



ANNUAL  
2016  
REPORT



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## MISSION

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

## VISION

We strive to maintain our outstanding customer service, leadership in Corporate Social Responsibility activities and serve our clients with banking products and services through convenient online and physical channels.







# ARIG CULTURE

## The Foundation of our existence

The whole concept of “business” is to offer something people want and get rewarded for doing so. Whoever builds better things for people and delivers them better, does better than others. So we see that business is and should be all about the person on the receiving end - the end customer, and giving them great experiences. At Arig, we are striving to do just that - to create great customer experiences.

## Most Valuable People, face of the bank

We want our team, that directly interacts with customers, to be highly intuitive, genuinely caring, properly communicative, and well qualified professionally. Our customer care team is of paramount importance to us. They provide us with priceless information on customer needs and preferences, communicate their feedback and criticism. They have the empowerment and duty to demand, from the Support Team, urgent improvement of services whenever needed.

## Support the Customer Care Team in every way

The ultimate purpose of the Support Team’s existence is to assist and support our Customer Care Team in every way, so that they can build great customer experiences. Some of many different types of support include product design, processes, management, risk, marketing, etc.

## Exemplary supporter of the, Customer Care Team

Out of the entire Support Team, it is the Chief Support Officer’s duty to be the biggest supporter of our Customer Care Team and inspire the rest of the Support Team, to ensure great customer experiences.



## OVERVIEW OF MONGOLIAN ECONOMY IN 2016

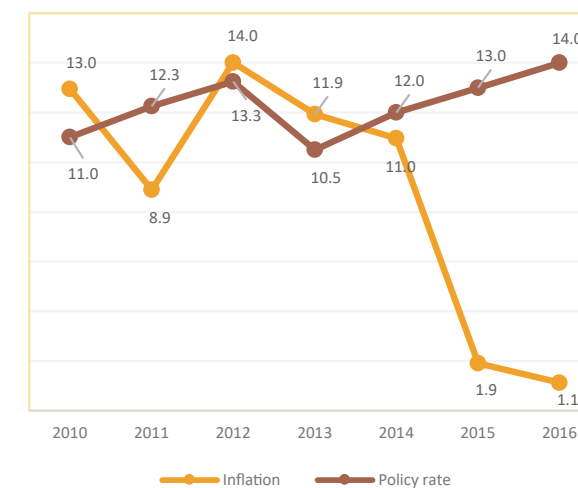
In 2016, the growth of Mongolian economy plummeted to 1%, record low since 2009. While in 2010-2012, construction, commerce, and financial sectors were main drivers behind economic growth, in 2013-2015, growth of the mining sector played the main role. While 2016 saw no growth in the mining sector, other non-mining sectors grew 1.1%. The nominal GDP in 2016 was MNT23.9 trillion or USD9.6 billion, which amounted to MNT16 trillion using 2010 as a base year and is MNT154.5 billion greater than the previous year. Transportation storage and agricultural industries together increased by 8% or MNT246.8 billion, whereas the construction sector shrank by 16%, leading to total decrease

in productions by MNT93.3 billion. The trade and commerce sectors also experienced decline in 2016, with 11% decrease during the last two years. With the start of 2016, the four changes made to the policy interest rate by the Mongol Bank was unprecedented since 2009, among which, the increase by 4.5% to 15% in August shows reluctance from the Bank of Mongolia to make substantial interventions in order to stabilize the currency market policy measure to prevent depreciation of the Mongolian tugrug. At the end of the year, inflation was 1.1%, where commodities that have high weights in the Consumer Price Index such as meat, vegetables, and apartments were relatively stable, or decreased.

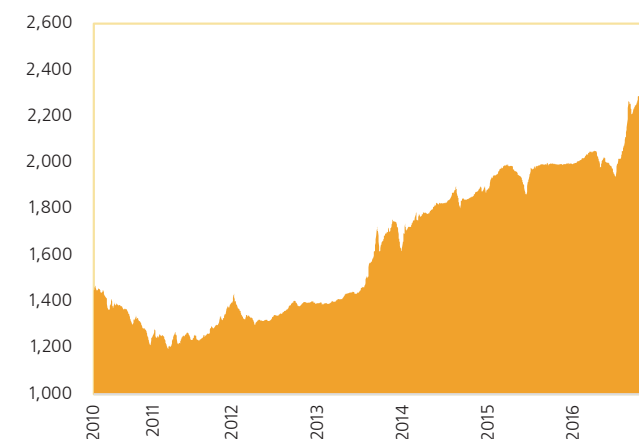
Economical growth %



Inflation & Policy rate (%)



Exchange rate USD to MNT



# SUMMARY OVERVIEW OF THE BANKING SECTOR PERFORMANCE IN 2016

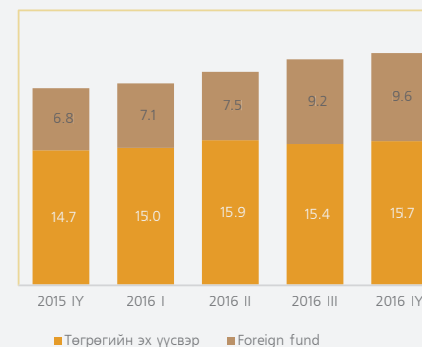
In 2016, the following events affected the banking sector:

- The increase in exchange rate of USD against MNT by 25% affected banks' loans, deposit structure, and asset quality.
- There have been four changes in total to the policy rate from Bank of Mongolia which was never happened since 2009.
- Although the government started implementing the 5% mortgage loan program, it discontinued soon afterwards.
- The construction sector productions and the Apartment Price Index declined by 16% and 4.3% respectively.
- Loans provided to real estate and construction sectors constituted 26% of the total loan portfolio in banking system.
- The non-performing loan portfolio reached MNT1.0 trillion, constituting 8.5% of the total loan portfolio.

