

# ANNUAL REPORT 2021

Netcapital Finance Corporation NBFi

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**Vision:**

To lead the Fintech revolution in the digital era

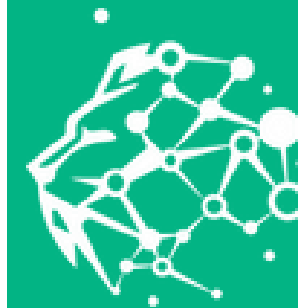
**Mission:**

Digital banking in your hands

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**NET CAPITAL**  
financial group



## Letter from the Chairman of the board

The past year has been challenging, yet it was also marked by significant achievements and hurdles, even amidst the ongoing impact of the pandemic. We have kept pace with this rapid change, gradually implementing internal and external changes to our company structure and preparing ourselves to become a semi-tech company.

In 2021, the organization redefined its Mission, Vision, and Values for the next 10 years and updated its long-, medium-, and short-term strategic policies. As part of this, it opened 12 flagship branches in the region and added 100 new jobs. It also became the first NBFI to implement the internationally recognized Quality Management System (QMS) ISO 9001:2015 standard, and we are working to introduce the International Information Security Management System (ISMS) ISO/IEC 27001 standard in 2022.

By diversifying credit risk, implementing integrated product developments, digitizing traditional credit services, and fully launching our Digital Goods, Digital Merchant, and Digital Credit products—all underpinned by a three-tier risk management structure—the company has maintained its non-performing loan portfolio at a level lower than the industry average.

I would like to express my deepest gratitude to all of our valued customers, partners, and dedicated board members who are joining us on this long journey. We are committed to providing comprehensive financial services to every responsible citizen and creating a strong middle class in society in the coming years. We wish you continued success.

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

D. Altangerel





## Letter from the Chief Executive Officer

Dear customers and reliable investors,

With an independent and balanced Board of Directors, an experienced management team, sound management, and a solid culture and values, we reflect on 14 years full of both mistakes and successes that we have now left behind us.

Launched in 2008 with just five employees and \$200\$ million MNT in capital, the Netcapital family has consistently kept pace with market dynamics. Over the years, we have introduced innovative products and services to provide micro and small financial services to citizens. Today, we have expanded into a group company comprising 350 employees and operating 27 branches across Mongolia, establishing a major presence in the NBFI sector.

Our achievements are validated by the Global Banking & Finance Awards, an international program that annually honors the best in the financial sector. Recognizing our contribution to the development of non-bank financial institutions in Mongolia, the organization cited our outstanding success in strategic management and customer-centric products. Being recognized as an industry leader and accelerator and selected as one of "The Next 100 Global" companies for 2021 is powerful proof of this commitment.

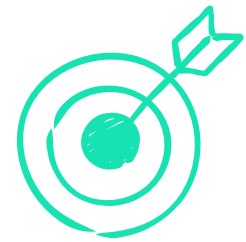
Netcapital Finance Corporation NBFI LLC is driven by the vision of providing digital financial services not only in Mongolia but also internationally over the next decade, aiming to significantly contribute to the Mongolian economy and foster a strong middle-class society. Despite the instability of our nation's economy, I am confident that Netcapital's established systems, reliable investors, valued customers, and professional team will successfully navigate the coming years, achieve our strategic goals, and make a lasting positive contribution to the country.

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

N. Undrakh

A handwritten signature in black ink, appearing to be 'N. Undrakh', written in a cursive style.

