

ANNUAL REPORT 2022

Netcapital Finance Corporation NBFi

Vision:

To lead the Fintech revolution in the digital era

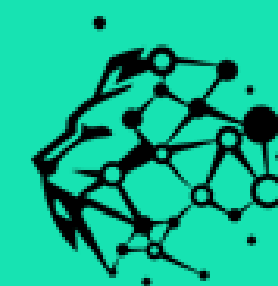
Mission:

Digital banking in your hands

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NET CAPITAL
financial group

Letter from the Chairman of the Board of Directors



The past year, though less affected by the pandemic, has passed as a year of challenges marked by plentiful achievements and successes, and the accelerator for methodological digital transformation increased. We, too, have strived not to fall behind this widespread change, integrating internal and external changes into the company's structure and organization at every stage, and prepared ourselves as a semi-technology company.

In 2022, within the strategic framework, we opened 12 non-branch offices in the provinces and created over 100 new jobs. Furthermore, we became the first NBFI to implement the internationally recognized ISO 9001:2015 Quality Management System standard and simultaneously implemented the ISO27001:2013 International Information Security Management System standard.

At the corporate level, by diversifying and allocating credit risk, developing a diverse range of products, and transitioning traditional lending services to a digital format—fully developing Digital Goods, Digital Merchant, and Digital Credit products—and establishing a three-tiered risk management structure. These initiatives gave a major impetus to keeping the company's risk exposure at a lower level than the industry average, based on strong quality.

In the coming years, we wish to express our gratitude to, and wish success for, our esteemed clients, partner organizations, and Board of Directors members who will accompany us on our long journey of responsibly delivering all types of financial services to every citizen and helping to establish a strong middle class in society.

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

D. Altangerel

A handwritten signature in black ink, appearing to be 'D. Altangerel', written over a light blue horizontal line.

Letter from the Chief Executive Officer



It is with great pleasure that I extend warm greetings to all clients, partners, and employees. Netcapital Finance Corporation NBFI LLC is proud to present our 2022 Annual Report to all our esteemed customers and partners.

In 2022, we achieved significant growth: total assets grew by 36% to MNT 109 billion; mobilized funds grew by 45% to MNT 77 billion; and the volume of loans granted to customers grew by 26% to MNT 83 billion. We extend our gratitude to our 40,519 loyal customers and partners whom we are serving, and to our 385 dedicated employees who contribute with heart and soul to our organization and our customers.

As a result of continuous investment in digital empowerment under the vision of being a 'digital bank in hand,' and the quick adoption and support of new things by our customers, 80% of Netcapital Finance Corporation NBFI LLC's total customers became users of digital products and services in a very short period.

Netcapital Finance Corporation NBFI LLC is driven by a sincere desire to contribute to the Mongolian economy and build a strong middle-class society, with a long-term vision to provide digital financial services in Mongolia and internationally over the next 10 years. Although our country's economy remains volatile, we are confident that, through the strength of the company's established system, reliable investors, esteemed customers, and professional team, we will successfully overcome the coming years, achieve our goals, and be able to create good things for our country.

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

A handwritten signature in black ink, consisting of stylized, overlapping strokes.

Awards in 2022

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For over 200 countries and territories, the knowledge and experience gained in the international banking sector, based on the best practices of Global Banking & Finance Awards for the year, were recognized and awarded as the best bank and financial institution in the country.

Netcapital Finance Corporation's efforts in developing the Mongolian banking sector, achieving success in strategic management, meeting customer needs with appropriate services, and developing sustainable products were recognized, and the institution was named one of "The Next 100 Global" companies in 2021.

This year, it was a notable achievement that demonstrated the company's ability to successfully manage and provide services, even amidst a difficult and challenging economic situation with high inflation and rising interest rates.

- Loan Portfolio grew by 26%.
- Total Assets grew by 37%.
- Funded Capital grew by 45%.

GLOBAL BANKING &
Finance
review®



Corporate Governance

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Netcapital Finance Corporation NBFI LLC is a limited liability company registered in Mongolia as an NBFI. The company is obliged to adhere to Mongolian laws and the Corporate Governance Code approved by the FRC, which is the regulator for the non-bank financial sector.

In 2022, the company worked under the updated "Corporate Governance Code," focusing on evaluating the governance system and improving it.

- Top NBF for Governance: Based on the FRC's 2022 remote evaluation of the "Corporate Governance Code," Netcapital Finance Corporation NBFI LLC was ranked as one of the TOP-5 NBFIs in governance.



