
City tower, #1001  
Tel/Fax: +(976)-7014 0505

The Governing Management carries responsibility of implementing supervision over the preparation of financial statements of the Company.

**Auditor's responsibility in financial statement audit**

Our responsibility is to express an independent opinion on these financial statements based on our audit to obtain reasonable assurance whether the financial statements are free from material misstatement. The reasonable assurance is highest guarantee with high level of assurance, but it does not detect all misstatements upon audit conducted in accordance with ISA. If it's considered that error or fraud is in substantial amount, then it may influence the economic decisions of users of financial statements.

According to ISA, we had a professional skeptical approach throughout the audit. And we have performed the following tasks:

- We have assessed whether the financial statements have material misstatement incurred from fraud or error, undertaken audit procedures to determine its response, obtained sufficient appropriate audit evidence as basis for opinion. An alleged conspiracy to forging operations, and deliberate neglect, ignorance of internal controls have risks of not detecting material misstatements and misreporting, instead of one error. This may arise from trickery, counterfeiting, deliberate omission, misrepresentation, and neglecting of internal controls.
- In order to develop appropriate audit procedures we have gained an understanding of the company's internal control system, but we have no intention to evaluate the effectiveness of internal control.
- We have assessed the appropriateness of the Company's accounting policies and accounting estimates and disclosures used by the Management.
- If the company is going concern has a material uncertainty, then we will focus on in the relevant disclosure of financial statements, if this is enough to mention the relevant
- disclosures, we shall change our opinions. Our audit report related to the audit findings based on evidence until the date of the auditor's report. Therefore, the future events or condition may have the ability to influence the situation on a going concern basis of the company and its positive projection.
- We reviewed the entire structure, content, presentation and including disclosure of financial statements and assessed the the accuracy of transactions and events financial statement presentation.

We had contacted with the governing management in regard of the audit scope, timing, and other related issues, and in addition to significant and important issues during the audit and the internal control weaknesses observed during the audit.

Signed by:



Gernegmaa Ishnyaan  
Executive Director  
Khulegkhunnu Audit LLC

08 April 2021  
Ulaanbaatar, Mongolia

\* "Khulegkhunnu Audit" LLC  
Ulaanbaatar, Mongolia  
City tower, #1001  
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► "ARIG BANK" Limited Liability Company  
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

In thousands of Mongolian Tugriks	Note	31 December 2020	31 December 2019
<b>Assets</b>			
Cash and cash equivalents	5	20,280,174	26,847,267
Due from banks and financial institutions	6	2,781,844	11,497,494
Investments	7	3,623,144	3,177,744
Loans (Net amount)	8	24,004,468	54,613,114
Other financial assets	9	224,424	282,869
Other non-financial assets	10	5,620,494	1,951,155
Property, plant, and equipment	11	588,608	1,904,804
Assets held for sale	12	2,905,664	4,385,409
Intangible assets	13	802,298	771,200
<b>Total assets</b>		<b>60,631,118</b>	<b>105,431,055</b>
<b>Liabilities</b>			
Current accounts	14	1,403,876	2,305,789
Deposits	14	27,956,678	62,209,016
Due to banks and financial institutions	15	4,719,011	5,647,081
Other funds	15	1,906,597	1,894,307
Other financial liability	16	324,725	749,736
Other non-financial liability	16	39,699	266,722
<b>Total liabilities</b>		<b>36,360,686</b>	<b>73,072,651</b>
<b>Equity</b>			
Share capital	17	35,009,500	35,009,500
Revaluation surplus		195,893	195,893
Retained earnings/ Accumulated deficits		(10,927,902)	(2,850,030)
Other components of equity		3,041	3,041
<b>Total equity</b>		<b>24,280,532</b>	<b>32,358,404</b>
<b>Liabilities and Owner's equity</b>		<b>60,631,118</b>	<b>105,431,055</b>

► "ARIG BANK" Limited Liability Company  
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