# Vision, Mission, Value, Culture



## Vision

To lead the Fintech revolution in the digital era



## Mission

Digital banking in your hands



## Value

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

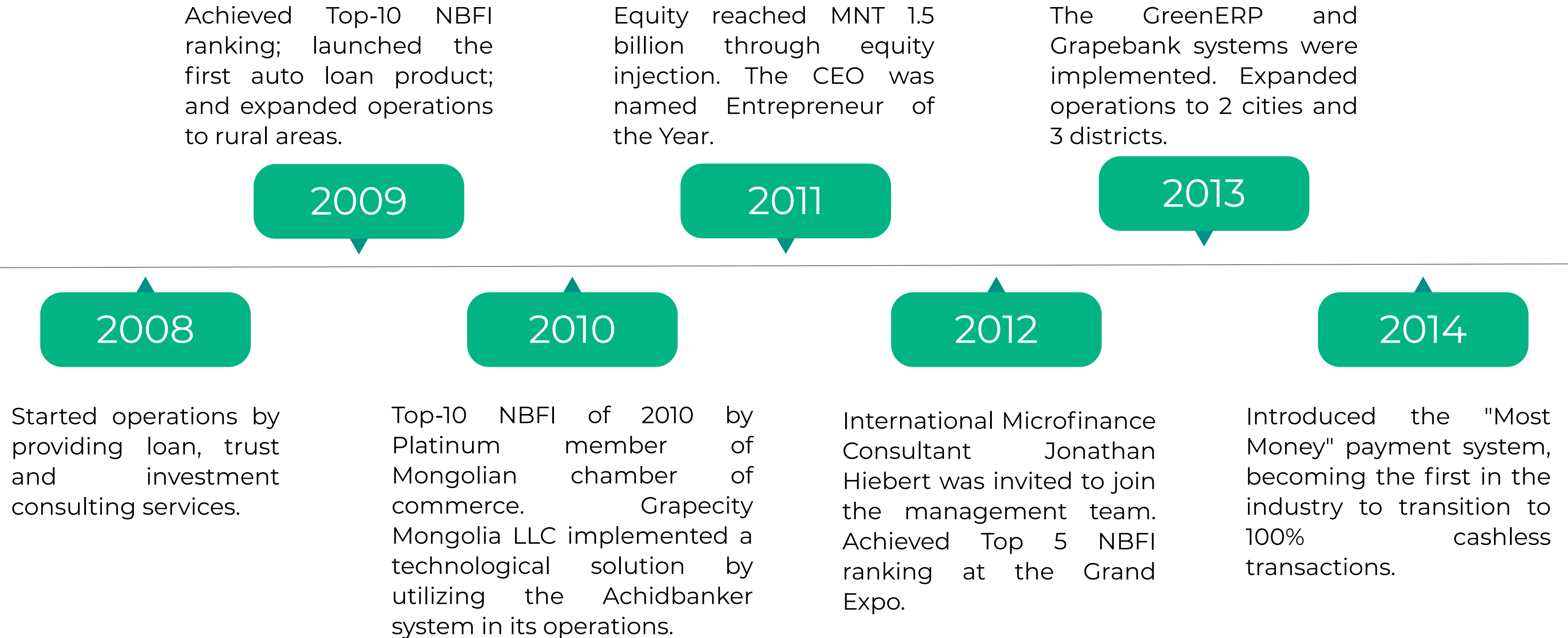


## Culture

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



# Company achievements



# Company achievements

Successfully developed and implemented professional and personal training programs.

2016

Successfully implemented the '10,000 Smiles' project. Received the 'Best Social Responsibility Implementing Organization of the Year' award from the MFI Association.

2018

Initiated a project to introduce NETAPP, an electronic loan service utilizing FinTech solutions, to the market.

2020

2015

Launched new products and services aligned with the Sustainable Development Goals (SDGs) for 2030

2017

Introduced 'Mobile Credit,' a new product available on mobile phones. Opened a new branch in Sukhbaatar District.

2019

In alignment with our social responsibility commitments, we were the General Sponsor for the "Special Olympics" Games in the UAE and successfully launched the "LANGUAGE HAS NO BOUNDARIES" project, offering free English training to 300 children in remote areas. We also expanded our focus on financial literacy by establishing NetAcademy LLC to provide specialized educational and training services.

2021.Q1

Opened three new branches: 'Khoroolol' (Bayangol District), one located at the Da Khuree Auto Trade Center, and 'Sansar' (Bayanzurkh District).

# Company achievements

Officially implemented HubSpot. Introduced and commenced use of OKR, Scrum, and JIRA methodologies within the central unit's operations.