Corporate Governance

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The Financial Regulatory Commission, in accordance with the "Corporate Governance Code" approved in March 2022, issued a Governance Assessment, Governance Code Implementation Oversight Report to companies implementing the code, utilizing the capital market, and conducting investment management in 2022.

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

Leading Institutions in the Company Governance Assessment

TOP 5 NBFIL					
TOP 5 INSURANCE					
TOP 5 AMC					

Board of directors

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The Board of Directors, elected by the shareholders at the Shareholders' Meeting, renders decisions on matters other than those specifically reserved for the full authority of the shareholders.

As of December 2022, the BoD comprises a composition of two members nominated by the shareholders and seven independent members. The function of the Chairman of the BoD is executed by independent members who are not shareholders. The BoD includes members with extensive, specialized experience and expertise across various sectors, including banking, technology, and real estate.

As over 70% of the total membership consists of independent members, the decision-making process maintains its independence.

Nº	Name	Position
1	Dorjtseren ALTANGEREL	Chairman of Board of Directors
2	Nergui UNDRAKH	Member
3	Turmunkh JAVKHLAN	Independent Member
4	Lkhagvatumur ORGIL	Independent Member
5	Baatarzorigt BOLORCHIMEG	Independent Member
6	Altangerel URANGOO	Independent Member
7	Sanjaasuren ORGODOL	Independent Member
8	Tsedevdamba MUNKHBAT	Independent Member
9	Sharav CHUDANJII	Independent Member

Board of directors

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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

Serving as a member of the company's Board of Directors since 2020, this position was secured after election by the Shareholders' Meeting. A dedicated banking and finance professional, a career in the finance sector began in 1998. Experience includes service in leadership positions within major Mongolian private media organizations. In 2008, this professional founded and has been managing the company.

Independent Member of the Board of directors

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T. JAVKHLAN

Independent Member
of Board of Directors

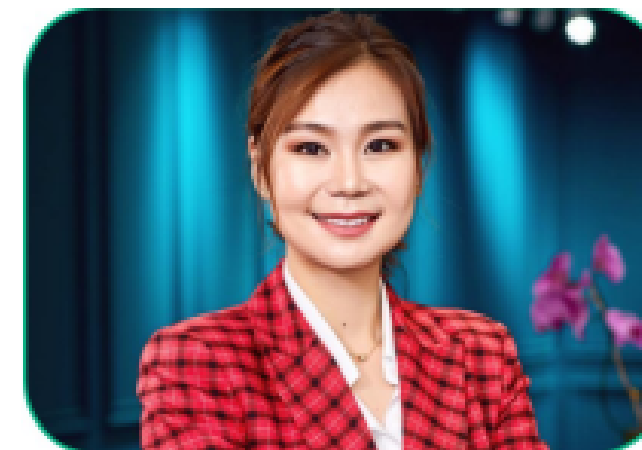
Mr. Javkhlan, appointed to the company's Board of Directors by resolution of the General Meeting of Shareholders since 2021. He possesses over 10 years of experience in management positions within the banking and finance sector.



L. ORGIL

Independent Member
of Board of Directors

Mr. Orgil, appointed to the company's Board of Directors by resolution of the General Meeting of Shareholders since 2022. He has experience in the banking, finance, and insurance sectors since 2014.



B. BOLORCHIMEG

Independent Member
of Board of Directors

Ms. Bolorchimeg, appointed to the company's Board of Directors by resolution of the General Meeting of Shareholders since 2021. She has experience in the service sector since 2012.



A. URANGOO

Independent Member
of Board of Directors

Ms. Urangoo, appointed to the company's Board of Directors by resolution of the General Meeting of Shareholders since 2020. She has extensive experience in the real estate sector, having focused on business development in this field since 2013.

Independent Member of the Board of directors

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SH. CHUDANJII

Independent Member of
Board of Directors

Ms. Chudanji was appointed as a member of the company's Board of Directors in 2020 through a resolution of the General Meeting of Shareholders. She is a long-standing expert in the banking and finance sector, with experience dating back to 1993, and contributes significant expertise gained from holding management positions at major Mongolian financial institutions.



S. ORGODOL

Independent Member of
Board of Directors

Mr. Orgodol, Since his appointment by the General Meeting of Shareholders in 2020, he has served on the company's Board of Directors. He possesses considerable experience in the banking and finance sector, active since 2008, which includes holding key management roles at major Mongolian banks.