In thousands of Mongolian Tugriks	Note	31 December 2020	31 December 2019
<b>Interest Income</b>			
Deposits placed in the Bank of Mongolia		186,974	392,425
Deposits placed in other banks and financial institutions		1,522	5,091
Securities		1,287,607	2,358,136
Loans		5,802,764	15,999,235
<b>Interest Expense</b>	<b>19</b>	<b>4,302,515</b>	<b>9,627,824</b>
Interest expenses paid for current accounts		4,947	30,402
Interest expenses paid for deposits		4,007,889	9,101,185
Loan interest expense		181,164	414,750
Other Interest Expense		108,515	81,487
<b>Net Interest Income</b>		<b>2,976,353</b>	<b>9,127,064</b>
<b>Impairment loss</b>	<b>20</b>	<b>9,626,700</b>	<b>7,740,900</b>
<b>Net interest income after impairment loss</b>		<b>(6,650,347)</b>	<b>1,386,164</b>
<b>Non-interest income</b>			
Gains on Trading	21	382,670	389,504
Gains on translation or revaluation	22	118,768,593	37,255,250
Fees and commission income	23	349,011	695,234
Other non-interest income		83,655	77,086
Other income	25	3,440,025	1,463,048
<b>Non-interest expense</b>		<b>125,392,282</b>	<b>47,285,269</b>
Other impairment loss	20	933,390	3,394,986
Losses on trading	21	166,719	83,165
Losses on translation or revaluation	22	118,647,296	37,221,654
Fees and charges	23	207,502	287,239
Other operating expense	24	5,437,377	6,298,226
Other expense	26	21,644	226,577
<b>Net Profit (Loss) Before Taxes</b>		<b>(9,040,319)</b>	<b>(6,245,560)</b>
Income tax expense	27	(913,957)	(604,282)
<b>Net Profit (Loss) After Taxes</b>		<b>(8,126,362)</b>	<b>(5,641,278)</b>
Net income (expense) from discontinued operations		-	-
<b>Net Profit (Loss) for the reporting period</b>		<b>(8,126,362)</b>	<b>(5,641,278)</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the reporting period</b>		<b>(8,126,362)</b>	<b>(5,641,278)</b>

► "ARIG BANK" Limited Liability Company  
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

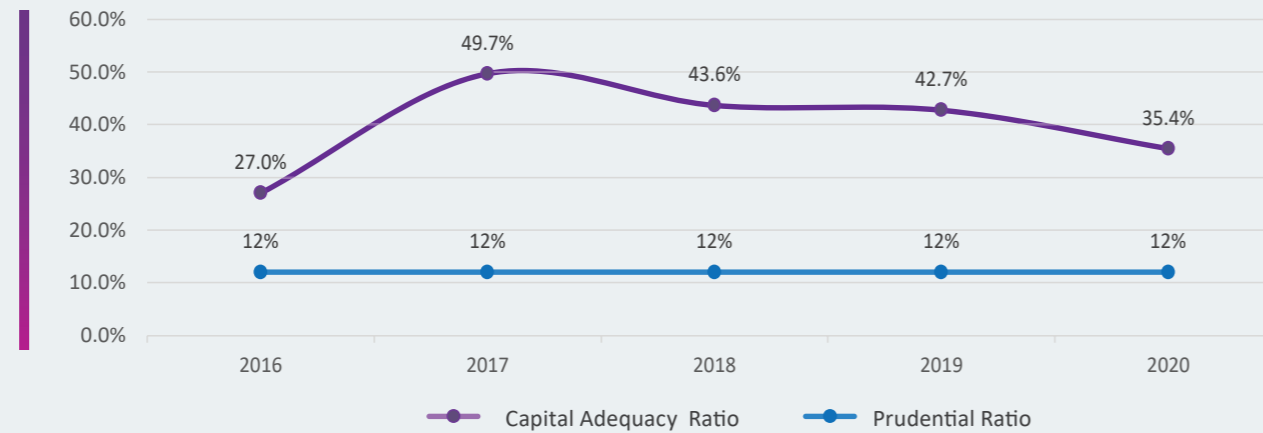
In thousands of Mongolian Tugriks	Share capital	Revaluation Surplus	Other components of equity	Retained earnings	Total amount
<b>Balance at 31 December 2018</b>	<b>35,009,500</b>	<b>195,893</b>	<b>3,041</b>	<b>2,839,923</b>	<b>38,048,357</b>
Impact of changes in accounting policies and error adjustments	-	-	-	(48,674)	(48,674)
Adjusted balance	35,009,500	195,893	3,041	2,791,248	37,999,683
Profit (loss) for the year	-	-	-	(5,641,278)	(5,641,278)
<b>Balance at 31 December 2019</b>	<b>35,009,500</b>	<b>195,893</b>	<b>3,041</b>	<b>(2,850,030)</b>	<b>32,358,405</b>
Impact of changes in accounting policies and error adjustments	-	-	-	48,489	48,489
Adjusted balance	35,009,500	195,893	3,041	(2,801,541)	32,406,893
Profit (loss) for the year	-	-	-	(8,126,362)	(8,126,362)
<b>Balance at 31 December 2020</b>	<b>35,009,500</b>	<b>195,893</b>	<b>3,041</b>	<b>(10,927,903)</b>	<b>24,280,532</b>