2021.Q3

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

2021.Q4

Opened a new 'Ikh Mongol' branch in Khan-Uul District, Ulaanbaatar.

2021.Q4

2021.Q2

Expanded the organizational structure and established 8 new branches. Renewed and approved the company's Vision, Mission, and Core Values.

2021.Q3

NetApp, a FinTech solution for electronic loan services, was successfully launched in the market.

2021.Q4

Was named the Best MFI of 2021 by the Global Banking & Finance Awards, a renowned journal in the international banking and finance sector.

2021.Q4

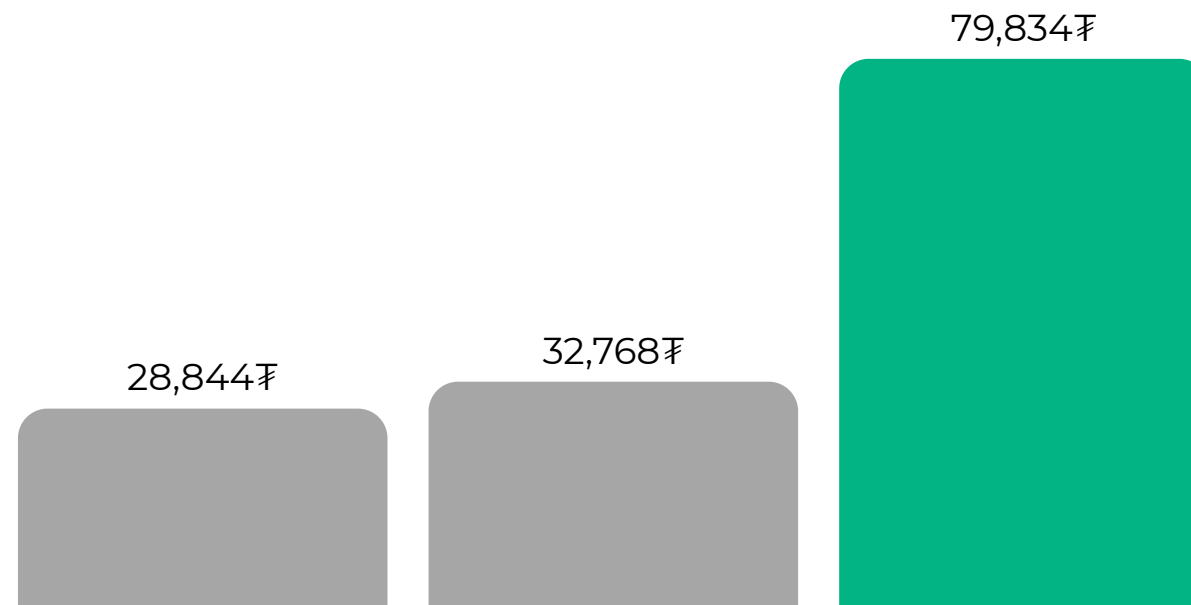
Commenced operations on the 22nd floor of the Shangri-La office to focus on attracting investment and raising funds.