TS. MUNKHBAT

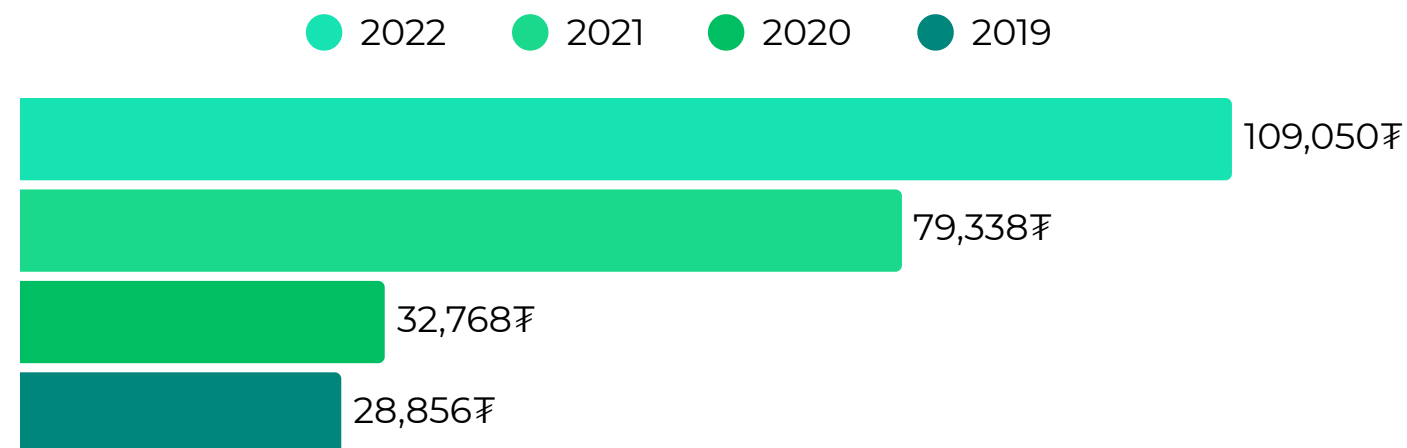
Independent Member of
Board of Directors

Mr. Munkhbat A member of the company's Board of Directors since 2020, following the resolution of the General Meeting of Shareholders. He's background in the banking and finance sector began in 2007, encompassing diverse experience, particularly in management positions at major Mongolian banks.

Financial performance

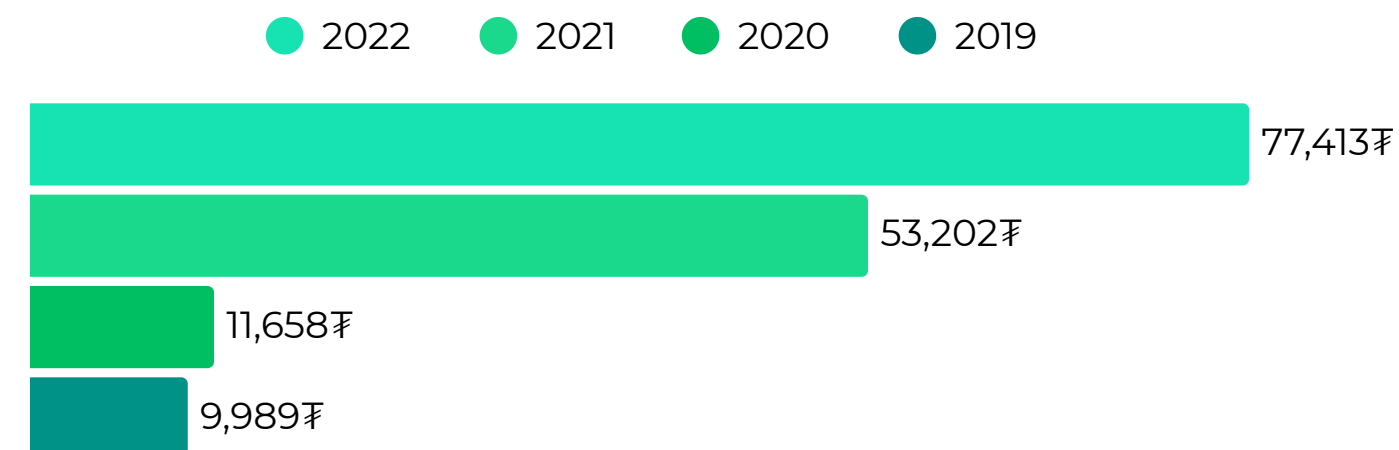
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Total asset /million, ₮/

