



Extended Annual Review Report

Project Number: 47930-001
Investment Number: 7401
Loan Number: 3102
September 2017

Senior Loan XacBank Supporting Micro, Small, and Medium-Sized Enterprises (Mongolia)

This is the abbreviated version of the document that excludes commercially sensitive and confidential business information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

Currency unit – togrog (MNT)

		At Appraisal	At Project Review
		31 October 2013	31 January 2017
MNT1.00	=	\$0.0006	\$0.0004
\$1.00	=	MNT1,638	MNT2,479

ABBREVIATIONS

ADB	–	Asian Development Bank
MSMEs	–	micro, small, and medium-sized enterprises
TFG	–	TenGer Financial Group LLC
XacBank	–	XacBank Limited Liability Company

NOTES

In this report, “\$” refers to United States dollars.

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BASIC DATA

Senior Loan: XacBank (Loan No. 3102 – Mongolia)

Key Project Data	As per ADB Loan	
	Documents (\$ million)	Actual (\$ million)
Total project cost:		
ADB Loan	30.0	30.0
Total investment:		
Committed	30.0	30.0
Disbursed	30.0	30.0
Outstanding	21.4	21.4
Supplementary cofinancing	15.0	15.0
Key Dates		
Concept clearance approval	2013	2 September 2013
Board approval	2013	12 December 2013
Loan agreement	2014	27 June 2014
Loan effectiveness	2014	27 June 2014
First disbursement	2014	21 August 2014
Loan maturity	27 June 2019	27 June 2019
Project Administration and Monitoring		
	Number of Missions^a	No. of Person-Days
Concept clearance
Due diligence mission	1	8
Private sector credit committee meeting
Board approval
Project administration	1	2
XARR	1	3

... = data not available, ADB = Asian Development Bank, XARR = extended annual review report.

^a Missions undertaken for the three financial institutions participating in the program.

EXECUTIVE SUMMARY

In December 2013, the Board of Directors of the Asian Development Bank (ADB) approved senior unsecured loans of \$30 million to XacBank and of \$10 million to TenGer Financial Group LLC (TFG) in Mongolia for supporting micro, small, and medium-sized enterprises (MSMEs) and for leasing finance. The loan to TFG was for onlending to XacLeasing. XacBank and XacLeasing are wholly owned subsidiaries of TFG. This report covers ADB's senior unsecured loan of \$30 million to XacBank (the project).

The Government of Mongolia considers private sector development as a thematic driver of change. It welcomed the project as part of ADB's nonsovereign operations in Mongolia. Currently, 60% of the population in Mongolia's capital, Ulaanbaatar, lives in *ger* areas (areas inhabited by traditional tent communities). The government already had a lending program in place to boost the capacity of small and medium-sized enterprises and support job creation.

The project is in line with ADB's Strategy 2020, which aims to reduce poverty through private sector development, inclusive financial growth, and finance sector development. Given XacBank's emphasis on funding underserved segments of the Mongolian population, the project supports poverty reduction and inclusive financial growth. The project achieved finance sector development by strengthening and deepening financial intermediation and banking systems in Mongolia. The banking system is supported by the project in that XacBank was selected to channel funds to MSMEs. In addition, the project complements ADB's Ger Area Development Program, which is a sovereign program to improve substandard living conditions through the provision of priority services to *ger* areas in Mongolia's capital, Ulaanbaatar. Many MSMEs are operated out of *gers*. The project blends well with ADB's country partnership strategy, 2012–2016 for Mongolia, which aims to assist the country in strengthening its financial markets to facilitate long-term investments, innovation, and access to finance.

The banking industry in Mongolia is regulated by the Bank of Mongolia. To ensure that the project serves a large number of MSMEs that seek funding unavailable to them under the government's lending programs, ADB sought a bank with an interest and ability to serve the MSME segment. It selected XacBank (first established as a nonbanking financial institution engaged in microfinance and converted to a bank in 1999) because it is a systemically important bank in Mongolia with a reputed parent, TFG. TFG is collectively majority-owned by the International Finance Corporation and the European Bank for Reconstruction and Development. At the time of ADB Board approval, XacBank was the best-capitalized bank in Mongolia. XacBank is also a participant in ADB's Trade Finance Program. XacBank and TFG enjoy a good standing in the community, having delivered social and financial education programs to 30,000 children and youth across Mongolia. XacBank is active in *ger* areas and has a good presence there.

The project's development results are rated *satisfactory* overall. Its contribution to private sector development and ADB's strategic objectives is rated *satisfactory* even though the project did not quite achieve all ADB's development performance targets because of by the weakening Mongolian economy during 2015–2017. The project contributed measurably to (i) better access to credit for MSMEs; (ii) better access for underserved segments such as women and rural borrowers, and borrowers in *ger* areas; and (iii) sustainability of the services offered to MSMEs. The two financial measures relating to XacBank's sustainability—nonperforming loan ratio and capital adequacy—were maintained at adequate levels.