# Financial performance

Total asset /million, ¥/

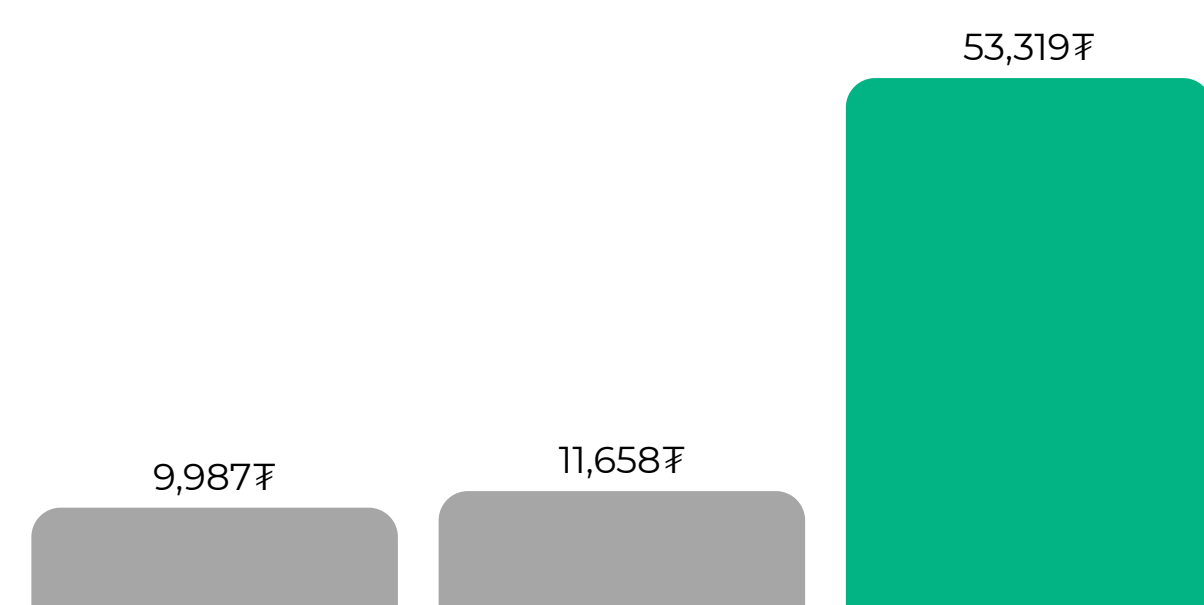
● 2019 ● 2020 ● 2021



**\*In 2021, the total assets increased dramatically by 47,066 million ¥, a growth of 143.6%.**

Total liabilities /million, ¥/

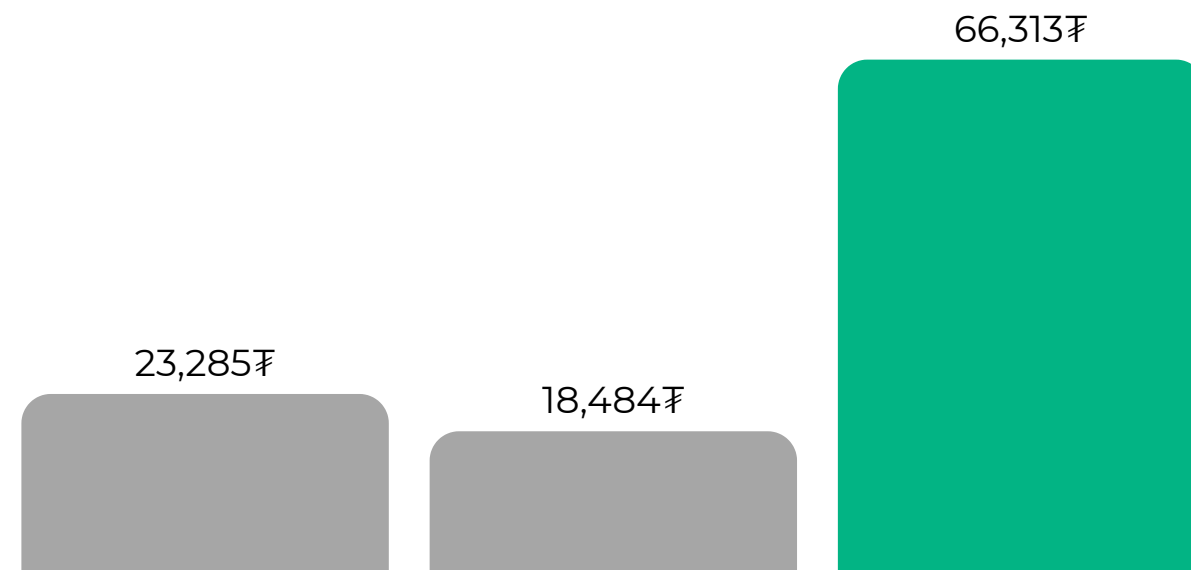
● 2019 ● 2020 ● 2021



**\*In 2021, total liabilities saw a substantial increase of 41,661 million ¥, a massive growth of 357.3%.**

Loan portfolio /million, ¥/

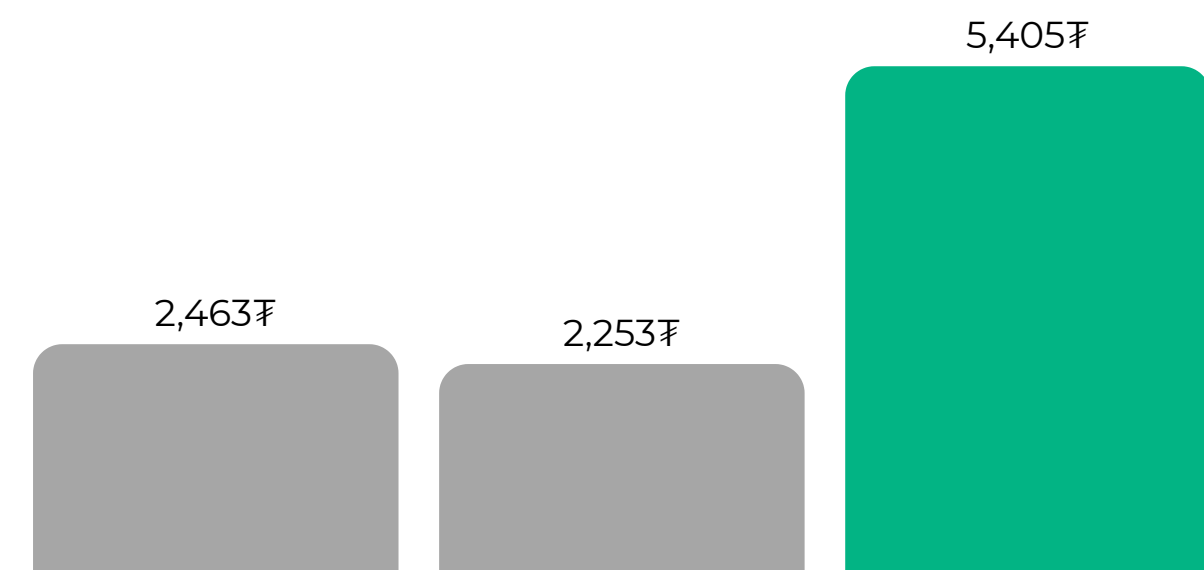
● 2019 ● 2020 ● 2021



**\*In 2021, the loan portfolio grew significantly by 47,829 million ¥, an increase of 258.8%.**

Net Profit /million, ¥/

● 2019 ● 2020 ● 2021



**\*In 2021, the net profit increased by 3,152 million ¥, a growth of 140%.**

# Awards in 2021

Leveraging the knowledge and experience gained in the international banking sector, NetCapital Financial Group was recognized for its adherence to the best global practices and was awarded as the Best Bank and Financial Institution in the country by the Global Banking & Finance Awards.

Netcapital finance corporation 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 recognition is a notable achievement, demonstrating the company's ability to successfully manage and provide services, even amidst a difficult and challenging economic situation marked by high inflation and rising interest rates.

- Profit growth of 102%
- Net profit of 93%
- Total assets growth of 272%
- Capital adequacy ratio is over 95%.

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# Corporate Governance

Netcapital Finance Corporation NBFI LLC is a limited liability company established in Mongolia. As such, we are subject to the laws and regulations of Mongolia and are obligated to comply with the Corporate Governance Code endorsed by the Banking and Financial Sector Supervision Department of the Bank of Mongolia.

Moving forward, we will focus on implementing the revised “Corporate Governance Code”, continuously assessing the effectiveness of our governance regulations, and modernizing our framework in the near future.



# Board of directors

The Board of Directors (BoD) decides on matters other than those strictly reserved for the General Meeting of Shareholders and matters reserved for elected shareholder representatives.

As of June 2022, the BoD consists of seven members: one member nominated by the shareholders, one executive director, and five non-executive directors.

