

ANNUAL REPORT 2023

Netcapital Finance Corporation NBFi

Vision:

To lead the Fintech revolution in the digital era

Mission:

Digital banking in your hands

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NET CAPITAL
financial group

Highlight of 2023

Total asset
131.6 billion MNT

NetCore core system

Account statement
income recognition
model

Loan Portfolio
112.8 billion MNT

Foreign funding of \$9
million

COSO ERM Framework

Total liabilities
91.7 billion MNT

7 branches in
provinces, 2 Digital
branches

Governance Code
implementation - TOP 5
NBFI

Branches
36

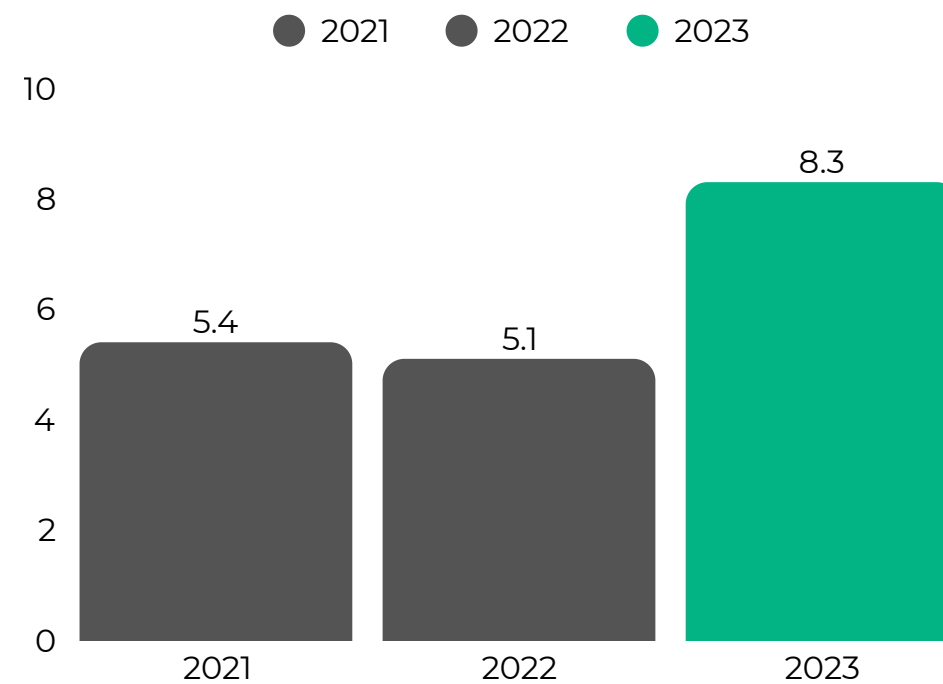
Employees
471+

Customers
100,000+

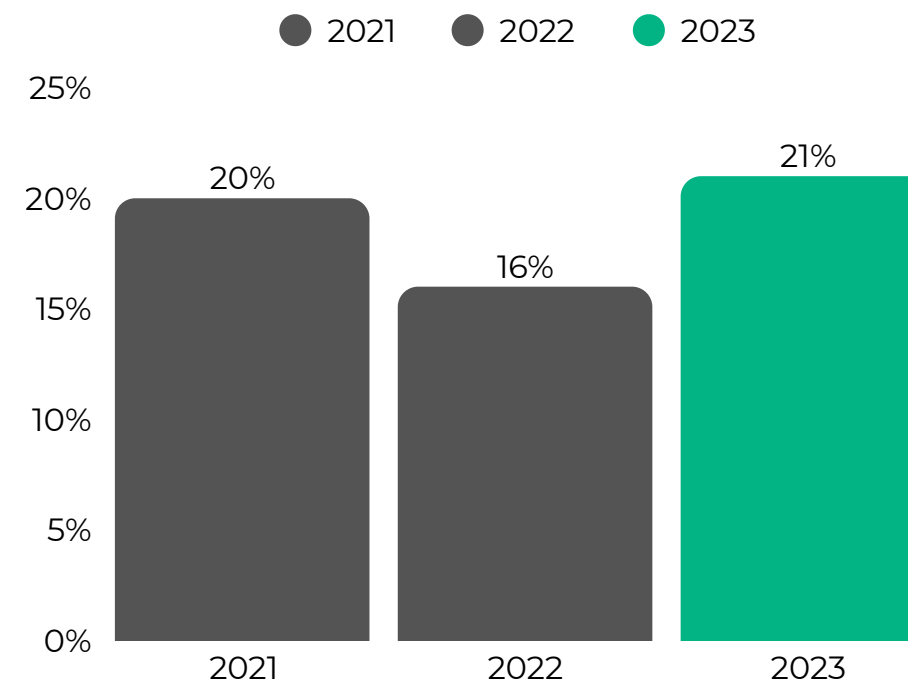
OTC bond 5 billion

Social Responsibility

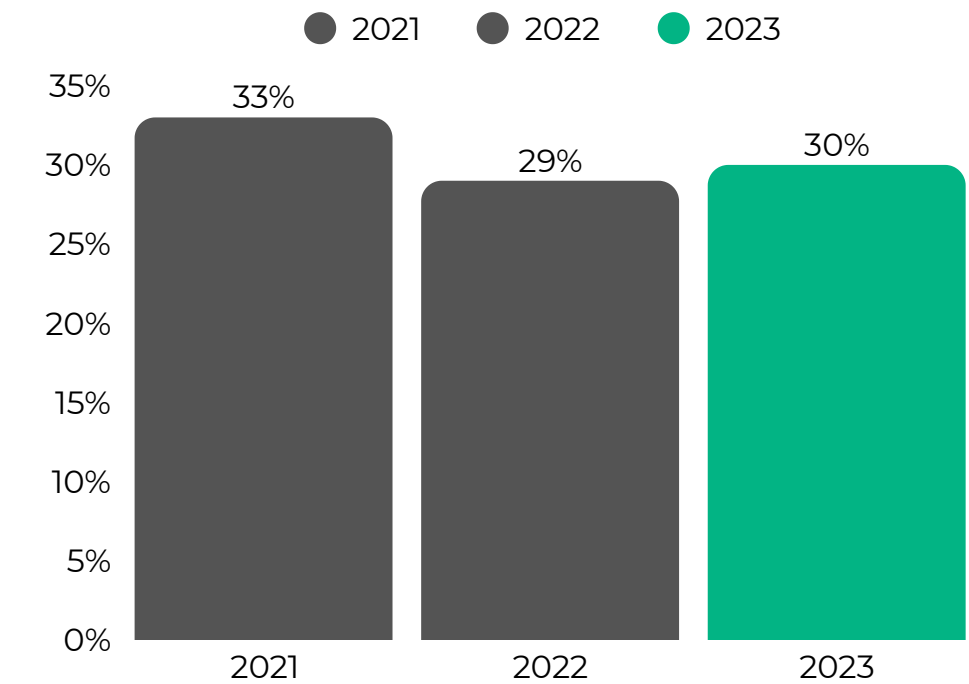
Net profit /Billion, MNT/



Return on equity %/



CAR %/



Key Performance Indicators

	Requirement	Performance 2022	Performance 2023	
Tier 1 Capital to Risk-Weighted Assets Ratio	>10%	37.2%	31.60%	
Total Capital to Risk-Weighted Assets Ratio	>20%	37.2%	31.60%	
Liquidity Coverage Ratio	>8%	8.8%	17.50%	
Ratio of loans, assets, and guarantees granted to a single borrower and related parties to regulatory capital	<30%	0.9%	0.70%	
Ratio of total loans and guarantees granted to NBFI shareholders, Board, CEO, and related employees to regulatory capital /Aggregate limit/	<25%	6.0%	0.30%	
Ratio of total loans and guarantees granted to NBFI shareholder, Board, CEO, and related employee to regulatory capital /Individual limit/	<10%	4.7%	0%	

Letter from the Chairman of the board



Dear clients, partners, shareholders, and all employees, thank you for being with the company during its 2023 annual reporting.

In 2023, the company strengthened its strategic priorities by opening 7 new branches in rural areas and creating 40 new jobs. Through this, we became closer to the clients of all 21 provinces of Mongolia, providing them with quality, fast financial services, and expanding access to opportunities.

We are focused on our "Digital Transformation for 2024" strategic goal. Over the past two years, we have fully completed the development of the core technological project, the "NetCore" system, and have implemented it into operations. The core system development was completed internally, making us the first NBFI to implement a fully in-house developed core system, leading the digital transformation.