The project's business and economic performance is rated *satisfactory*. As at December 2016, XacBank was the fourth-largest commercial bank by total assets. Its profitability was good at 5.2% net interest margin and 6.2% return on average equity. The capital position—total capital adequacy ratio of 13.5% is sound. The asset quality 9.06% (net nonperforming loans to total

capital) is reflective of a challenging environment and in line with competitors. XacBank has adopted its parent's triple bottom-line philosophy of "people, planet, and prosperity" in its business model. It became accredited to the Green Climate Fund in 2016 (the Green Climate Fund is a global initiative to respond to challenges of climate change). XacBank scored 4 out of 5 from the development finance rating agency, Planet Finance, for its long-standing social performance. MSMEs remain XacBank's target market.

The project's environmental, social, health, and safety performance is rated *satisfactory*. ADB's loan to XacBank was classified as category FI (financial intermediary) and treated as C on environment, involuntary settlement, and indigenous peoples consistent with ADB's Safeguard Policy Statement (2009). XacBank has adopted an environmental and social policy consistent with ADB's standards. It complies with national labor laws and includes measures to comply with internationally recognized core labor standards, in accordance with ADB's Social Protection Strategy (2001), including provisions prohibiting discrimination against women in recruitment and remuneration (equal pay for equal work). XacBank's policies target female customers as an important business segment, and the bank's commercial policies and practices support equal opportunities for women in access to services and markets. The project is classified as "some gender elements" under ADB's guidelines on gender mainstreaming. XacBank's activities using the project's proceeds did not have any impact on involuntary settlement and indigenous peoples.

ADB's additionality is rated *satisfactory*. The outcome targeted in the report and recommendation of the President—growth and sustainability of XacBank's services to MSMEs—is on track to be achieved once the economic momentum picks up during 2017–2019. The loan strengthened XacBank's lending operations in *ger* areas, and the long tenor of the loan assists XacBank's liquidity management in the absence of developed capital markets in Mongolia.

The project's investment profitability is rated *satisfactory*. The margin that ADB charged XacBank was in line with various loans denominated in United States dollars that other lenders extended to XacBank in the same period.

ADB's work quality is rated *satisfactory* for (i) screening, appraisal, and structuring; (ii) monitoring and supervision; and (iii) role and contribution. Its loan to XacBank was approved along with a loan to XacLeasing, a wholly owned subsidiary of TFG. The loan was drawn down within a short period thanks to being suitably structured to meet the funding needs of XacBank.

The extended annual review report rates ADB's investment in XacBank successful overall. Lessons from the project include improvements to the design and monitoring framework. The design and monitoring framework includes nonperforming loan and capital adequacy ratios of XacBank as performing targets to assess growth and sustainability of XacBank's services to MSMEs apart from other non-financial measurements. The inclusion of nonperforming loan and capital adequacy ratios as performance targets could impede loan growth in the MSME sector which is a key developmental target. It is therefore recommended to exclude financial ratios from the design and monitoring framework in the future as these ratios are already monitored through facility agreements.

I. THE PROJECT

A. Project Background

1. In December 2013, the Board of Directors of Asian Development Bank (ADB) approved senior unsecured loans of \$30 million to XacBank and of \$10 million to TenGer Financial Group LLC (TFG). The loan to TFG was for onlending to XacLeasing. Both XacBank and XacLeasing are wholly owned subsidiaries of TFG. The loan to XacBank was to provide support to micro, small, and medium-sized enterprises (MSMEs).¹ The XacBank agreement was signed in June 2014 and funds were disbursed in a single tranche in August 2014. This extended annual review report is on the senior unsecured loan of \$30 million disbursed to XacBank (the project).

2. Development of MSMEs is critical for the diversification of Mongolia's economy, which relies heavily on the mining industry.² MSMEs make up 98% of all enterprises in Mongolia, threequarters of which are microenterprises.³ The Government of Mongolia's small and medium-sized enterprise (SME) development program is aimed at boosting the capacity and job creation ability of these companies. The government has ongoing MSME lending programs in place through commercial banks. These programs target specific sectors and types of enterprises that the government deems eligible. In addition, the government considers that private sector development will be a thematic driver of change. ADB's assistance strengthens financial markets to support long-term investment, innovation, and access to finance.⁴ The project complemented ADB's Ger Area Development Program.⁵ *Ger* areas are areas where Mongolia's traditional tent communities live.

3. The World Bank's Enterprise Surveys show that more than 30% of MSMEs in Mongolia perceive access to finance as the largest constraint on their operations. It is estimated that only about 10% of around 37,000 Mongolian MSMEs regularly access finance through banks.⁶ Another World Bank study noted that when finance is available to MSMEs, loan terms and conditions are characterized by high interest rates, shorter maturities, and smaller amounts that do not meet the full financial needs of these companies and primarily require immovable collateral (footnote 3).