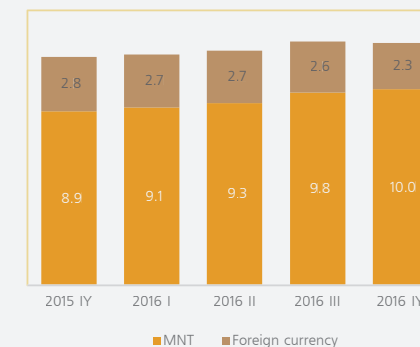
Total assets of the banking sector reached MNT25.3 trillion, increasing by 17.7% from the previous year. Looking structurally, increase of 1.0 trillion in tugrug sources constituted of the increase, while foreign currencies increased by an equivalent of MNT2.8 trillion. Thanks to the increase in currency exchange rates, foreign currency sources increased by MNT1.9 trillion, thus making the real growth of assets in the banking sector 8.8%. During the fiscal year, total loan package increased by MNT704 billion or 6%, where tugrug loans increased by MNT1,134 billion and foreign currency loans decreased by MNT430 billion.

In 2016, total deposits in the banking sector increased by 20%, reaching MNT11.5 trillion. Foreign currency deposits increased by MNT1.3 trillion, constituting 37% of the total deposits.

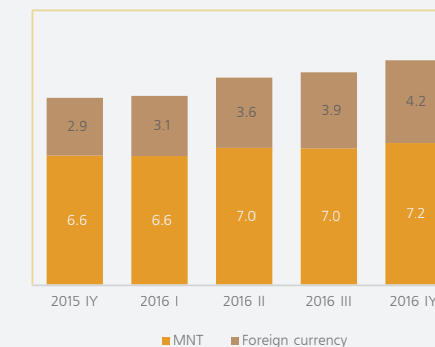
**TOTAL ASSET**  
(trillion)



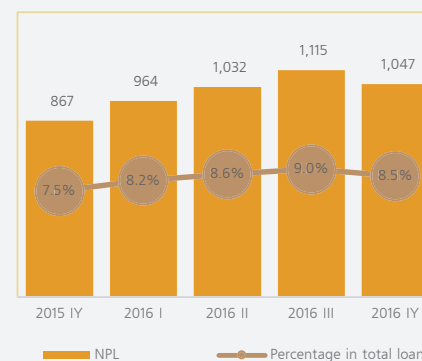
**TOTAL LOAN**  
(trillion)



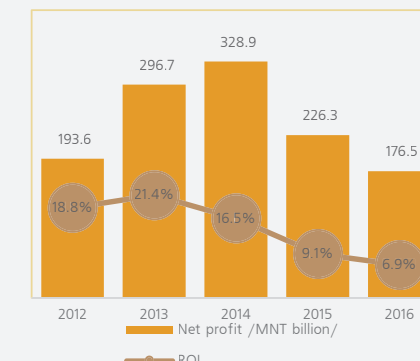
**DEPOSITS**  
(trillion)



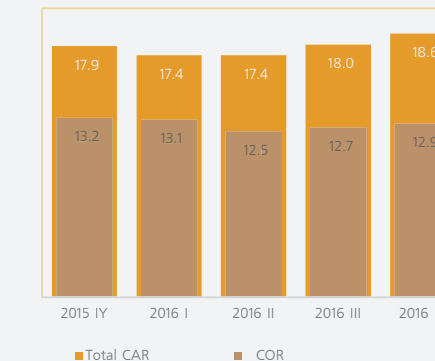
**NPL**  
(billion)



**PROFITABILITY**



**CAPITAL ADEQUACY RATIO**  
(%)



# independent AUDIT REPORT



20 February 2017

№ 3/02

Ulaanbaatar

## Independent Auditors' Report

To the Board of Directors and Shareholders of  
Arig Bank LLC:

## Audit of Financial Statements

### Opinion

We have audited the accompanying financial statements of Arig Bank LLC (the "Bank"), which comprise the statement of financial position as of 31 December 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and explanatory notes, comprising a summary of significant accounting policies and other information.

In our opinion, the financial statements give a true and fair view of the financial positions of Arig Bank as of 31 December 2016 and 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as modified by Bank of Mongolia guidelines.