The company's governance, operational stability, risk management culture, and continuous operational improvement enabled us to secure \$9 million in foreign financing from a Singapore-based investment fund, affirming confidence in the company.

In the future, we will continue to be a reliable partner by providing all types of financial services based on digital technology, reaching every citizen and household, constantly improving to be the industry leader, and deepening our long-term partnership with society.

I wish success and express my gratitude to all of our esteemed clients, partners, and members of the Board of Directors.

Sincerely, Chairman of the Board of Directors of "Netcapital Finance Corporation NBFI " LLC

D. Altangerel



Letter from the Chief Executive Officer



It is with great pleasure that i extend warm greetings to you and all clients, partners, and employees of "Netcapital Finance Corporation NBFI" LLC's 2023 annual report.

In 2023, the company's total assets grew by 20%, reaching 131 billion MNT, and the loan portfolio granted to clients increased by 44%, reaching 112.8 billion MNT. We would like to thank our more than 100,000 trusted clients and partners who use our services, and our 471 employees for their dedicated efforts and commitment to the company and its clients.

By laying the groundwork for digital transformation in 2023, we made substantial investments in key infrastructure to achieve our goal of becoming a leader in the digital fintech era.

In 2024, our goal is to become an even more "Client-Centric Organization" by fully implementing AI and machine learning-based technologies into our operations. We are striving to offer financial products and services that better meet the needs and demands of each of our clients.

To all our partners, clients, management team, and employees, who are working together to achieve our future goal of delivering AI-based products and services to customers, I wish you success and express my sincere gratitude.

Sincerely, Chief Executive Officer of "Netcapital Finance Corporation NBFI " LLC

B. Khunshagai



Social Responsibility

Bulgan province

Donated 7 cleaning station lights and air humidifiers



Nalaikh district

Donated equipment to the Maintenance and Services Company of Nalaikh district.



Tuv province

Equipped 2 resting sheds in the yard of the Tuv province Hospital for relaxation and fresh air.