► "ARIG BANK" Limited Liability Company  
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

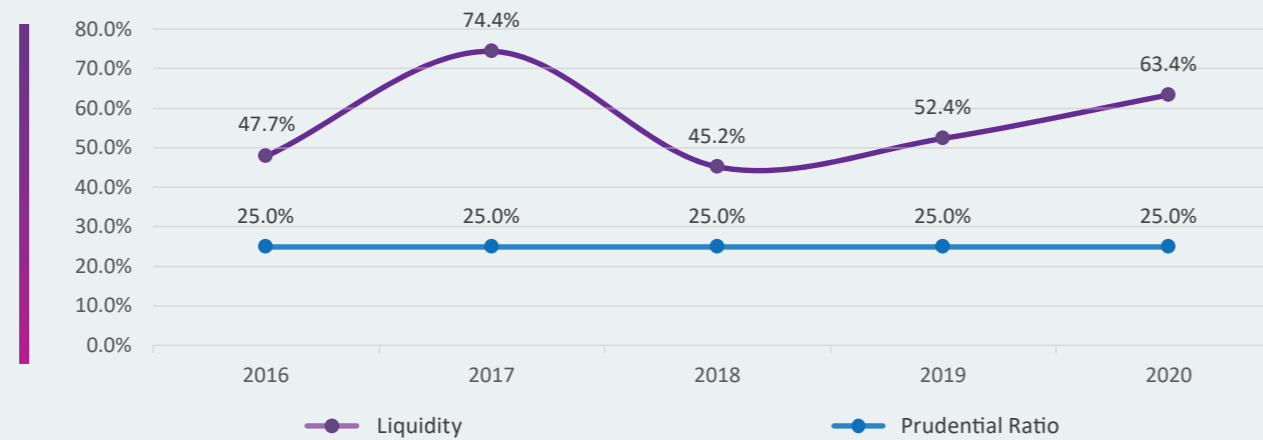
In thousands of Mongolian Tugriks	31 December 2020	31 December 2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit (loss) before tax</b>	<b>(9,040,319)</b>	<b>(6,245,560)</b>
<b>Adjustments to income and expense:</b>	<b>10,768,018</b>	<b>2,773,551</b>
Impairment loss	10,560,090	11,135,886
Depreciation and amortization expense	875,545	755,628
Accrued interest income	(7,278,888)	(18,754,888)
Accrued interest expense	4,302,515	9,627,824
Gains (losses) on disposal of assets	7,004	9,101
Other gains and losses	2,301,732	-
<b>Adjustments to assets and liabilities:</b>	<b>(8,754,060)</b>	<b>(12,940,750)</b>
Decrease (increase) in due from banks and financial institutions	8,715,649	(2,015,145)
Decrease (increase) in trading securities	-	2,000,000
Decrease (increase) in loans	21,226,470	20,851,650
Decrease (increase) in other financial assets	58,445	181,389
Decrease (increase) in other non-financial assets	(3,669,339)	(2,592,212)
Increase (decrease) in current accounts and deposits	(33,510,318)	(27,454,049)
Increase (decrease) in due to other banks and financial institutions	(922,933)	(4,568,122)
Increase (decrease) in other financial liabilities	(425,011)	439,296
Increase (decrease) in other non-financial liabilities	(227,023)	116,443
<b>Other adjustments:</b>	<b>1,386,807</b>	<b>7,512,419</b>
Interest received	8,012,514	18,287,743
Interest paid	(5,949,911)	(10,775,324)
Loans and advances written off	(675,796)	-
<b>Net cash flows from Operating activities</b>	<b>(5,639,554)</b>	<b>(8,900,339)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investment securities held to maturity	-	1,061,800
Acquisition of property, plant and equipment	(87,620)	(447,475)
Acquisition of intangible assets	(3,678)	(160,077)
Acquisition of investment securities available for sale	-	(5)
Acquisition of investment securities held to maturity	(445,400)	(656,800)
<b>Net cash used in investing activities</b>	<b>(536,698)</b>	<b>(202,657)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of other borrowed funds	(375,400)	(659,727)
Principle portion of financial lease payment	(113,436)	-
Others	(23,302)	-
<b>Net cash from Financing activities</b>	<b>(512,138)</b>	<b>(659,727)</b>
Effect of exchange rate changes	121,298	(33,596)
<b>TOTAL NET CASH FLOW</b>	<b>(8,567,093)</b>	<b>(9,796,319)</b>
Cash and cash equivalents at the beginning of the period	26,847,267	36,643,585
Cash and cash equivalents at the end of the period	20,280,174	26,847,267