| ASSETS   | 2016.12.31  | 2015.12.31  |
|--|-------------|-------------|
| Cash and cash equivalents                      | 3,055,287   | 3,080,895   |
| Current account with other banks               | 28,074,620  | 17,153,740  |
| Deposit with other banks                       | -           | 4,982,500   |
| Investment securities                          | 10,995,037  | 12,957,971  |
| Loan /net/                                     | 52,265,005  | 56,203,624  |
| Foreclosed properties /net/                    | 2,041,386   | 771,793     |
| Fixed assets /net/                             | 5,158,398   | 3,732,362   |
| Intangible assets                              | 318,725     | 400,864     |
| Long term investment                           | 1,370,753   | 1,254,453   |
| Deferred Tax assets                            | 22,991      | 185,383     |
| Other assets                                   | 891,404     | 2,046,396   |
| Total assets                                   | 104,193,605 | 102,769,981 |
| LIABILITIES                                    | 2016.12.31  | 2015.12.31  |
| Current account                                | 2,732,273   | 1,902,147   |
| Deposits                                       | 65,268,739  | 72,274,285  |
| Bills sold under repurchase agreements         | -           | -           |
| Funds from other banking Institution           | 16,736,066  | 10,332,678  |
| Borrowed funds                                 | 209,933     | 320,097     |
| Other liabilities                              | 3,066,986   | 4,299,820   |
| Total liabilities                              | 88,013,997  | 89,129,027  |
| OWNER'S EQUITY                                 | 2016.12.31  | 2015.12.31  |
| Equity fund                                    | 16,290,000  | 16,290,000  |
| Reserved and other funds                       | 132,619     | 3,041.2     |
| Current period earnings/loss                   | 2,431,369   | (951,430)   |
| Previous period earnings/loss                  | (2,674,380) | (1,700,657) |
| Total equity                                   | 16,179,608  | 13,640,955  |
| Total liabilities and Owner's equity           | 104,193,605 | 102,769,981 |
| PRUDENTIAL RATIO                               | 2016.12.31  | 2015.12.31  |
| Tier 1 Capital adequacy ratio                  | 26.79%      | 21.60%      |
| Capital adequacy ratio                         | 27.01%      | 21.60%      |
| Liquidity ratio                                | 47.70%      | 42.88%      |
| INCOME STATEMENT                               | 2016.12.31  | 2015.12.31  |
| Interest Income                                | 17,036,356  | 16,509,164  |
| Interest Expense                               | 9,764,674   | 9,999,262   |
| Net Interest Income                            | 7,271,682   | 6,509,902   |
| Credit Risk Reserve Fund Expense               | 2,913,507   | 3,074,162   |
| Net Risk Reserve and asset revaluation expense | 2,913,507   | 3,074,162   |
| Non-interest income                            | 1,439,693   | 1,112,246   |
| Non-interest expense                           | 5,941,931   | 6,059,385   |
| Net Non-Interest Income                        | (4,502,239) | (4,947,139) |
| Operating income                               | 3,405,156   | 660,535     |
| Operating expenses                             | 472,521     | 128,409     |
| Net Operating income                           | 2,932,635   | 532,126     |
| Profit before taxation                         | 2,788,571   | (979,274)   |
| Income tax expense                             | 357,202     | (27,844)    |
| Net profit after tax                           | 2,431,369   | (951,430)   |

## FINANCIAL REPORT

as of December 31, 2016  
(in thousand of MNT)

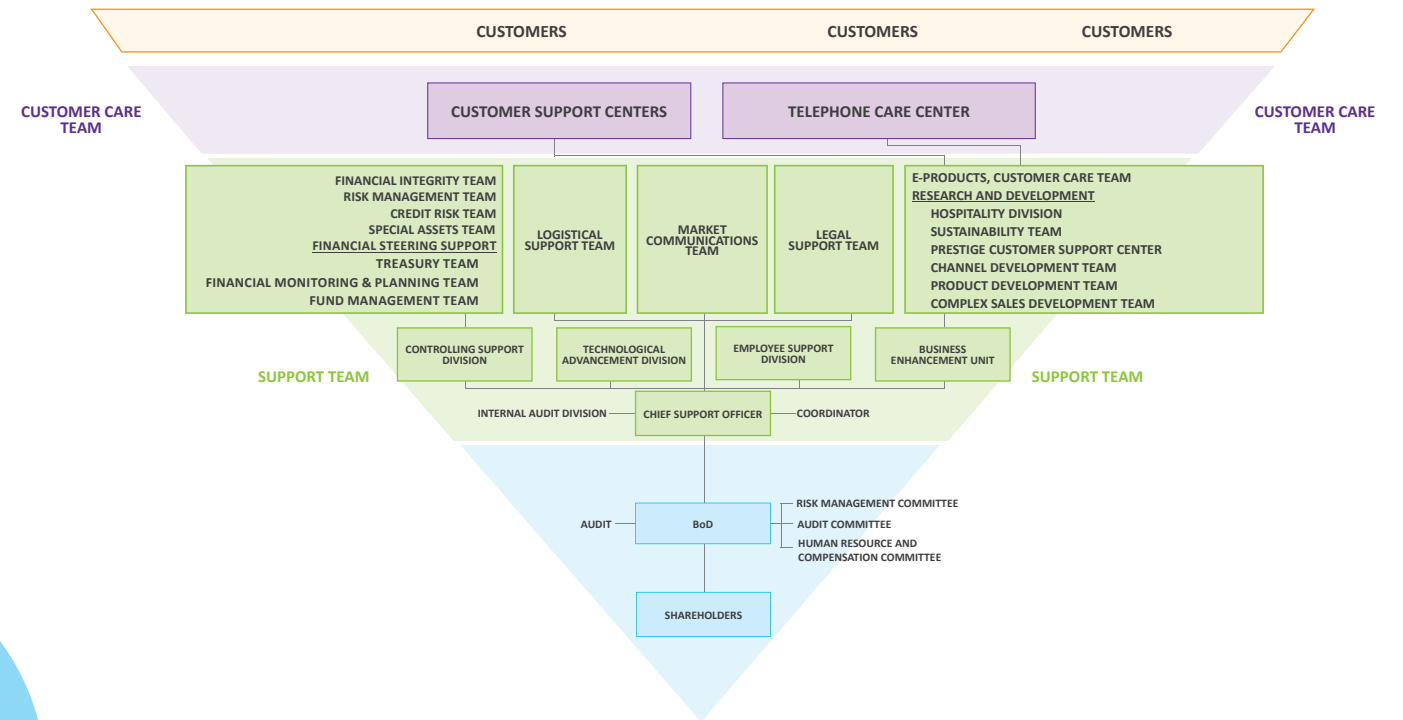
# SHAREHOLDERS

The Dem Financial Group LLC holds 60.46% of total shares and Ulaanbaatar Impex LLC holds 39.54% shares of the bank.