Baganuur district

Donated 3 newborn jaundice treatment devices and 3 inhalation devices to the maternity ward of the Baganuur District Hospital.

Social Responsibility

Khentii province

Khentii province planted a 30-meter-wide pine tree along the central road and illuminated the surrounding area with lights.



Dundgovi province

Dundgovi province donated items to the children of the Id Shidiin Oron Center, including checkers, chess sets, chess clocks, portable storage boards, and wall chess sets.



Sukhbaatar province

Within the framework of the Year of Development declared in 2023, donated a basketball and volleyball equipment to the provincial physical education and sports facility.



Magic land Mongolia

To mark June 1st, the Magic Land Center organized an art contest called "Digital Era Children" among the children of the center and awarded the winners from each age category with a bike, a book writing kit, and gift collections.

Corporate Governance

Netcapital Finance Corporation NBFI LLC is a company established as a Limited Liability Company registered in Mongolia. In addition to complying with Mongolian laws and regulations concerning banks, it is obligated to follow the Code of Corporate Governance approved by the Financial Regulatory Commission, which is the regulatory body for the non-banking financial sector.

According to the FRC's 2023 "Corporate Governance Code Gap Assessment," Netcapital Finance Corporation NBFI LLC became one of the TOP-5 NBFIs leading in governance for the 2nd consecutive year.



Corporate Governance

The Financial Regulatory Commission conducted a remote company governance assessment for NBFIs, Insurance companies in 2023 and issued a detailed report.

"Netcapital Finance Corporation NBFI LLC" became one of the TOP-5 NBFIs leading in the sector's assessment for the 2nd consecutive year.

Code Assessment Scores:

Code Assessment 2023: 94.4%

Code Assessment 2022: 84.7%

TOP 5 NBFI's in the Company Governance Assessment

TOP 5 NBFI



НЬЮФОНД ХХК

ҮЙЗЭН ИВЭЭЛТ
ББСБ ХХК



Board of directors

The Board of Directors manages the overall operations of the company between shareholder meetings and resolves all other issues not exclusively reserved for the authority of the shareholders.

As of December 2023, the BoD is comprised of 5 members, including 2 independent non-executive members, and does not include any executive members.

The Chairman of the BoD is a Shareholder Member, and the non-executive members are experienced and skilled members from various sectors, including banking, insurance, technology, and real estate, complementing the composition of the BoD. Since over 70% of the total members are independent members, the independence of the decision is certified.



D. Altangerel

Chairman of Board of Directors

Since 2022, by resolution of the General Meeting of Shareholders, he has been working as the Chairman of the Bank's Board of Directors. He has expertise in modern technology and digital trends, and has experience holding management positions in leading Mongolian organizations since 2008.



N. Undrakh

Member of Board of Directors

She has been serving as a member of the company's Board of Directors since 2020, having been elected by the Shareholders' Meeting. Banking and finance professional and has been working in the finance sector since 1998 and has experience serving in leadership positions in major Mongolian private organizations.

Independent Member of the Board of directors



SH. CHUDANJII

*Independent
Member of Board of
Directors*

- 31 years in the Banking, and Financial sectors.
- Has been working on the Company's Board of Directors since 2020.



L. ORGIL

*Independent
Member of Board of
Directors*

- 15 years in the Finance, Banking, and Insurance sectors.
- Has been working on the Company's Board of Directors since 2020.



B. BOLORCHIMEG

*Independent
Member of Board of
Directors*

- 12 years in the Journaling and Consulting sectors.
- Has been working on the Company's Board of Directors since 2021.



A. URANGOO

*Independent
Member of Board of
Directors*

- 13 years in the Real estate sectors.
- Has been working on the Company's Board of Directors since 2020.



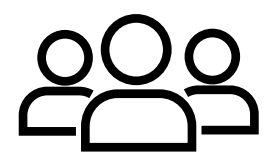
B. MUNKHJAVKHAA

*Independent
Member of Board of
Directors*

- 14 years in the Banking, and Financial sectors
- Has been working on the Company's Board of Directors since 2022.