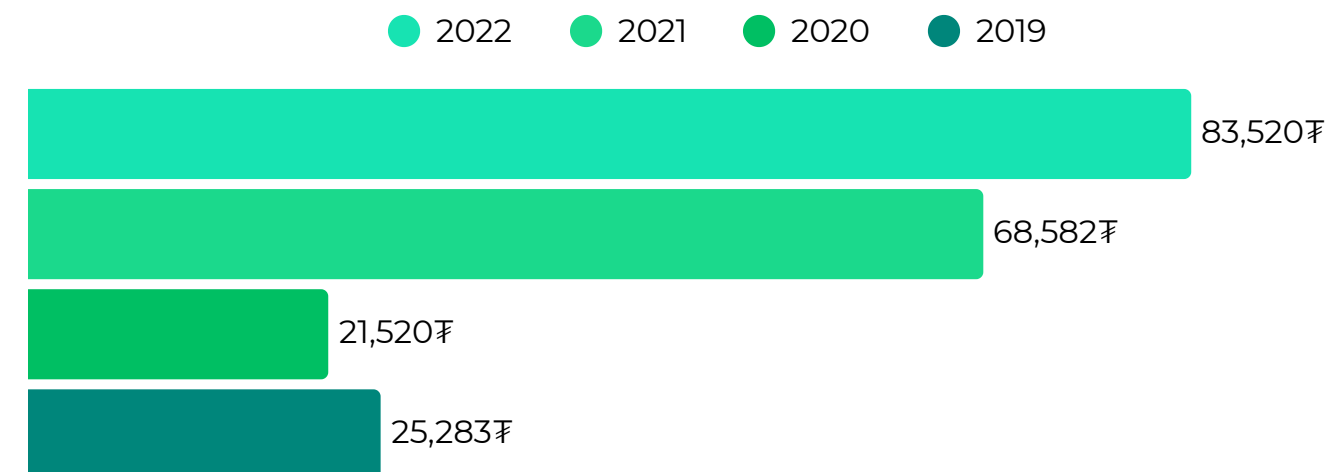


***In 2022, the total assets increased by 29 billion MNT, a growth of 37%.**

Total liabilities /million, ₮/

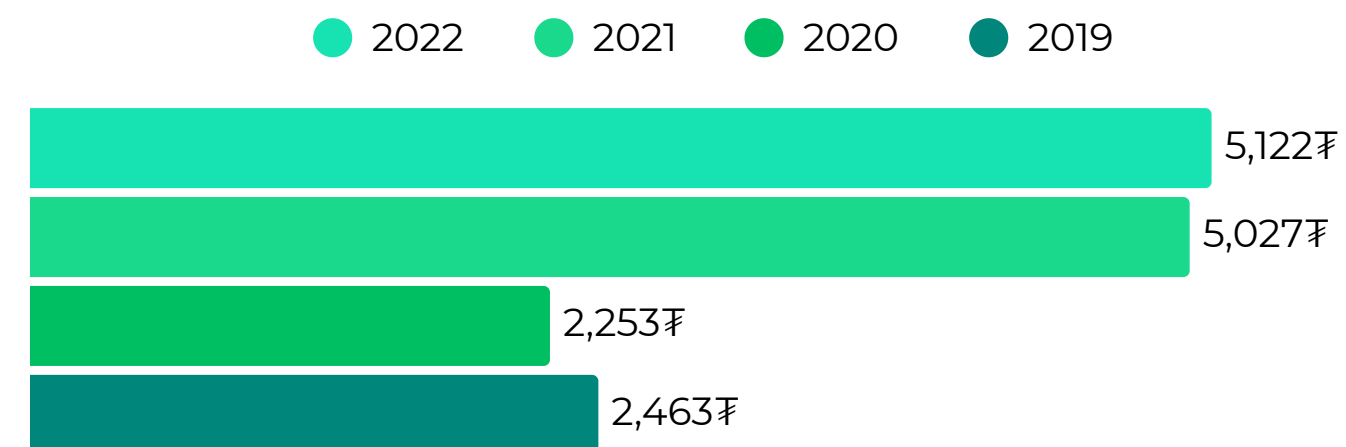


Loan portfolio /million, ₮/



***In 2022, the number of borrowers increased from 14,721 to 40,519, a growth of 2.8 times.**

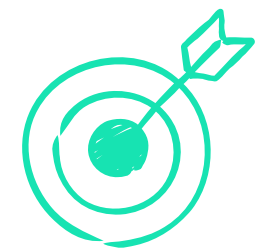
Net profit /million, ₮/



***In 2022, the net profit increased by 0.95 billion MNT**

Vision, Mission, Value, Culture

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Vision

To lead the Fintech revolution in the digital era



Mission

Digital banking in your hands



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

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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 2022, the number of active employees grew to 385, creating 230 new positions.