## FINANCIAL PERFORMANCE FOR YEAR ENDED 31 DEC 2020

### CAPITAL ADEQUACY RATIO



### LIQUIDITY



## FINANCIAL PERFORMANCE FOR YEAR ENDED 31 DEC 2020

### TOTAL ASSETS (BN MNT)

2020	60.6
2019	105.4
2018	144.4

### LOAN TO CUSTOMERS (BN MNT)

2020	42.8
2019	64.1
2018	85.0

### DEPOSIT SAVING (BN MNT)

2020	28
2019	61.5
2018	88.9

### COMMON EQUITY (BN MNT)

2020	24.3
2019	32.4
2018	38.1

### TOTAL INCOME (BN MNT)

2020	11.5
2019	21.3
2018	19.1

### OPERATIONAL COST (BN MNT)

2020	5.4
2019	6.3
2018	6.2

# CORPORATE SOCIAL RESPONSIBILITY

## Arig creating social impacts

We recognize that promoting long-term sustainable development and providing financing that is in our customers' best interests are fundamental to our continuing success. The bank dedicated to promoting sustainable and responsible practices to positively impact the wider community. In 2013, Arig Bank has joined Mongolian Sustainable Finance Program by signing memorandum of declaration for Sustainable Finance policies. We have been successfully implementing and introducing Sustainable Finance principles into our banking strategy and policies since joined the program. We strive to maintain our leadership in Corporate Social Responsibility by delivering the best practices and leading other organizations in banking sector by our initiatives in sustainable financing.



## SUSTAINABLE FINANCING MAKING A DIFFERENCE

Entrenched in the culture of Arig Bank is a deep sense of purpose to do things bigger than the day-to-day business of the bank. In doing so, we shape a better future for the communities we operate in. Being a strong advocate for the green economy and elimination of climate change adverse impacts, it is natural for Arig Bank to leverage our strengths to support green initiatives at any scales to build a better and more sustainable future in Mongolia.

### FEASIBILITY STUDY OF THE AFFORDABLE AND GREEN HOUSING, PROJECT OF THE EBRD

Arig Bank participated in the Feasibility Study of the Affordable and Green Housing Project in Ulaanbaatar, funded by the EBRD. The Municipality of Ulaanbaatar and the Housing Corporation of the Capital City jointly requested support from the EBRD for construction of the 714 energy efficiency apartments with affordable prices, and EBRD established the Team for the Project Feasibility Study. This Feasibility Study has been conducted by the Team of international and national experts in construction, environment, social and financial fields through March-September 2020. Arig Bank's

role in this team was to develop the financial model for those who is going to buy and/or lease apartment in the housing area. The financial model is developed for the low-middle and upper-middle income households, as well as lease-to-own model for special target groups such as elders, people with disabilities, single mother/father households and young families.

### BEST BANK FOR CORPORATE SOCIAL RESPONSIBILITY

Arig Bank maintained its position as best CSR Bank in Mongolia by Asiamoney in three subsequent years as of end of the 2019. Asiamoney is one of the principal magazine in finance and banking

sector worldwide based in Hong Kong and conducts independent annual assessment review through their series of site visits.

### GREEN OFFICE

Arig Bank has successfully implemented ISO 14001- international standard on Environmental Management System since 2018. Once again, the international auditing organization - Australian Business Systems Certification (BSC) assessed and verified the standard implementation in 2019. As part of our environmentally friendly practices in our daily operations, we promoting to eliminate paper, water and electricity consumption in our premises. For instance, Arig Bank's roof top Solar Panels which was installed in June 2015 has saved in total 42.6 tonnes of CO2 as of 31 December 2020. Another example: "The Arig Tour" promoting green office initiative enrolled total 153 international and domestic visitors only in 2019.