Information and Overview of the Board of Directors

Board of Directors Meeting

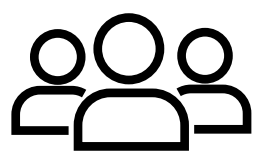


Number of Meetings **18**



Number of Decisions **25**

Committees alongside the Board of Directors



Number of Meetings **4**

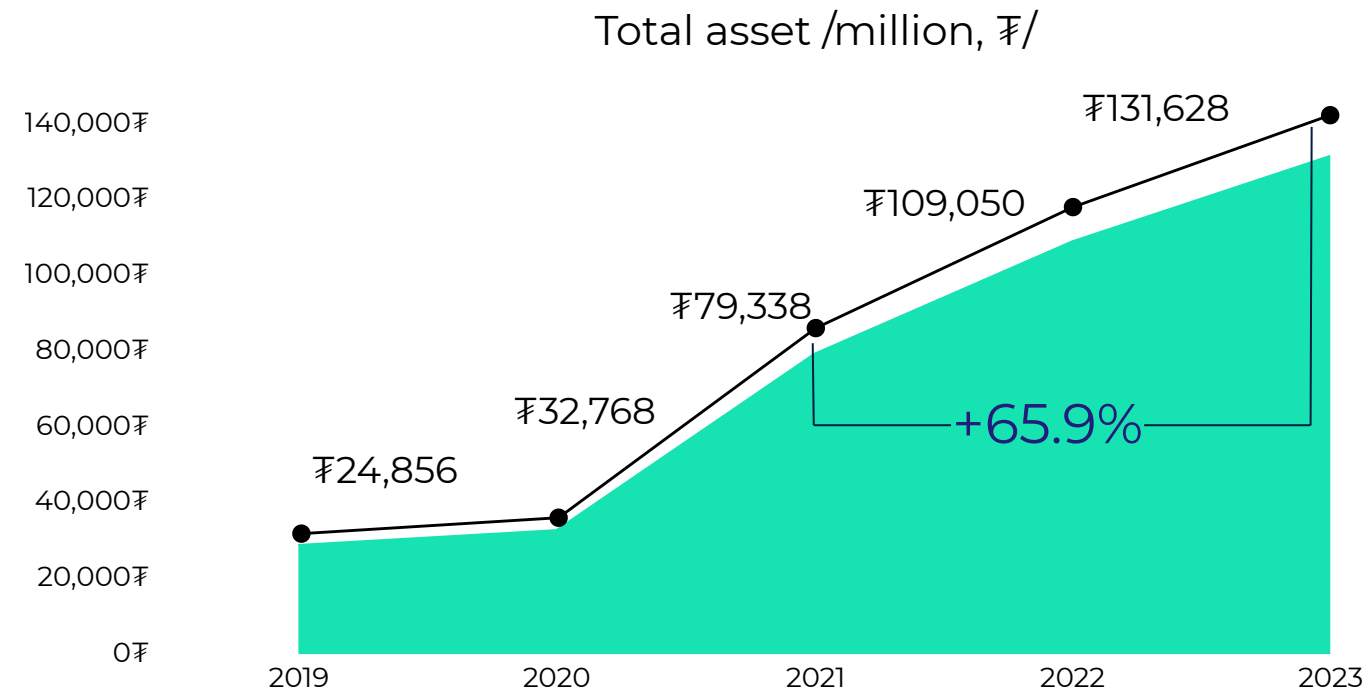


Number of Decisions **4**

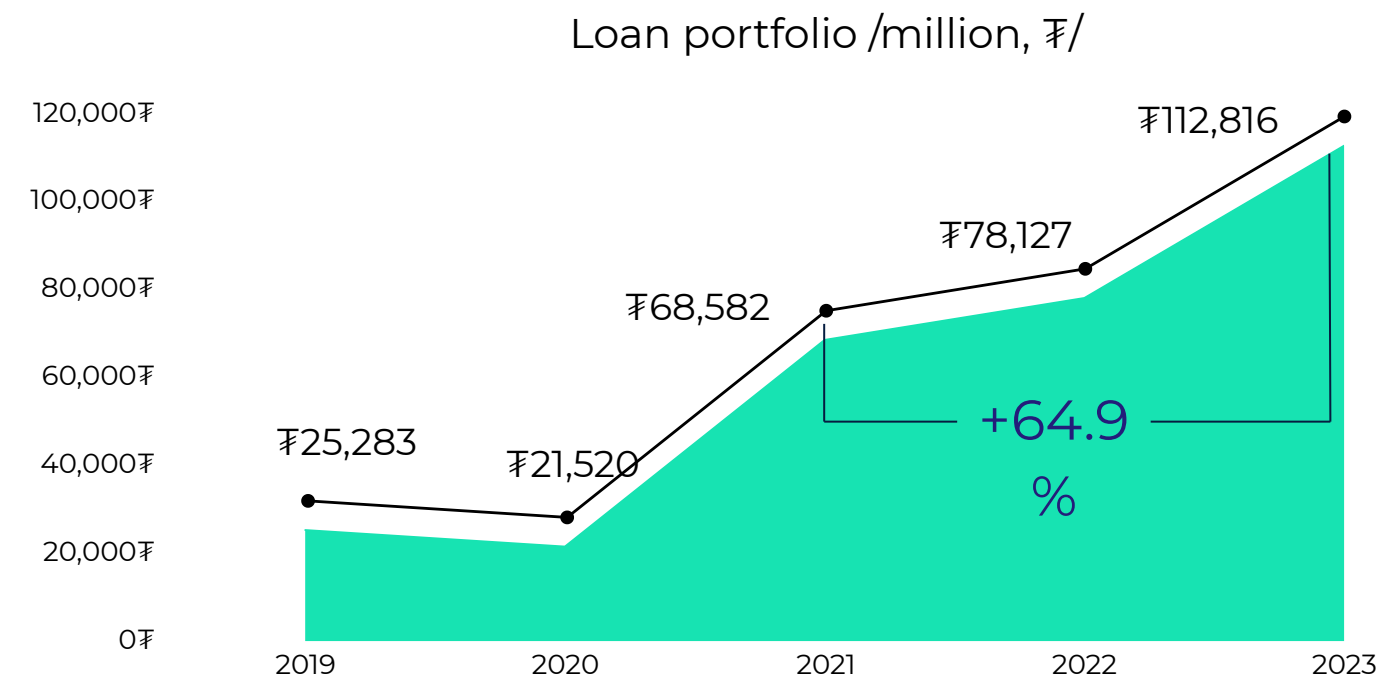
The Board of Directors, in compliance with the relevant company law, the Financial Regulatory Commission guidelines, and the Code of Governance, made the following key decisions:

- Approval of the Company's Strategy Plan and Business Plan.
- Matters related to taking on new special licenses.
- Approval of the internal auditing procedures.
- Approval of the Internal Audit Plan.
- To convene the regular and irregular meetings of the Shareholders
- To change Executive of Branches
- Matters related to the appointment of members to BoD committees.