385

Total Active
Employees

135

Head Office
Employees

147

Ulaanbaatar
City Branch
Employees

133

Local Branch
Employees

8

Executive
Management

29

Total
Branches

Net Activities

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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

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Top-10 NBFIs of 2009, first auto loan product, expanded the operation to rural areas.

2009

Equity reached MNT 1.5 billion through equity injection. CEO became entrepreneur of the year.

2011

GreenERP and Grapebank systems have been implemented, expansion in 2 cities and 3 districts.

2013

2008

Started operations by providing loan, trust and investment consulting services.

2010

Top-10 NBFIs of 2010 by Platinum member of Mongolian chamber of commerce. Grapecity Mongolia LLC implemented a technological solution by utilizing the Achidbanker system in its operations.

2012

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

2014

Introduced the Most Money payment system, becoming the first in the industry to transition to 100% cashless transactions. Awarded Best Taxpayer of 2014.

Company achievements

Netcapital Annual report 2022

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

NetAcademy LLC was founded. Net Capital served as the general sponsor of information for the 'Special Olympic' games, a symbol of human unity, held in the United Arab Emirates.

2021.Q1

Three new branches opened: 'Khoroolol' (Bayangol District), one at Da Khuree Auto Trade Center, and 'Sansar' (Bayanzurkh District).

Company achievements

Netcapital Annual report 2022

Officially implemented CRM HubSpot. Introduced OKR, Scrum, and JIRA into the operations of the central unit and started using them.

2021.Q3

Received approval for electronic money. The group's tangible assets doubled. The company began using the 'Balanced Scorecard' methodology in its strategic planning.

2021.Q4

A new branch of 'Ikh Mongol' has opened in Khan-Uul District, Ulaanbaatar.

2021.Q4

2021.Q2

The company expanded its organizational structure and established 8 new branches. The company renewed and approved its Vision, Mission, and Core Values.

2021.Q3

NetApp with a fintech solution for electronic loan services has been launched in the market.

2021.Q4

The best MFI of 2021 by the 'Global Banking & Finance Awards,' an online journal of the international banking and finance sector.

2021.Q4

Operations began on the 22nd floor of the Shangri-La office to attract investment and raise funds.

Company achievements

Netcapital Annual report 2022

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 ToC 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.

NetCore

The NetCore Project has been initiated.