**Dem Financial Group LLC** is holding company of Arig Bank which main business focuses on banking and finance sector.

**Ulaanbaatar Impex LLC** is a subsidiary company of Nomin Holdings LLC which provides importers and manufacturer goods in accordance with hygiene and standard requirements, safe transportation to customers, freight forwarder, customs bonded warehouse services are delivered at once.

# STRUCTURE





# BOARD OF DIRECTORS

The Board of Directors has established 3 standing committees to assist in the execution of its responsibilities: Audit Committee, Risk Committee, Remuneration Committee.



**ERDENE-SANAA BURENJARGAL**  
Chairman, Independent director

Erdenesanaa, the director of "Signum Resource" company, has been working as independent director of Board of Directors of Arig Bank since 2010. He is a valuable leader who worked at Trade and Development Bank of Mongolia since 1991 with extensive experience in banking sector. His contribution to Mongolian banking sector includes successfully introducing major international payment cards - American Express, Visa, MasterCard and JCB, as well as introducing MoneyGram, an international money wire service, throughout the country after establishing Invevcom financial company.



**MUNKH-ERDENE PUREV**  
Independent director

Chief Executive Officer of  
Noyon uul Erdene LLC



**SAINBAT SANJAA**  
Non-Executive Director

Chief Executive Officer of  
Nomin Holdings



**SERGELEN DAVAAKHUU**  
Non-Executive Director

General Director of Erel Holding



**TUMURKHUU DAVAAKHUU**  
Executive Director

Chief Executive Officer of Arig Bank



**ARIUNJARGAL BALDANJAMTS**  
Non-Executive Director

Finance and Business Operations  
Director of Nomin Holdings



**JARGALAN ERDENE-BAT**  
Non-Executive Director

CEO of Erel Holdings



## LEAD SUPPORTERS TEAM

### TUMURKHUU DAVAAKHUU Lead supporter /Chief Executive Officer/

Prior to joining Arig Bank, Tumorkhuu was a Relationship Manager at Wainwright Bank, Boston, Advisor at Smith Barney, Boston, Managing Partner at DJ Properties, New York City.

Tumorkhuu earned his MBA in Financial Management at Pace University, New York City, and his BA in Applied Linguistics at Otgontenger University, Ulaanbaatar, Mongolia.



### MUNKBAYAR BATKHUU Lead Supporter Technological Advancement Division

Munkbayar earned his bachelor's degree in Business Administration from the Institute of Finance and Economics and graduated his master's degree in Computer Science from the Mongolian University of Science and Technology. For the past 18 years, he has held management positions across various sectors including communications, IT, banking, trade and import, health and pharmaceutical companies, supply and storage, government and non-government organizations.

Munkbayar is working as the Lead Supporter of the Technological Advancement Division at Arig bank since 2014.



### MUNKHZUL GANBAATAR Lead supporter Hospitality Division

Munkhzul earned her bachelor's degree in Russian studies from the National University of Mongolia in 2005 and received a MA degree in European Studies from Bucharest Academy of Economic Studies in 2010. Throughout her professional career, Munkhzul has worked at an international environmental protection NGO, veterinary pharmaceutical importer in Sofia, Bulgaria, and at Air Market LLC in Ulaanbaatar, Mongolia



### AMARJARGAL BALDANJAMTS Lead supporter Business Enhancement Division

Amarjargal has been working at Arig Bank

since 2014.

He gained experience in banking operations management through his 7 years of work at XacBank as Branch Manager and Regional Director.

From 2008 through 2012 he worked as the Director of Logistics and Procurement Division as well as Risk Management and Internal Audit divisions of Energy Resource LLC. He earned his bachelor's degree in Business and Financial Administration from the Mongolian University of Science and Technology in 2003.



### NARANBAATAR RADNAA Lead Supporter Controlling Support Division

Radnaa (Naraa) has been working at Arig Bank since 2002.

Between 2002 and 2014, he held as the Internal Auditor and Head of Sales Support Division. From 2015, he has been working as the Lead Supporter of the Controlling Support Division. He started his career at Khotsh Bank in 1996, where he served as an internal auditor. Between 1999 and 2002, he has worked as a herder's loan officer of Gobi's business development project at USAID

He gained experience in banking operations and senior positions for 21 years. He graduated from the Institute of Finance and Economics with a degree in Bank Economist.



### ORKHON NANZADBAYAR Lead supporter Employee Support Division

Orkhon has extensive experience in

successfully managing and directing Human Resource Functions in Mongolian and foreign companies.

Orkhon is a psychologist by profession and obtained her Master's degree from the University of Eotvos Lorand in Hungary with a specialization in Organizational psychology.



### DELGER BYAMBARAGCHAA Auditor

Delger graduated from the National University of Mongolia, School of Economics with a degree in Financier. From 2007, she worked as an auditor and risk manager at Mongol Post Bank, Savings Bank, and State Bank. She is an auditor with extensive experience in the banking sector. The scope of her work includes providing independent evaluations on risk management, internal auditing system, and efficiency of the organizational structure as well as consulting services geared towards improvement of operations and company value.



# ARIG BANK IN THE REPORTING YEAR 2016

On October 7, 2015 Arig Bank joined the national program for financial literacy programs being implemented by Financial Stability Council with technical assistance from World Bank and supported by the Bank of Mongolia, Ministry of Finance, Ministry of Education, Culture and Science, and Financial Regulatory Commission. During 2016, We strive to improve fundamental financial education of our customers and public by organizing financial trainings at Arig Bank's support center every Saturday.

We contributed to improve fundamental financial knowledge of more than 2,000 individuals in 2016.