### "DEM DEMENDEE" COLLECTION BOX

DEM DEMENDEE is a charity shop that operates in line with an international practice allows people to donate their spare clothes, children's toys and other belongings to who are in need through the charity shop. Since 2017, Arig Bank initiated this international practice in cooperation with Mongolian Red Cross by collecting spare stuffs of people through its customer support centers and to deliver them to DEM DEMENDEE charity shop.



### WASTE MANAGEMENT

In accordance with waste management, Arig Bank installed recycling bins to collect recyclables, such as waste paper, plastic, and glass bottles, and other waste.

# RESPONSIBILITY TO OUR CUSTOMERS



Customer feedback is received through the 24/7 the Call Center and 17 other channels. We always value our customers feedback to improve our products and services, so any inquiry and feedback has to be rapidly transferred to the relevant departments and units for their further processing in order to protect and resolve customers interests.

Compared to the previous year, the number of customer comments and inquiries decreased by 77%, and the number of complaints decreased by 60% respectively. We believe this is impact of national restrictions due to the COVID-19 pandemic.

The inquiry center's operation was re-organized in compliance with ISO10002 standard. Customer who called to Call Center is always able to get accurate and prompt response secured his/her information confidentiality. It reflects that customer satisfaction rating reached 86% in 2020.



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# RISK GOVERNANCE

Our risk governance system is composed of the following 4 levels:

## LEVEL I

Board Risk Management Committee of the Board of Directors approves Risk Management Policy and Strategy, fixes risk tolerance limits, and ensures its implementation.

## LEVEL II

Risk Management Committee of the Bank conducts regular monitoring and reporting in compliance of the risk policy and risk limits that are consistent with the Bank's overall operations, defines key risks and adopts mitigation measures, and also develops and approves regulations and procedures of the risk management that improves risk Culture of the Bank. The Committee is obliged to report to the Board Risk Management Committee.

## LEVEL III

Risk management units of the Bank composes of Risk Management Department, Credit Risk Unit, Financial Management Department and Internal Audit Division. All these units and departments are responsible for ensuring and monitoring the implementation of risk policies and procedures, as well as supporting of integrity and coordination of banking operations. Risk management units are also responsible for ensuring the provision of consolidated information on risk management and organizing the smooth Risk Management Committee activities.

## LEVEL IV

All Branches are responsible for their risk management in their respective daily activities.

## OPERATIONAL RISK MANAGEMENT

In terms of operational risk the Bank is working to prevent the following risks:

- Misuse and mistreatment of funds
- Fraudulent operation
- Workplace safety/security risk
- Customer risk
- Product and service risk
- Information system risk
- Internal process risk
- External factor risk
- Legal and external regulatory risk
- Liability risk
- Capital risk
- Human resource risk

Operational risk management assesses the level of risk of

the Bank's operations, determines the risk factors, makes decisions about preventive measures, and evaluates the performance.

## OPERATIONAL RISK

Risk management procedures prevent and keep the risk at a minimum level which are focused on credit risk, market risk, liquidity risk and operational risk. Last year, operational risk management has been implemented by reducing potential risk to the banking activity, evaluating the adequacy of the monitoring system, and developing recommendations to the relevant units.

In 2020, the Bank has adopted and implemented guidelines for prevention of unauthorized electronic attacks and has updated its customer policies for information and registration system. Thereby, complying with requirements to prevent risks associated with unauthorized access

# RISK GOVERNANCE

and usage by customers to the lowest level. Within the information security, policy and procedure have been revised to ensure the continuity and reliability of the information system.