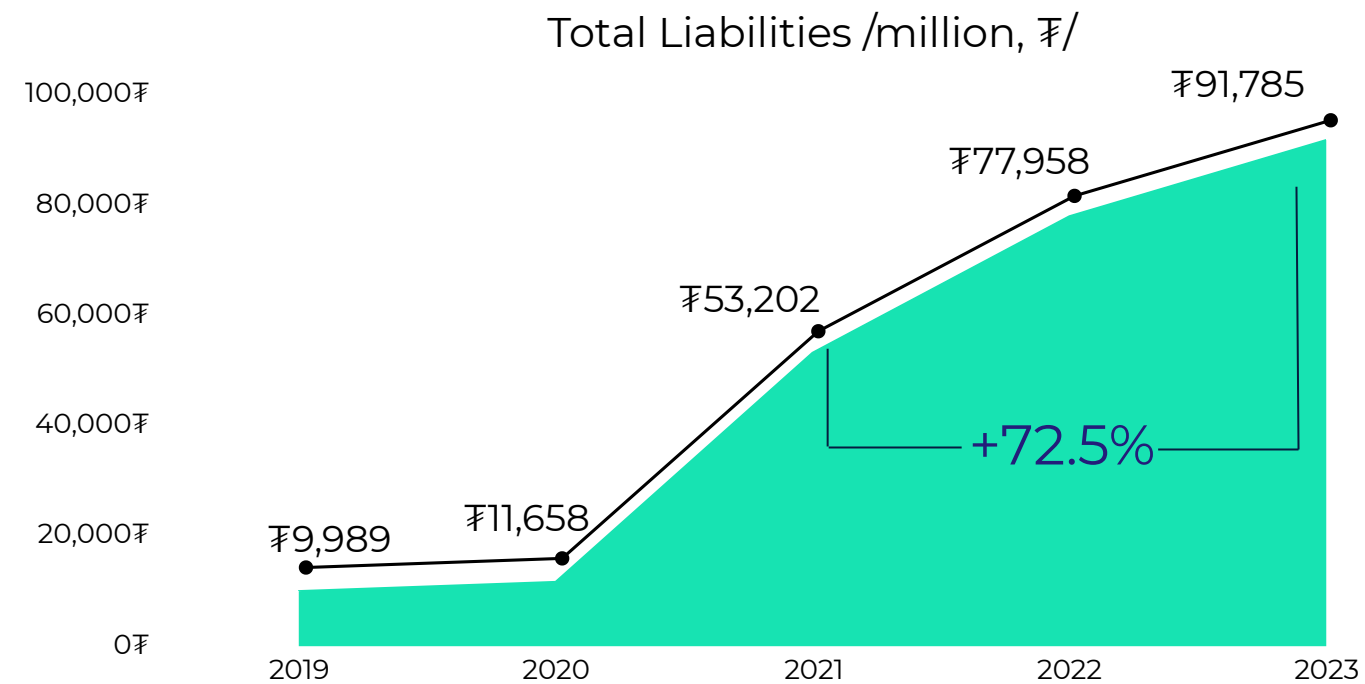
Financial performance



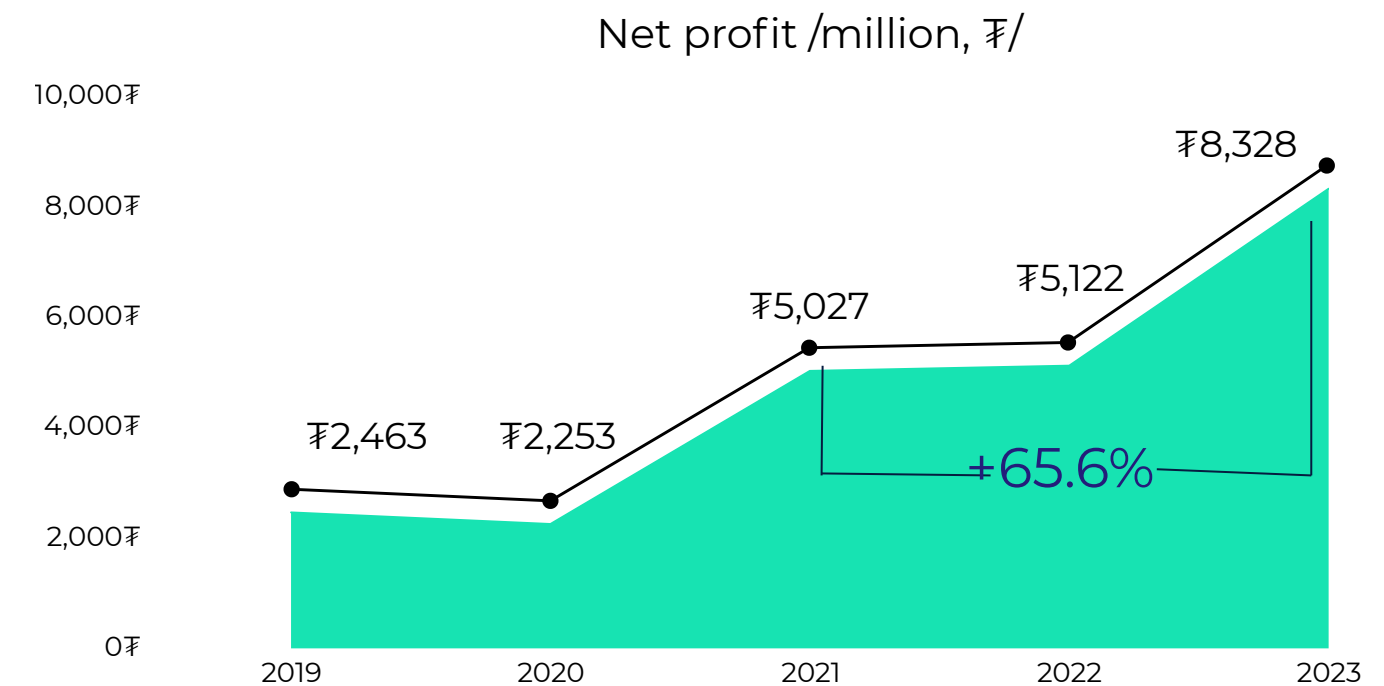
***In 2023, total assets increased by 22 billion, a growth of 20%."**