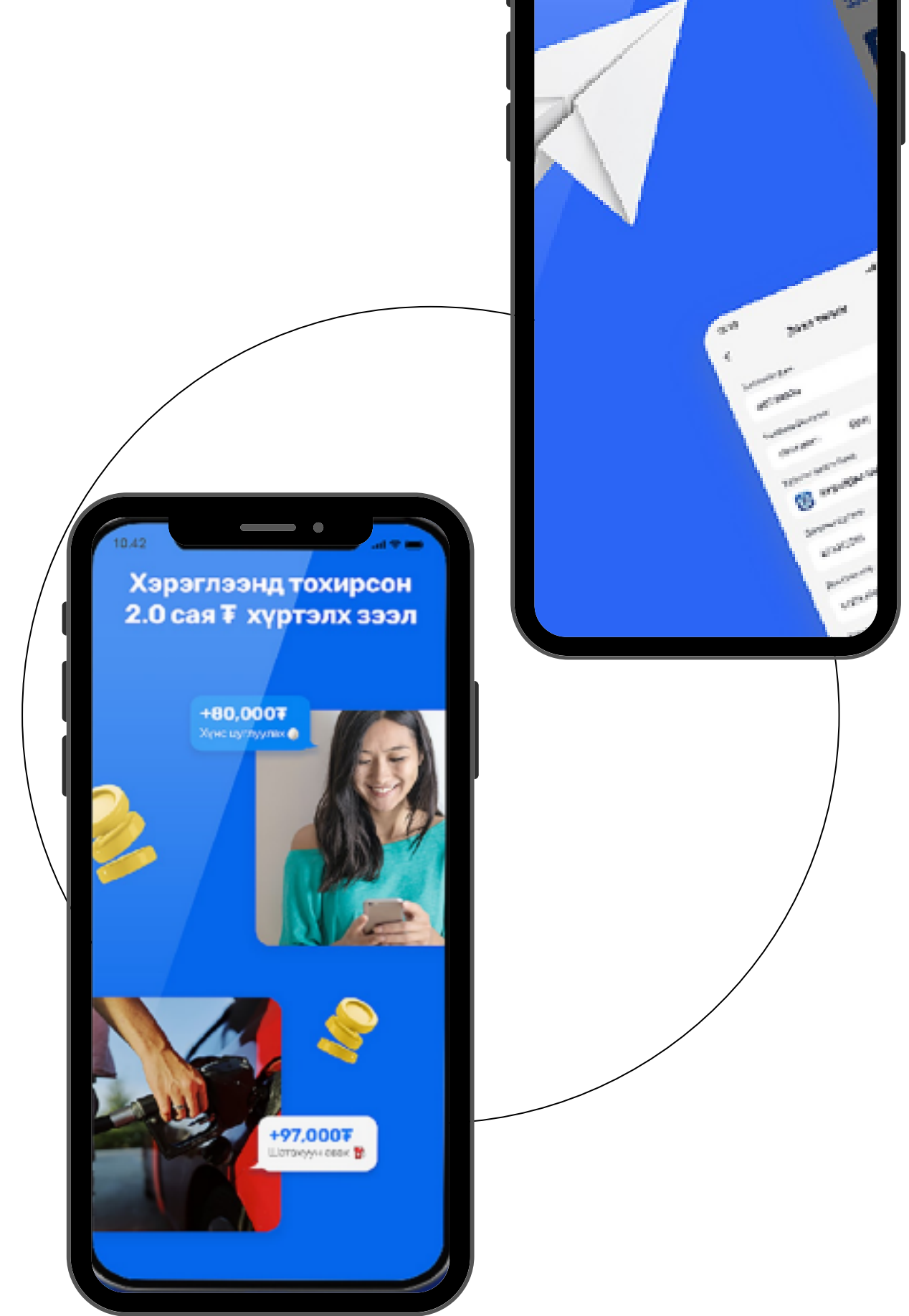
The project involves starting the design of a core system that will register, process, and report the necessary data for the main operations of a Non-Bank Financial Institution, such as customer relations, loans, payment settlements, and transactions.



NetWallet

NetWallet was successfully introduced.

It is a digital payment tool with the full capability to handle all types of payment settlements, transfers, and transactions.



Highlights in Credit Operations

Fully met the loan portfolio quality objective, ensuring that the ratio of non-performing loans in the total portfolio remained at a lower level than the industry average for Non-Bank Financial Institutions.

Developed and implemented a digital sub-system for securely storing borrowers' personal information and files.

Enabled the internal system to import customer account statements using the NetPay application for use in loan analysis. This allows the company to provide loan services to customers who receive their salaries via NBFIs

Enabled customer verification based on core data taken from state systems such as the HR system's fingerprint data (related to the Law on Personal Privacy), DAN, and the E-Mongolia system.

Integrated with the system of "Buren Score LLC," which provides Credit Information Bureau services.

Completed the full preparation and implementation of the Bank of Mongolia's ACH system to facilitate customer loan repayments and other payment settlements.

Completed the full preparation and implementation of the Bank of Mongolia's ACH system (Automated Clearing House) to facilitate customer loan repayments and other payment settlements.

Established a cooperation agreement with 16 organizations that offer "Eco System" services (car wash and repair services located near BGD, BZD, and SBD districts) for customers who have taken loans, providing them with discounted loyalty services.

Sustainable Finance Policy and Procedures



The company is developing a Sustainable Finance Policy and ESG (Environmental, Social, and Governance) Procedures and has been working to introduce sustainable finance into its operations since 2023.

Within the framework of unified documents of Mongolia to fulfill the UN Sustainable Development Goals (SDGs), "Netcapital Finance Corporation" NBFi started working to reduce the negative impact of global warming, climate change, and pollution, and contribute to the rational use and protection of natural resources, by considering environmental, social, economic, and governance factors when making financial decisions regarding investment and lending to clients and in its internal operations.

Furthermore, this cooperation with clients and organizations is an opportunity to grow sustainably and secure long-term investment from international markets and major projects.