## CREDIT RISK MANAGEMENT

In 2020, the Arig Bank has successfully revised its internal procedures in compliance with the new “Regulation on the Asset Classification, Provisioning and Its Disbursement” adopted by the MONGOLBANK. In line with the compliance measures, the Bank loan portfolio was re-classified and the Risk Fund was created. The prudential ratio of the Bank is successfully maintained for the reporting period. Arig Bank has successfully implemented preventive

measurement of credit risk in advance by accurately re-defining its credit risk policy and has updated its credit risk limits in coherent with economic context and short and medium term business plan of the bank. Main objective of credit risk management of the bank is to prevent loan portfolio quality deterioration caused by external factors, avoid having too much loan concentration on particular economic sector, currency, loan product or connected parties and meet its responsibility to investors. Under this objective we have been implementing loan portfolio risk management by taken actions such as assessing quality of loan portfolio, determining amount of expected loss and making analysis on circumstances to assess and limit concentration risk. The Arig Bank sets and implements risk limits, which are main indicator of

effective risk management, at prudent level for the bank as a whole as well as per unit considering unique characteristic and scope of respective operation. Necessity to establish a framework and structure that facilitates approval of loan request within few hours not within a day has been increasing as business of the Arig Bank expands. With aim to rationalize credit risk management, maximum amount of loan that could be approved in each decision making level such as branch and Credit Committee and Board of Directors was defined and credit scoring system is in use to assess credibility of borrower.



# TECHNOLOGY INNOVATION

The Bank always prioritizes the comfort of its customers by providing convenient, secure and reliable services at all times. It's been while since from we strengthen our services by developing integrated digital-based products such as Swipe card reader, PocketBank mobile application, Finger vein detection, Glory cash handling automated system and iDual system for our purpose.

Leveraging on technology advancement, Arig bank consistently refines its banking products and services to fit customer needs.

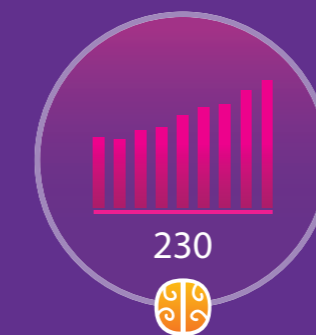
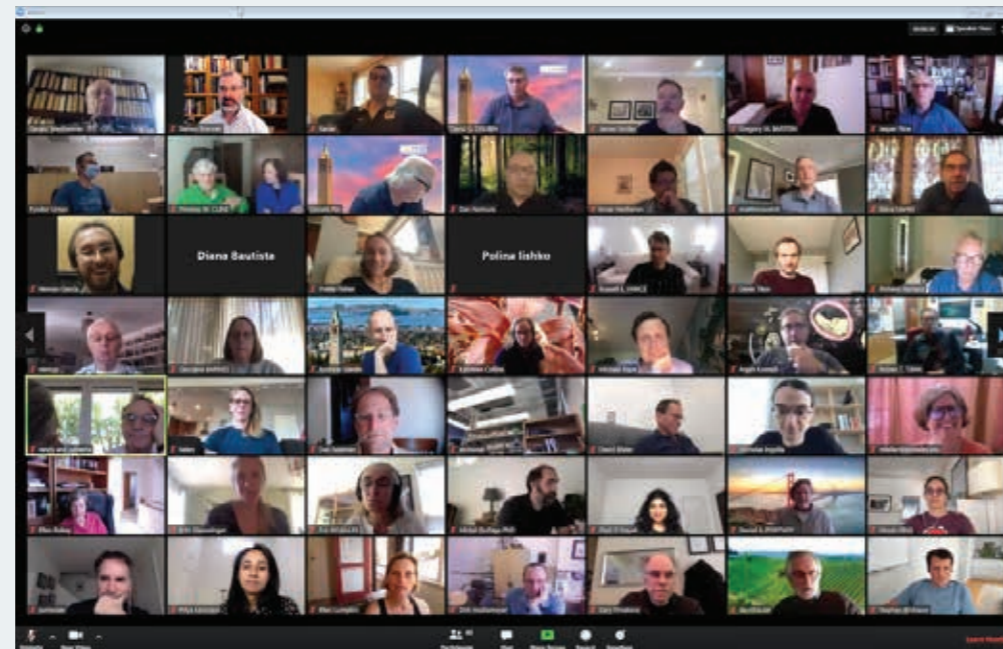
- Savings backed loans are issued electronically.
- Request for loan deferrals were processed electronically.
- The IT system continuity has been maintained at 99.99% during the reporting period enabling our customers to get uninterrupted and reliable services.





# HUMAN RESOURCES MANAGEMENT

We gained remote working experiences securely avoiding any disruptions in the coronavirus pandemic context. Despite the economic constraints, the Bank has saved all work posts with 100% pay and no single post was not downsized. Although specific class-room training and development activities could not take place due to the restrictions, total 230 employees (accumulated number) were enrolled in training during the reporting period.