***In 2023, the outstanding loan balance increased by 34.6 billion, a growth of 44%.**

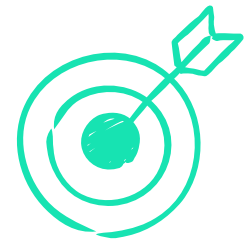


***In 2023, total liabilities increased by 13.8 billion, a growth of 18%**



***In 2023, net profit increased by 3.1 billion, a growth of 62%**

Vision, Mission, Value, Culture



Vision

To lead the Fintech revolution in the digital era.



Mission

Leading through Digital Transition



Value

- Energetic
- Transparent & Trust
- Passion
- Speed & Execution
- Fun



Culture

- Optimistic,
- Risk-based thinking
- Professional team
- Young leadership
- Lifelong learning
- Desire for success

Human resource management

We define the human capital policy of the company, guided by our deep vision, mission, values, and ethical principles. The policy covers the determination of human capital needs, human capacity building, recruitment and selection, retention, adjustment, training and development, succession planning, preparing key personnel, and defining the organizational structure.

We are currently working on an open human capital policy document focusing on employee productivity and the recruitment function.

The company's goal is to ensure the goals of the employees align with your goals. We aim to attract and select skilled and competent job seekers with the motto: "The right person, in the right position, at the right time."

According to the status at the end of 2021, Netcapital Finance Corporation NBF LLC had 155 active employees. As of December 2023, the number of active employees grew to 471, creating 316 new positions.

471

Total Active
Employees

128

Head Office
Employees

151

Ulaanbaatar
City Branch
Employees

192

Local Branch
Employees

5

Executive
Management

36

Total
Branches



Employee Motivation and Incentives

1. Top 10 Employees — International Trip

Incentive: The top 10 employees who successfully implemented the "NetCore" core system will be rewarded with an 8-day trip to Turkey.

2. Knowledge Sharing — Event

Purpose: To promote professional development and mental health awareness.

Sessions:

- A lecture on competence (covering attitudes, skills, and ethics).
- A lecture on Mental Health (covering stress management and training).

Audience: All employees from Ulaanbaatar city branches and the Head Office.

3. Leadership Coaching

Successfully organizing a "Leadership Coaching" session for approximately 70 senior personnel.

4. 15th Anniversary

In honor of the 15th-anniversary event, all employees and partners received a commemorative badge with the company's logo.