# A LEADER ORGANIZATION OF MONGOLIAN SUSTAINABLE FINANCE 2017

Arig Bank was recognized as a leading organization of Mongolian Sustainable Finance, privileged to lead other organizations by its initiatives on the sustainable finance.





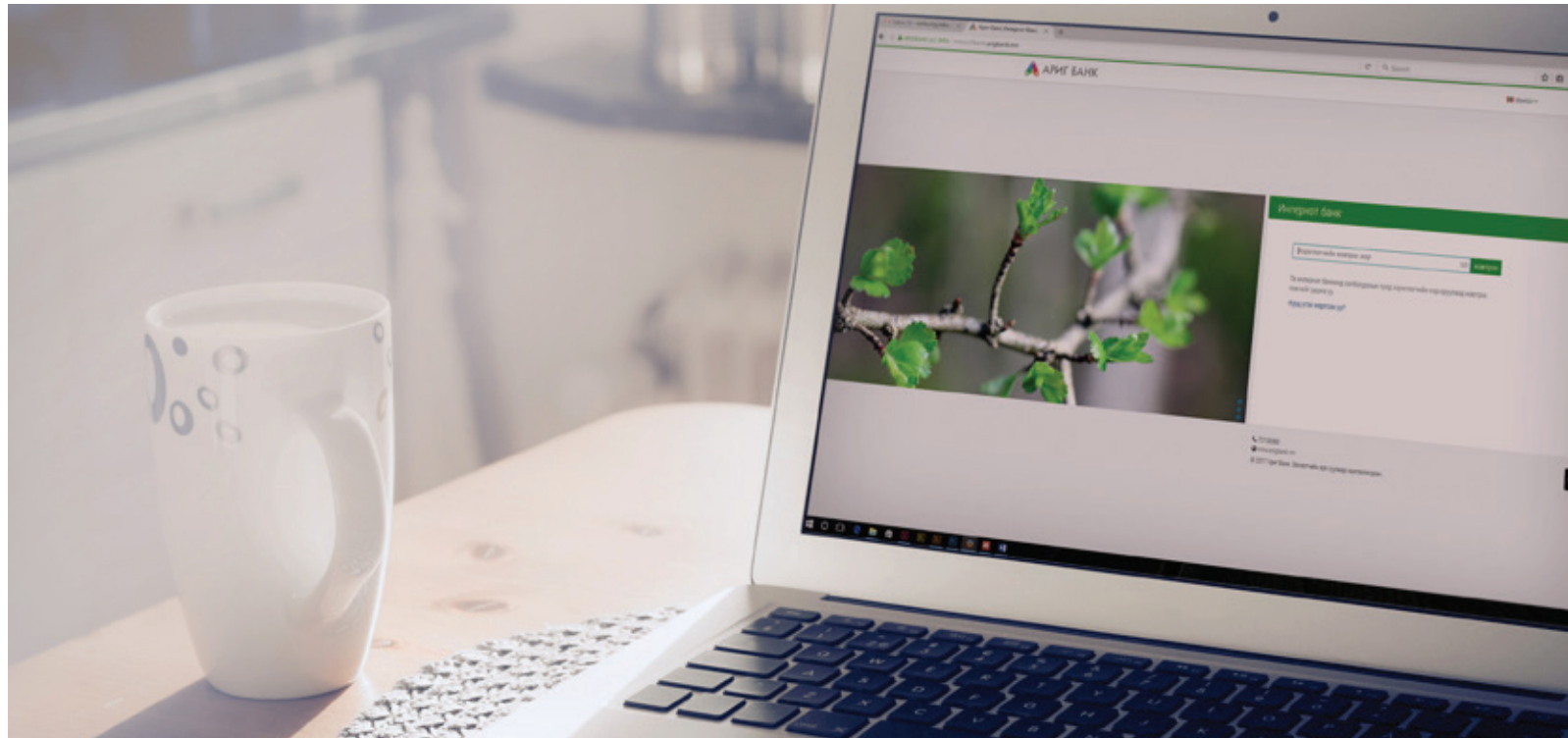
## E-MAIL CONFIRMATION

Email confirmation is one of banking services we introduced to our customers to save their valuable time utilizing technological advances. Now our customers are able to make inter-bank and intra-bank transactions without having visit at customer support center, but only by ordering transaction(s) to customer care advisor. An automatic confirmation email request sent to our customer's registered email address as customer care advisor types the transaction(s) order into the MIS and upon receipt of confirmation from customer transaction(s) will be executed automatically. The transaction execution process is automatic or does not require manual task makes it secure and reliable.