[accumulated number]  
230 employees trained

## 2020

No industrial accidents or acute poisonings were reported during the reporting period

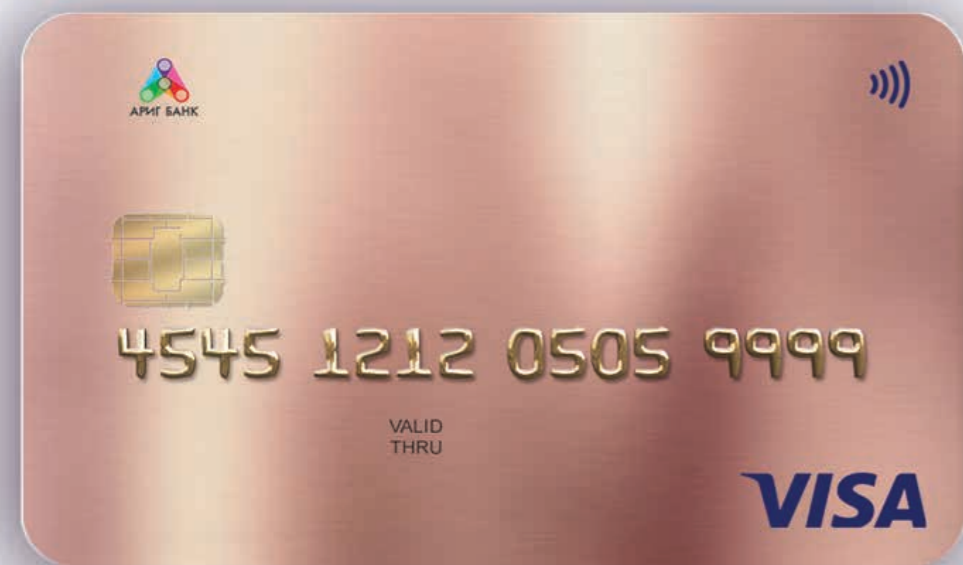
AVERAGE EMPLOYMENT YEARS 4.5 | MEDIAN AGE 35 YEARS



## WE SEEK TO OFFER INNOVATIVE DIGITAL SOLUTIONS ACROSS PRODUCTS.

Leveraging on technology advancement, Arig Bank consistently refines its banking products and services to fit customer needs. Adoption of the latest technology supports automation in every business line, enhancing operational efficiency. We are actively pursuing opportunities in the fintech space and are deploying solutions with a higher level of agility than our traditional model, helping to enable us to be more competitive in this area.

WE SEEK TO OFFER INNOVATIVE DIGITAL SOLUTIONS ACROSS PRODUCTS.



### CONTACTLESS VISA CARD

The latest technology advancement product, Contactless Visa Card provides opportunity for customers to convenient use not only in Mongolia but also abroad. This contactless card enables to increase easiness of usage and security of card, and save time for customer avoid to pass the card to other person for the payment and physical swiping at the POS.

### ESCROW ACCOUNT ONLINE SERVICE

Businesses and individuals can now open escrow account via [www.ariljaa.arigbank.mn](http://www.ariljaa.arigbank.mn) for their deals with brokerage companies. This service enables our customers to receive and transfer funds from Erdenes Tavan Tolgoi (1072 shares per individual) dividends, as well as other ownership and investment deals at the domestic stock market. Currently, Arig Bank provides this service in cooperation with the 14 largest brokerage companies.

### ONLINE SERVICES

In line with digital era development, Arig Bank enhanced its online services during the reporting period. The new online service POS holders' inquiries provides to solve their issues remotely. Our POCKET BANK users have now enhanced banking services such as opening of current and deposit account, savings term extension, and obtain the savings backed loan. Furthermore, we are cooperating closely with the respective authorities for the new online services for instance, payment of taxes, insurances, fines and specific consumer payments adapting customer preferences.

# BRANCHES

All the branches designed with contemporary interior specially created to provide both maximum comfort and secure services. We have decorated our offices with the most relaxing color purple to create a warm, welcoming, and calm environment. Every clients can enjoy special care and tea corner while discussing their business at our branch. As of 31 December 2020, Arig Bank serves over 45000 customers through 11 branches in total, which are located in Ulaanbaatar and Darkhan cities.