Net Activities



NET-Academy
New employee orientation



NET-Cup
Sport event



NET-Family
Children's day



NET-Naadam
Naadam festival

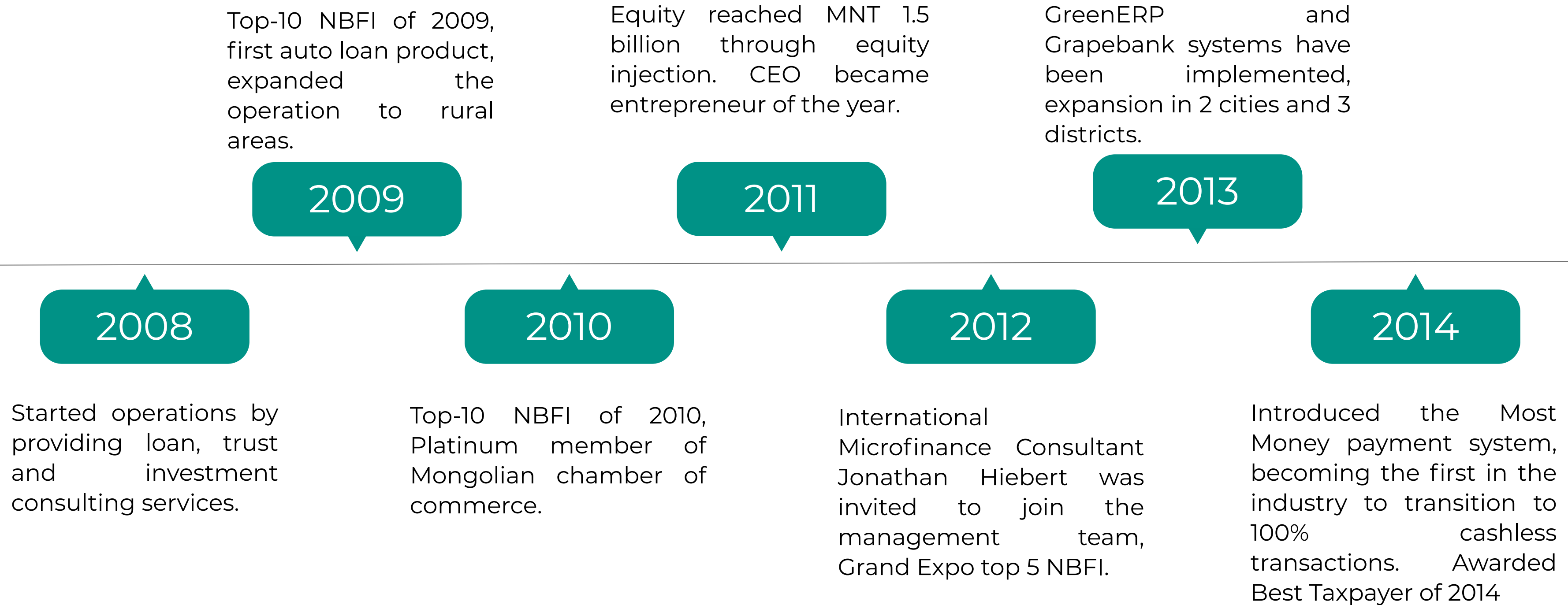


NET-Summer Trip
Summer Trip



NET- New Year
New Year event

Company achievements



Company achievements

Successful development and implementation of professional and personal training programs.

2016

Successfully implemented the '10,000 Smiles' project. Awarded 'Best Social Responsibility Implementing Organization of the Year' by the MFI Association.

2018

A project has been initiated to introduce NETAPP, an electronic loan service with fintech solutions, to the market.

2020

2015

Launched new products and services aligned with the Sustainable Development Goals 2030

2017

A new product called 'Mobile Credit', available on mobile phones, was introduced to the market. A new branch was opened in Sukhbaatar District.

2019

International Microfinance Consultant Jonathan Hiebert was invited to join the management team, Grand Expo top 5 NBFI

2021

The company expanded its organizational structure and established 8 new branches. The company renewed and approved its Vision, Mission, and Core Values. The best NBFI of 2021 by the 'Global Banking & Finance Awards,' an online journal of the international banking and finance sector.

Company achievements

The company underwent significant expansion, opening 12 new branches across the country.

2022.Q1

Successfully completed the automation of the process for the secured leasing product, enabling loans to be granted in 30 minutes.

2022.Q3

Implemented the ISO 27001:2013 Information Security Management System Standard. Fully implemented OKR, Scrum, and JIRA in the company's 27 departments.

2022.Q4

2022.Q1

The company fully implemented the ISO 9001:2015 Quality Management System Standard and a core accounting system based on IFRS to support decision-making and planning.

2022.Q2

Decided to implement the International Financial Reporting Standard IFRS 9 and started the project. Released a new version of the NetPay application, enabling the calculation of credit scores based on account statements.

2022.Q4

Joined the SFP Association as a member organization and approved the Company's Total Organizational Control Policy for sustainable income financing. Ranked 1st among the TOP-5 NBFIs in the governance assessment.

2023.Q1

Opened 7 new branches simultaneously in province areas, creating 40+ new jobs. Organized a NET-Knowledge sharing event.

Company achievements

Successfully completed negotiations with the Kilde Investment Fund from Singapore to draw \$9 million in resources, and signed the agreement.

2023.Q3

Implemented a new customer service standard, reducing the time required to resolve customer complaints from 104 hours to 4 hours.

2023.Q3

Implemented a model for calculating income from account statements in operations, and started using it for loan analysis.

2023.Q3

2023.Q2

Fully implemented the self-developed “NetCore” core system in operations, and decommissioned the Grapebank system.

2023.Q3

Initiated the work to implement the COSO ERM system. Received special permission from the FRC to 'invest in short-term financial issues.

2023.Q3

Ranked 1st among the TOP-5 NBFIs in the governance assessment for the 2nd consecutive year. Successfully completed the 2nd Surveillance Audit of the ISO 9001:2015 standard and retained the certification.

2023.Q3

We were honored as the best client organization by TQCSI Mongolia from their Australian Head Office for the ISO 9001:2015 standard.

Digitalization

NetCore

Successfully developed and implemented its own Core Fintech system in its operations.

Development	>	33 Modules
Testing	>	18 System Integrations
Migration	>	+LOS), BPFM, Digital Channels
Implementation	>	51 different reports and 102 standard documents



Risk management

Ethical Principles

Information Security Policy

IS Policy

Procedures for Managing Information Security Risks.
Information Security Audit
Procedures for Requesting or Rejecting Information Security Compliance.