## PAY DOWN YOUR LOAN USING INTERNET BANKING

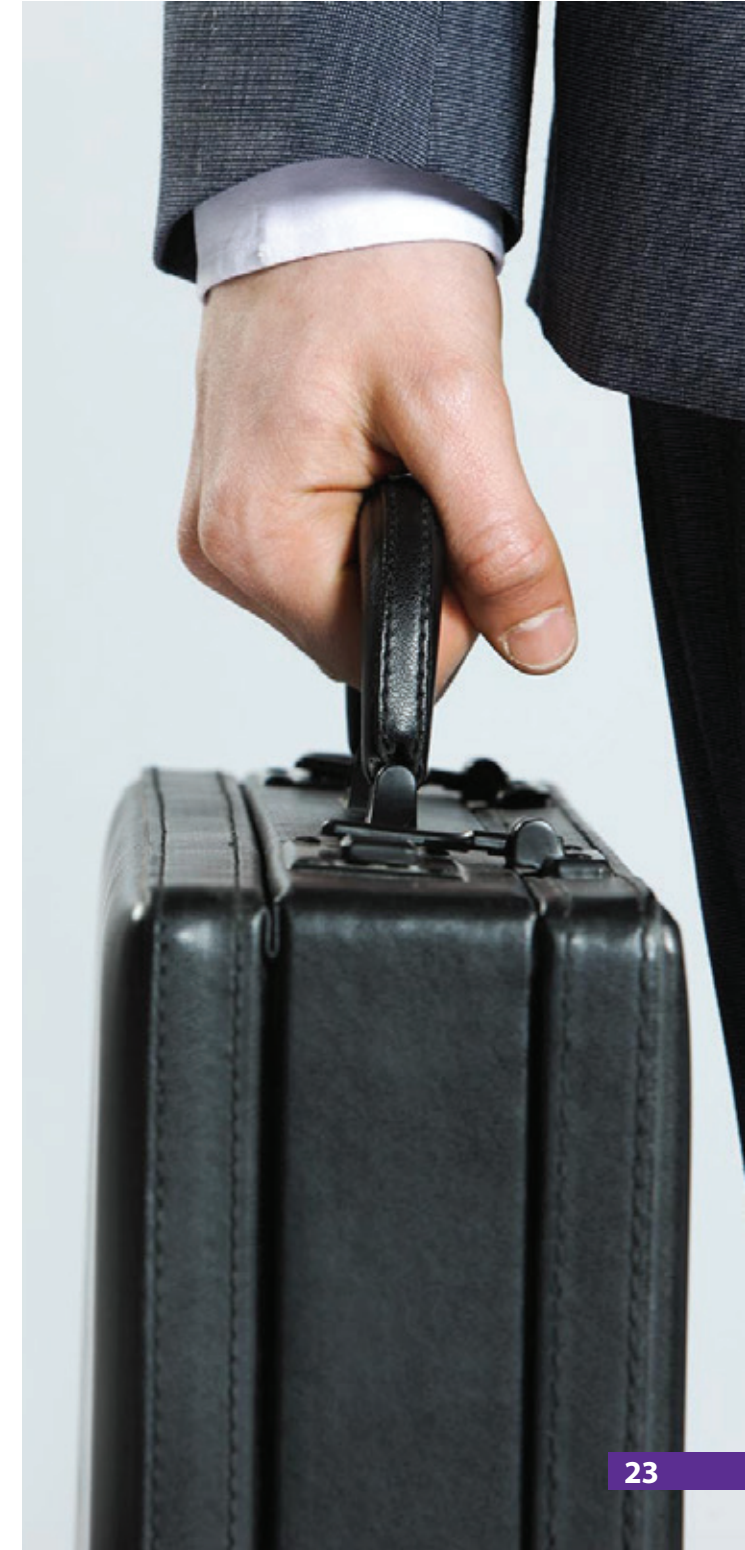
Another service for our customers' convenience from our bank is pay down loan service, added to the internet banking menu. Customers shouldn't go to the bank branch only to pay down their loans, instead, customers are able to pay down, pay off their loans and pay down loan interest in advance using internet banking anytime, anywhere, to save their time.



## CONCIERGE BANKING /CALL SERVICE/

It is not rare that, people find themselves in a situation, where they need cash but have no time to go to the bank.

Our concierge banking service brings bank to our customers when they need us. For example, when you do not have time to go to bank, you are able to have your money delivered anywhere, anytime. Concierge service enables not only deliver cash to you, but also you can have it delivered to and receive from third party on your behalf.