## Branch information and locations

/// 3 words address

- ◆ Khan-Uul //century.segregate.candles
- ◆ Songinokhairkhan //bravest.nature.butlers
- ◆ Bayanzurkh //renews.poets.relishing
- ◆ Khan-Uul United //flannel.tributes.rejected
- ◆ Khoroolol //observes.equipment.earlobes
- ◆ 40K //budgeted.chair.baths
- ◆ M20 //canny.intervene.magical
- ◆ Bumbohur //strain.trainer.cushy
- ◆ Khoroolol 2 //treaty.digress.memo
- ◆ Darkhan //earplug.observed.plumbing
- ◆ Shine Darkhan //finishers.give.cattle
- ◆ Darkhan Zakh //print.dove.peace



# TIMELINE OF HIGHLIGHTS

## 1997

Erel Bank, which is the second oldest commercial bank of Mongolia, starts to write its history.

## 2009

Erel Bank has become the first bank in Mongolia inactivated traditional front glass counters to drive better customer experiences.

## 2013

Erel bank has successfully launched swipe technology as a new payment solution for the first time in Mongolia.

Erel bank has introduced "Pocketbank" mobile application system to accelerate customer services.

Erel Bank has launched a special branch under the name of "PRESTIGE" to demonstrate high standard private banking services.

## 2014

Erel bank has rebranded as ARIG BANK for development of differentiating its identity.

To bring government services closer to the citizens, the TUTS machines (electronic public service machine) were placed at every Customer Support Centers.

Arig Bank has organized flash mob campaign under the title of "Thank you for not littering" to increase public awareness in being responsible for public cleanliness.

The technological advancement such as TCR and iDual have successfully introduced into the bank's daily operation.

## 2015

Arig Bank has successfully started implementing "The Green Office" initiatives to promote best environmentally friendly practices in daily operations.

First time in the banking industry in Mongolia, Arig Bank has initiated "Arig Tour" for visitors in demonstrating sustainable development practices.

"Achilles Mongolia NGO" is founded by Arig Bank, organized its annual "Hope and Possibility" marathon to empower athletes with disabilities.

Arig Bank initiated "Ger Kindergarten" project, in cooperation with the ING Bank and UNICEF to promote access to the pre-school education.

## 2017

Arig Bank was recognized as the "Leading Organization of Mongolian Sustainable Finance" 2015 and 2017, privileged to lead other organizations by its initiatives on the sustainable finance.

Arig Bank extended correspondence with two shareholders, Dem Financial Group LLC and Ulaanbaatar Impex LLC.

First time in Mongolia, Arig Bank redesigned its employees' uniform made by recycled plastics with traditional costume style in supporting sustainable consumption.

Arig Bank awarded with "Best Bank for Corporate Social Responsibility – Mongolia 2017" by AsiaMoney.

"Let's Fight Air Pollution Together" Innovation Challenge, Phase II successfully completed.

## 2018-2020

Arig Bank has successfully passed a formal assessment under ISO 10002 Customer Satisfaction, Complaints Handling by BSC, Australian Standardization organization and received the certificate.

Keeping business sustainable Arig Bank has successfully passed ISO 14001 Environmental Management Resources by BSC, Australian Standardization Organization and received the certificate.

Under the innovative challenge "Let's Fight Air Pollution Together", interest-free ₮135 million loan awarded by Arig Bank for the best solution green technologies to increase public awareness and motivate sustainable innovation in Mongolia.

Once again, Arig Bank has successfully organized its fourth annual "Hope and Possibility" charity marathon to empower athletes with disabilities in cooperation with Achilles Mongolia NGO.

Arig Bank in cooperation with UNICEF and ING banking Netherland, implemented "Ger Kindergarten" for the 4th year to decrease kindergarten shortage.

Once again, Arig Bank awarded with "Best bank for CSR" 2018 and 2019 by AsiaMoney.

International relations of the Bank is enhanced and number of corresponding banks in Russian Federation has been increased.

Financial Accounting System is regularly improved namely, upgraded payment system and induced the new IFRS-16 system.

Preventive actions responding to coronavirus pandemic have been taken successfully and efficiently which reflected in the daily smooth operations without Covid-19 cases.



# OUR PARTNERS





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