- IS Risk Assessment:
- IS Risk Assessment.
- IS Risk Response Plan.
- Human Factor Risk Assessment.
- System Vulnerability Assessment.

Risk Management Policy

- Risk Management Policy.
- General Risk Management Procedures.
- Credit Risk Management Procedures.
- Procedures for Granting EMC/EMS Loan Approvals.
- Financial Risk Management Procedures.
- Operational Risk Management Procedures:
 - Internal Control.
 - IT Transactions and Procedures.
 - Other supporting documents and procedures

Sustainable Financing Policy

- Sustainable Financing Policy
- ESG Risk Management Procedures.
- Supporting document for Sustainable Financing Policy implementation.
- Total NBFIs' risk assessment was valued at 3.1% .

Risk management

COSO ERM Risk Management System

- Governance and Culture 5 Principles
- Strategy and Objective-Setting 4 Principles
- Performance (Risk Management) 5 Principles
- Review and Revision 3 Principles
- Information, and Reporting 3 Principle.

- Internal Control Report:
- Credit operations
 - Funding operations
 - E-money operations
 - Currency exchange operations

Risk Management Process

Planning and Reporting

Risk Assessment, Response Measures

Business Continuity

Suspicious Transaction Risk Management

Strategic performance

Risk Management

.....➔ The Group's Credit Committee plays a vital role in managing credit risk, including assessing customer creditworthiness, loan pricing, active and passive credit risk monitoring, setting credit limits, assessing and monitoring external economic factors, and planning for necessary reserves.

Operational Risk Management

.....➔ The Group manages operational risk by setting goals based on the overall operational risk management strategy approved by the Board of Directors in the current year and the SIPOC process, risk environment analysis, and control frameworks. The Group's operational risk management involves identifying, assessing, controlling, monitoring, reporting, and addressing operational risks across all business areas.

Technology and Information Security Risk Management

.....➔ The Bank's IT Department is responsible for managing technology and information security risk, including ensuring the availability, integrity, and confidentiality of information assets through planning, monitoring, and continuous improvement of technology infrastructure, information security, digital, and digital forensic measures.

Environmental, Social, and Governance (ESG) Risk Management

.....➔ The Group supports the management of environmental and social risks associated with its operations and ensures compliance with relevant regulations through the ESG Risk Management Department. The overall approach focuses on sustainable development based on the global ESG framework and responsible investment practices.

MNS/ISO 9001:2016 Quality Management System Certification

Netcapital Finance Corporation LLC was certified with the MNS ISO 9001:2015 Quality Management System standard for providing financial services such as deposits, savings, loans, currency exchange, international transfers, and payment services, and for its business activities that meet the requirements of the standard. The Bank strictly follows the ISO 9001:2015 standard, which is recognized in 178 countries, to effectively manage the quality of its operations and services, ensuring that customers receive high-quality, consistent services. Furthermore, it is subject to internal and external quality audits and is certified according to the standard. The implementation of the ISO 9001:2015 Quality Management System standard has brought significant benefits, including efficient risk management and improved operational efficiency.



- Full compliance with the Bank's established rules, standards, and total quality management
- The ability to meet customer needs with appropriate products, services, and timely operations.
- Successful management of quality related to international transfers and cross-border payments.
- The ability to adapt to global changes and effectively manage strategic alignment with high-quality services.
- The ability to comprehensively manage the country's economic development, including the growth of the financial sector, to meet international requirements.

Structure of Internal audit

A. IA Scope and Objective

The objective of the Internal Audit is to assess the Company's risk environment, internal control system, and governance through assurance and consulting services, with a focus on the business activities of "NetCapital Financial Corporation" NBFI LLC.

B. IA Structure and Independence

The Internal Audit is an independent unit that reports and is accountable to the Audit Committee of the Board of Directors (BoD). It is responsible for reporting and subsequently taking corrective action.

Key responsibilities and procedures include:

- Approving the Internal Audit Policy and Procedures.
- Approving the annual IA plan based on risk assessment.
- Approving the IA's budget and resource plan.
- Determining the scope of IA's activities within the organization.

The IA is independent of management; it has sole authority to select, scope, test, and determine the content of its reports. Thus, IA is an objective body. If objectivity is compromised or lost, the matter must be reported to the Audit Committee.

Structure of Internal audit

C. IA Structure and Organization

C.1. The IA is accountable to the Audit Committee of the BoD.

C.2. The IA department is composed of a Director, Senior Officer, and Auditor.

C.3. The IA operates in accordance with the International Internal Audit Standards or the Internal Audit Department's Regulations, policies, and procedures.

D. IA Duties and Responsibilities

D.1. Determining the risk-based environment, drafting the annual internal audit plan based on the recommendations of the Executive Management and the BoD, and having the plan approved by the Audit Committee.

D.2. Focusing on key risks and matters of importance identified during the assessment of the Group's key risks, and informing the Executive Management and the BoD accordingly.

D.3. Reporting to the BoD on the results of the audit and the implementation status of recommendations.

D.4. Confirming the quality assurance and continuous improvement program related to IA's internal work. The quality assurance and continuous improvement program is assessed by an independent body every five years.

D.5. For each item included in the annual plan, detailing the purpose, scope, sampling criteria, costs, examination results, conclusions, and related recommendations.

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Netcapital Finance Corporate NBFi