The Chairman of the BoD is a non-executive, qualified member elected by the shareholders, and the BoD's composition includes members with expertise in banking, technology, real estate, and other diverse sectors. Since more than 70% of the total members are Independent members, they ensure unbiased decision-making.

| Nº | Name                     | Position                       |
|----|--------------------------|--------------------------------|
| 1  | Dorjtseren ALTANGEREL    | Chairman of Board of Directors |
| 2  | Nergui UNDRAKH           | Chief Executive Officer        |
| 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             |



# Member of the Board of directors



## **D. Altangerel**

Chairman of Board of Directors

Mr. Altangerel has served as the Chairman of the Bank's Board of Directors since 2022, following his appointment by resolution of the General Meeting of Shareholders. He has expertise in modern technology and digital trends, and has experience holding management positions in leading Mongolian organizations since 2008.



## **N. Undrakh**

Chief Executive Officer

Ms. Undrakh has been serving as a member of the company's Board of Directors since 2020, having been elected by the Shareholders' Meeting. She is a banking and finance professional and has been working in the finance sector since 1998. She has experience serving in leadership positions in major Mongolian private media organizations. In 2008, she founded and has been managing the company.



# Independent Member of the Board of directors



**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



**SH. CHUDANJII**

**Independent Member  
of Board of Directors**

Ms. Chudanjii 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.



# Highlights of 2021

- Branch of Grand Plaza
- Branch of Gegeenten
- Branch of Park-Od
- Branch of Ikh Mongol
- Branch of Khoroolol

The company successfully generated over 50 new positions in 2021 across its key departments, encompassing various levels from Head of Department and Senior Officer to Officer and Trainee.



# 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.



# 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.

# Risk Management

The company has established a Risk Management team with the purpose of improving its value, identifying all types of risks that affect the company's goals, and managing them. The team is capable of supporting innovation, improving performance, and creating a strong corporate culture.

## ***Risk Management Policy Document***

The risk management policy, the general rules for risk management, the Credit Risk Management Procedure, the Operational Risk Management Procedure, and the Policy for Active Asset-Liability Management have been approved by the Board of Directors (BoD). This provides the opportunity to define the scope of activities, restrict them, and monitor processes through the Tableau dashboard.

## ***Risk Management Structure and Accountability***

The Group's risk management accountability is exercised through three lines of defense based on the rights and responsibilities delegated by the Executive Management and the BoD. The Group's risk management structure and accountability are based on three key documents and implemented with a focus on risk responsibility, control, and governance.

# Risk Management

## Operational Risk Management .....>

The goal of Operational Risk Management is to anticipate and prevent potential risks by managing day-to-day operational risks. This is achieved by aligning the Group's operations with the SIPOC process for every business activity, including training, material purchases, and inventory management.

Netcapital finance corporation identifies, tracks, assesses, and responds to all risks associated with its operations, and thoroughly plans and documents all necessary corrective actions quarterly.

## Technology and Information Security Risk Management .....>

Since the NBFIs sector is facing rapid technological advancement, model changes, and increasing competition, Information Security Risk is directly perceived as a critical vulnerability.

To protect the valuable data and assets of the organization and its customers, the Information Security Risk Management Policy addresses the following areas: information access control, physical security control, system and network security control, incident handling, forensic investigation, and logical management, among others.

## Environmental, Social, and Governance (ESG) Risk Management .....>

Netcapital finance corporation's business activities may have an impact on the environment and society, and this is regulated by the Risk Management Policy on Prohibited Activities.

As part of our social responsibility, we plan and implement activities focused on public welfare. Regarding health, safety, and security risk management, we prevent risks by complying with labor agreements and providing employees with all necessary equipment and office conditions.

## Credit Risk Management .....>

The year 2021 was a difficult year for the entire world due to the COVID-19 pandemic. In Mongolia, the long quarantine period and closing of the two largest border crossings severely impacted the economy, raising inflation to 11.1% and interest rates to 13.4%. This environment necessitated enhanced credit risk management. The Group has developed a Credit Risk Management Structure, Policy, and Procedure and established an effective foundation for assessing and managing credit portfolio risks.



# 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



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