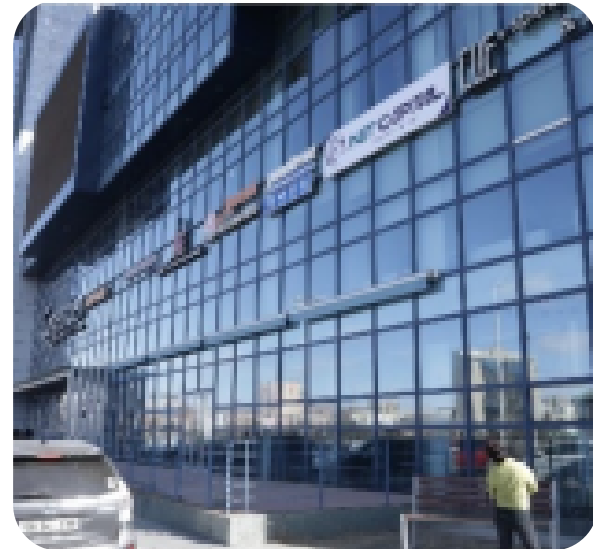
- Principle 1: Environmental Protection
- Principle 2: Protection of Human Rights and Society
- Principle 3: Protection of Cultural Heritage
- Principle 4: Promoting Green Economy Growth
- Principle 5: Promoting Financial Inclusion
- Principle 6: Promoting Ethical Financing and Corporate Governance
- Principle 7: Promoting Transparency and Accountability
- Principle 8: Leading by Example

Highlights of 2022

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Ulaanbaatar City Branches

To be closer to the micro, small, and medium-sized businesses and clients seeking loans operating in Ulaanbaatar city, we newly opened 2 branches in 2022, creating 50+ jobs. Consequently, there are now a total of 12 operating branches in Ulaanbaatar city.

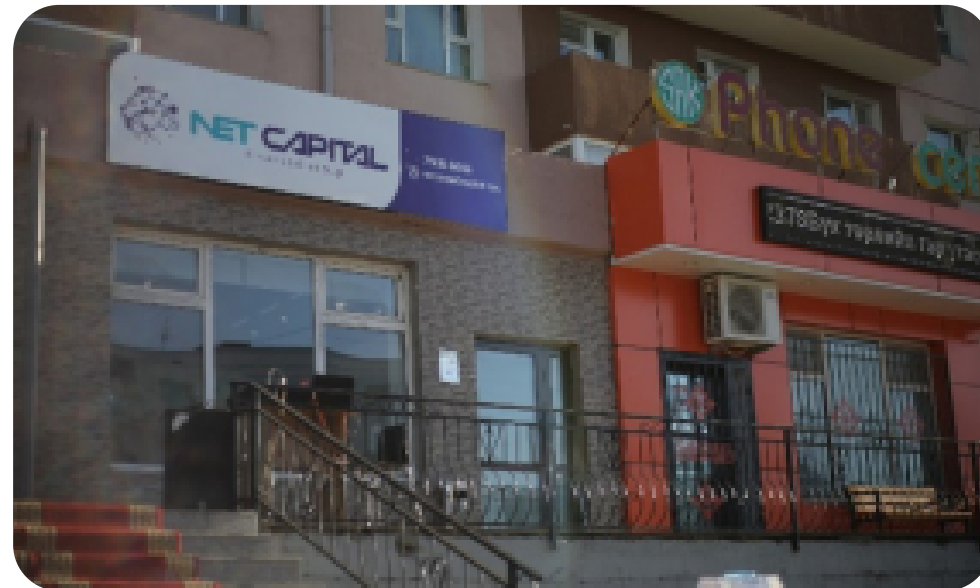


Highlights of 2022

Netcapital Annual report 2022

12 New Branches Opened Simultaneously in the Provinces

To be closer to the micro, small, and medium-sized businesses and clients seeking loans operating in the countryside, we newly opened 12 branches simultaneously in 2022, creating 100+ jobs. Consequently, there are now a total of 15 operating branches across 15 provinces.



Highlights of 2022

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Digital Lending Sector

To be closer to clients using digital loan services, we newly established the "Digital Lending Sector" in 2022, creating 25+ new jobs including a director, senior loan officer, loan officer, and service representative.