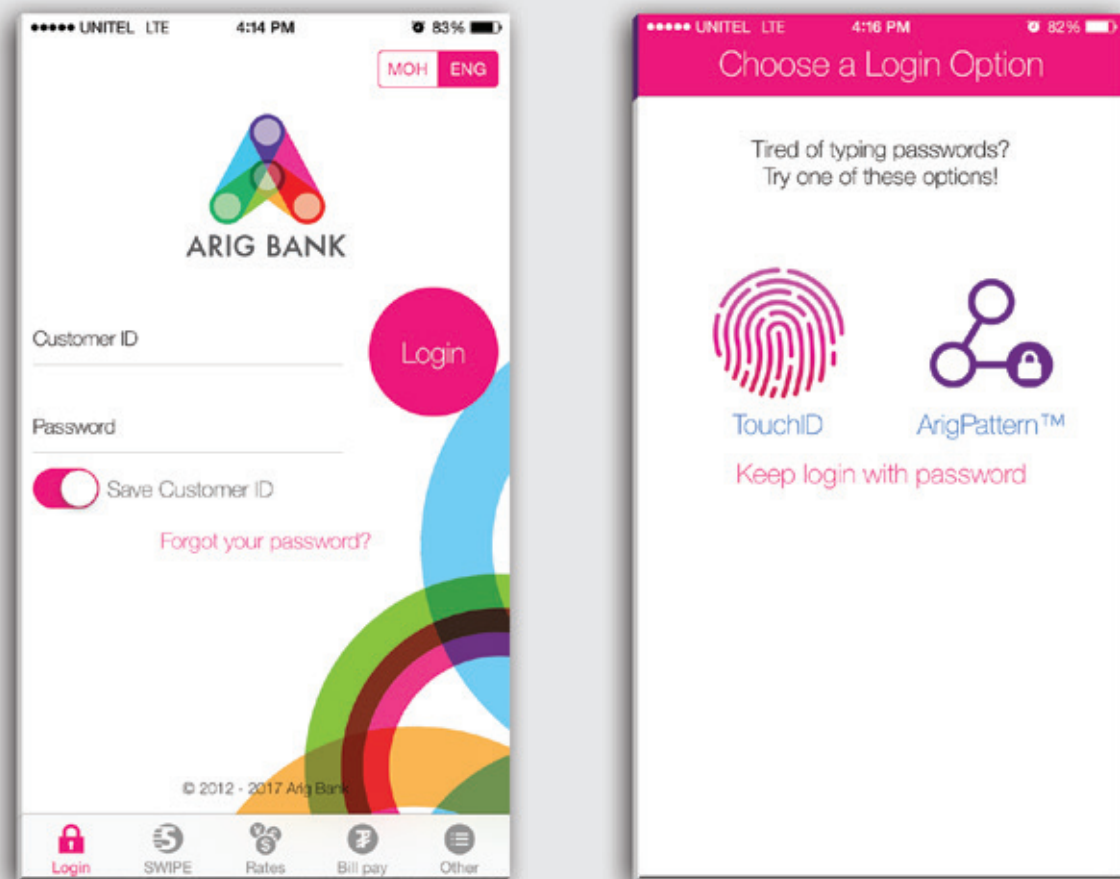




# POCKET BANK IS UPDATED MAKES IT EASIER TO USE, SECURE AND UP TO DATE

Smart phones are becoming a part of our lives, therefore Arig Bank is working hard to offer convenient and safe use of mobile banking services.

We updated our Pocket bank application and now customers could use their fingerprint or pattern to access your Arig Bank application, instead of remembering complicated password each time you log in. Also you can create your favorite features by changing your app theme with your favorite color and fonts.



We aim to maintain banking system 99.80% uptime and successfully over-performed and kept 99.88% uptime.

We installed Next Generation Firewall within the framework of target to improve information security on the IT infrastructure of the bank. Also we introduced Credit card, and Aviso automated transaction reversal module

in order to improve our customer service and automated business processes. A new software designed to interact with Credit Bureau of Bank of Mongolia was newly developed, currency desktops at Customer support centers have been improved to make it embedded, smarter and safe.

## INFORMATION TECHNOLOGY



## CSR ACTIVITIES OF ARIG BANK IN 2016

Arig Bank has joined Mongolian Sustainable Finance Programme by signed memorandum of declaration for Sustainable Finance policies to support Mongolian society and environment on November 21, 2013. We have been implementing and introducing Sustainable Finance principles into our banking operations, strategy and policy since joined the programme. All CSR and environment-friendly activities are performed according to 8 principles of Sustainable Finance Programme.

Arig Bank successfully implemented several CSR activities in 2016.

## FINANCIAL TRAINING

Arig Bank started to organize financial trainings in cooperation with AFA academy every Saturday at our Support center since 2015, in order to contribute improving customers' financial education. People have likely tendency to increase their income rather than decreasing expenses. Unfortunately, it could be impossible to succeed without knowing how to spend your money smart. Most people do not like to reduce their expenses because they think that the cost reduction of life is about lowering quality of their life. There are certainly many ways to reduce your inefficient costs without lowering your quality of your life.

You will be taught below topics from "Make your money work for you":

- Easy ways to reduce daily inefficient costs, easy tricks of saving
- Start saving without losing quality of your life
- Easy plans to build wealth
- Make your money work for you
- Ways to build wealth, and making financial plans

Also we organize Arig tour to participants during 30 minutes break on the training. During that time customers were introduced Arig Bank's culture, CSR and environmentally friendly activities such as how to use Renewable Energy to offices and sharing our experiences on it. The goal of

Arig tour is to introduce Mongolian Sustainable Finance Program, its principles and initiatives to customers.







## COLLECTION BOXES OF "DEM DEMENDEE"

COLLECTION BOXES OF "DEM DEMENDEE" CHARITY SHOP ARE NOW PLACED AT CUSTOMER SUPPORT CENTERS OF ARIG BANK.

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.

Red Cross has successfully been implementing practice around the world. For the first time in Mongolia, 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.

What is the goal of DEM DEMENDEE?

Many people intend to help others by donating their spare clothes and stuffs but they do not

have enough information about the places they can bring their things to help others. DEM DEMENDEE is just the right place that could enable anyone can help others, especially people with low income, people with disability, students and single parents by involving them necessary trainings and socialize through this charity shop and by donating their spare stuffs.

We will receive your donating clothes and items at our customer support centers and then deliver them to people who have lower income through DEM DEMENDEE charity shop on Dambadarjaa Avenue.

How can you join DEM DEMENDEE?

You are able to visit closest Arig Bank's customer support center and will find collection boxes of DEM DEMENDEE and put your stuffs in the boxes. If you want to organize the campaign at your organization supporting DEM DEMENDEE by encouraging your colleagues, please contact with us via following phone numbers 99105439, 70133060.

## CENTRAL CHILDREN'S SANATORIUM

Arig Bank has handed over the renovated therapy pool with newly installed ventilation to the Central Children's Sanatorium under its Corporate Social Responsibility.



In 2014 Arig Bank staffs volunteered for Central Children's Sanatorium for a day by helping its staffs to daily operations and by taking care of its children. That makes us unforgettable memories.

We have a tradition to produce and sell Money envelopes during the Tsagaan Sar holiday every year and donate the sales revenue from the envelopes for goodwill. For 2016, we decided to donate this year's revenue for the renovation of the therapy pool at Central Children's Sanatorium.

Because the paint of its wall and ceiling has fallen- it was in critically poor condition for undergoing water-based therapies due to lack of ventilation

pipe of the pool.

Founded in 1986, Central Children's Sanatorium never had a full repair since. This year, for the first time facility had full interior renovation and repair. Central Children's Sanatorium is a medical facility to provide constant medical treatment and care to the orphans, and foster children that are in need of special medical and professional care. A physical therapy is essential to children at Central Children's Sanatorium especially Aquatic therapy.

Also, Arig Bank staffs contributed to the renovation by drawing/painting the decorative paintings on the wall in their spare time. We are happy for the children at the sanatorium and are very delighted to providing newly renovated and decorated pool.