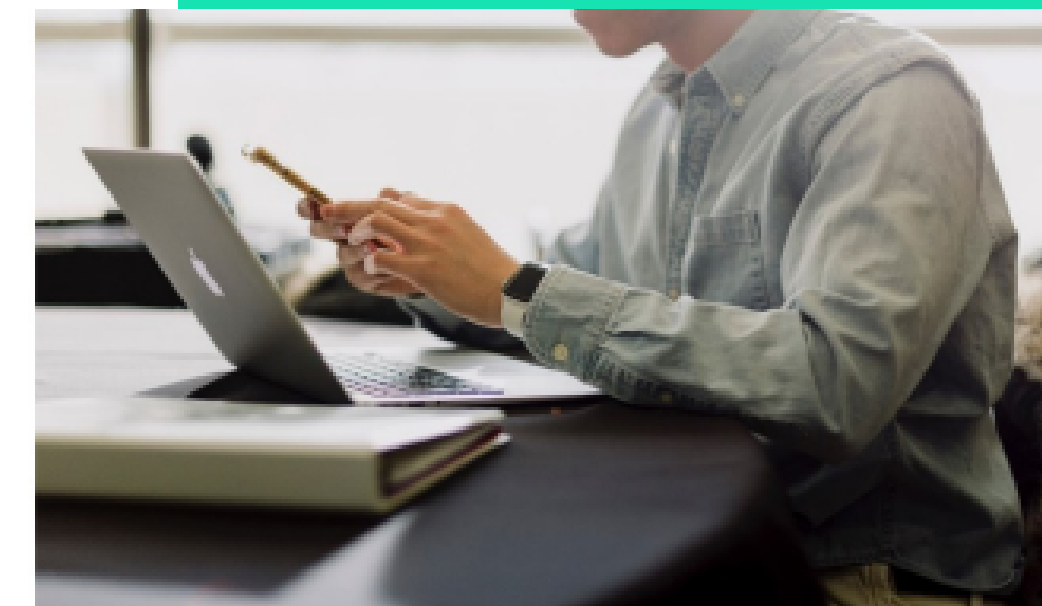
The service can now automatically verify the client's account turnover and income for digital products and determine the loan eligibility.



Client Service Center

The Client Service Center was newly established in 2022 and works to quickly resolve client services, client satisfaction, complaints, and suggestions.

The time taken to resolve a client complaint was reduced from an average of 48 hours to 1.2 hours.



Highlights of 2022

Netcapital Annual report 2022

International Standards Implemented in Company Operations

1. IFRS9 (International Financial Reporting Standard - IFRS 9)
2. ISO 9001:2015 Quality Management System
3. ISO/IEC 27001:2013 Information Security Management System



IFRS 9

The company sought consultation services from Grant Thornton Advisory LLC, located in Armenia, in the 3rd quarter of 2022. Preparation work was completed for implementing the standard in 2023. Within the framework of this standard, the company will calculate impairment on a phased basis and will begin using the international standard starting from 2023. The company is cooperating with Grant Thornton Advisory LLC, located in Armenia, to implement the IFRS 9 standard.

Highlights of 2022

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MNS/ISO 9001:2015 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.

MNS/ISO 9001:2015 Quality Management System Certification

Netcapital Finance Corporation NBFIL LLC has successfully implemented the internationally recognized ISO 9001:2015 Quality Management Standard in its operations, encompassing foreign exchange, investment, and financial consulting, as well as digital payment and service activities.

The ISO 9001 Quality Management Standard is the most widely adopted management standard globally, implemented in over 178 countries. The core purpose of this standard is to ensure the quality control of operational processes and services, meet external and internal requirements, and enhance customer satisfaction. We have successfully passed the ISO Audit led by experts and obtained certification, fulfilling the 9.2 requirement of the ISO 9001:2015 standard. This demonstrates our commitment to the effective implementation and continuous improvement of the QMS standard.



- Work in full compliance with requirements, ensuring all stages and processes are standardized.
- Design products and services based on customer needs and ensure continuous improvement and redesign capabilities.
- Quickly identify and satisfy customer requirements and expectations, improving service quality and enhancing customer satisfaction.
- Ensure high-quality, efficient service delivery by managing processes, resources, and risks over the long term, thereby increasing returns and satisfying stakeholders.
- Focus on key customer segments and satisfy their specific needs by offering high-quality products and services.
- Achieve a strategic plan comparable to the level of international standards through internal and external analysis of the organization.
- Gain the capability to adhere to all regulatory, licensing, and planning requirements.

Structure of Internal audit

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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" NBFIL 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

Netcapital Annual report 2022

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.

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 3.7% .

Risk management

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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

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