ANY ACT DEDICATED FOR OTHER IS MEANINGFUL



# MARATHON HOPE & POSSIBILITY ULAANBAATAR 2016

“Hope& Possibility- Ulaanbaatar 2016” marathon successfully organized on September 10, 2016 at National Park for the 3rd time by Arig Bank and Achilles International Mongolia NGO. This year more than 3800 runners and over 10,000 participants supported by attending the marathon. The number of runners and supporters are increasing each year. All donations collected from marathon spent on athletes with disabilities to support them to attend international marathons and match.



## “ARIG TOUR” GREEN OFFICE TOUR

Arig Bank head quarter/Support office is dedicated green office with comparably low consumption of water and energy, 65% of which produced by solar panels placed on the roof of the building. We strive to be model organization and inspire and motivate other government, business and international organizations to be going green by providing green office tours.

- Visitors including:
- Energy Regulatory Commission of Mongolia
- Environmental leading program, Zorig Foundation
- Clean water department, Ministry of Environment and Tourism
- JICA international organization
- US Embassy of Mongolia
- UK Embassy of Mongolia
- Schulze Global Investment
- UNICEF
- International Finance Corporation
- Environmental Department, City Mayor’s office
- Sustainable development education project

During “Arig Tour”, we provide example of how to become green office, potential initiations and provide sustainable development and financing initiatives to partner organizations and individuals as part of empowering and pioneering body of Sustainable development and financing.

## “CHILDREN RIGHTS, CORPORATE SOCIAL RESPONSIBILITY PRINCIPLES”

On 15-16 Nov 2016, Arig Bank staff has attended UNICEF training on Children Rights and Corporate Social Responsibility training to increase awareness of “How children rights connected to business operations and Why business must have principles to comply children rights to their operations”.

During training statistical information on how much portion in human resources in the country accounts for child labor was provided and team tasks of discussion and brainstorming of how child rights been violated to be more effective and increase commitment.



## WASH BLOCK OF GER KINDERGARTEN

Arig Bank has initiated and organized several goodwill activities with purpose of protecting the environment and creating healthy society. From this year, we offered our customers to join us to make their contribution to the goodwill campaigns. For example, for every 100,000₮ of our customers' new, extended (existing) savings, Arig Bank donated 50₮ to the goodwill charity fund on customers' behalf.

We decided to help to build a wash block of Ger Kindergarten №151 of Nalaikh district in cooperation with our customers for this year. Because forty percent of Nalaikh district's children are not able to go to kindergartens due to shortage of kindergartens.

However, the UNICEF provided several gers to kindergartens in order to support pre-school education of children and those ger kindergartens are usually operate with support of main kindergartens. Kindergarteners used to use outdoor toilets or central kindergarten's restrooms because gers do not have separate restrooms that don't meet sanitation and hygiene standards. As result of that, children used to get sick from cold and get injured from slipping down on the way to outdoor toilet.

Arig Bank, with its customers gave our hands to help children of Ger kindergarten №151 in

Nalaikh district. Thus, these little kindergartners are now provided with healthy and comfortable facility to get pre-school education.



## RISK MANAGEMENT



# RISK MANAGEMENT STRUCTURE AND FRAMEWORK

The Bank's business is not only maintain and increase current and savings accounts of the depositors, but also responsible for protecting from potential risk. Arig Bank is working in order to create an efficient risk management framework. In addition to all the risk management functions risk management framework consists of its regulatory policy, procedures and implementation processes. Furthermore, unit involved in risk management and organizational structure of each bank employee and for effective risk data monitoring system.

## RISK GOVERNANCE

Risk governance structure consists of 4 levels.

I Board Risk management committee:  
To approve and follow Risk management strategy, level of risk and bank acceptance risk and ensure their implementation

II Bank Risk committee  
The Bank's risk policy and acceptance risk are consistent with the Bank's overall

operations and to identify the Bank's key risk, adopt mitigation measures, approve risk management procedures and risk Culture and development. Bank is obligated to report to the Board Risk Management Committee and responsible for implementation of the procedures.

III Risk Unit  
The Risk Assessment Team, the Loan Assessment Team, the Financial Steering Team, the Internal Audit Wing, the Risk Management Unit are responsible for ensuring and monitoring the implementation of risk policies and procedures, as well as supporting the operations of the banking operations and managing units and business unit risk management Coordinate the management of participants, provide integrated risk information and organize the operations of the bank risk committee.

IV Branch units manage the risks within their respective operations.

## OPERATIONAL RISK MANAGEMENT

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

Including:

- Fraud
- Work place security risk
- Customer risk
- Product and service risk
- Information system risk management
- Internal process risk
- Foreign factor risk
- Risk against legal and external arrangements
- Liability risk
- Capital risk
- Personnel risk

Operational risk management assesses the level of risk of the Bank's operations, determines the risk factors, makes decisions about preventive measures, evaluates and discusses

the performance.

## OPERATIONAL RISK

Risk management procedures prevent and keep the risk at a minimum level based 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 2016 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 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 2016, the Arig Bank has successfully implemented preventive measurement of credit risk in advance by accurately 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 be 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.

## HARMONIZED MANAGEMENT OF ASSET AND LIABILITY

Fiscal year 2016, the bank has implemented measures to improve treasury activities and cooperation between business units and enhance management system to ensure risk free and secured asset at highest quality by placing the capital of investors in minimum risk assets. We have strengthened our financial capacity by meeting capital adequacy ratio, which is main indicator expressing risk appetite and efficient operation of the bank, set by Bank of Mongolia at more than 20% and liquidity ratio at more than 30%.



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