4. ADB selected XacBank thanks to its reach and long-term experience in the MSME segment and its historical background as a microfinance institution that serves female clients. XacBank's branches in the Bayankhoshuu and Selbe areas are also included in ADB's Ger Area Development Program.

¹ ADB. 2013. Report and Recommendation of the President to the Board of Directors. Manila.

² Mongolia's SME Law defines small and medium-sized enterprises (SMEs) by sector—industry retail trade: maximum

³ World Bank, 2012. *Financial Sector Assessment: Mongolia*. Washington, DC.

⁴ ADB. 2012. *Country Partnership Strategy: Mongolia, 2012–2016*. Manila.

⁵ The \$320 million Ulaanbaatar Urban Services and Ger Area Development Investment Program targets specific *ger* areas (named after the traditional Mongolian *ger* tents) where services such as water supply and sewerage systems will be provided to economic hubs (subcenters) to rationalize costs. Many businesses are also operated out of *gers*.

⁶ The World Bank Enterprise Surveys. <http://www.enterprisesurveys.org/>. Other constraints noted were the tax rate, inadequately educated workforce, informal-sector practices, political instability, and licensing and permitting problems. ADB. 2012. *Improving Access to Finance in Mongolia*. Manila; ADB. 2012. *Promoting Private Sector Development in Mongolia*. Manila.

B. Key Project Features

5. The project gave XacBank access to long-term funding. It was given a \$30 million loan with a 5-year tenor and a grace period of 2 years at 6-month United States dollar London interbank offered rate (LIBOR) plus a credit spread of 6.1%. When ADB's loan to XacBank was disbursed, it represented about 25% of XacBank's annual funding needs based on historical growth rates.⁷ XacBank used the ADB loan to make subloans to MSMEs. Out of this loan, \$6 million was targeted for subloans to MSMEs in the Bayankhoshuu and Selbe *ger* areas under ADB's Ger Area Development Program.

6. ADB provided stable long-term financing that cannot readily be raised from the local market and assisted XacBank in improving the asset and liability mismatches on its balance sheet. In addition, the project directly complemented XacBank's experience in lending to MSMEs (with emphasis on lending to women borrowers) in *ger* areas.

7. The project was required to be in compliance with ADB's Safeguard Policy Statement (2009) and Social Protection Strategy (2001). The project was to achieve the objectives of these policies by implementing an enhanced social and environment management system (SEMS) satisfactory to ADB as a condition of first disbursement. The SEMS was also required to include compliance with national labor laws and measures in line with internationally recognized core labor standards and gender equality in recruitment and pay. The project was classified as "some gender elements" under ADB's guidelines on gender mainstreaming.⁸

C. Progress Highlights

8. ADB's Board of Directors approved the project in December 2013. The loan agreement for \$30 million to XacBank was signed on 27 June 2014. The first and final disbursement was on 21 August 2014. The loan matures on 27 June 2019. The grace period ended in June 2016. XacBank services the loan to ADB regularly with principal and interest. Under the ADB Private Sector Operations Department's strategy to catalyze cofinancing for its nonsovereign operations, reduce risk, and optimize ADB's capital, ADB entered into risk transfer agreements of \$10 million (33.3% of the loan amount) with Ace European Group and of \$5 million (16.7% of the loan amount) with Catlin Insurance Company Limited (Singapore Branch).

9. XacBank met all conditions precedent prior to disbursement. It had the SEMS installed as stipulated by ADB.

10. A monitoring mission in 2015 was followed by two missions in May 2016 and April 2017. The last mission was to complete the extended annual review report on ADB's loan to XacBank. This mission included physical interviews with two medium-sized enterprise customers who had borrowed funds from XacBank. The customers were in the businesses of meat processing and wall-tile manufacturing for household use.

⁷ XacBank's loan portfolio growth has averaged about \$120 million annually from 2010 to 2013.

⁸ ADB. 2012. Guidelines for Gender Mainstreaming Categories of ADB Projects. Manila.

II. EVALUATION

A. Project Rationale and Objectives

11. The project is in line with ADB's Strategy 2020, which focuses on poverty reduction through private sector development and inclusive financial systems.⁹ It also supports the competitive, sustainable, and regionally integrated growth pillar of the country partnership strategy for Mongolia (footnote 4). The project was in line with the interim country partnership strategy at the time of disbursement in 2014.¹⁰ The interim strategy reflected the changes in the government's priorities by including rural development and finance in the integrated growth pillar. The project is in accordance with recommendations made by ADB's Evaluation Study on the Mongolian Financial Sector in 2008—considering nonsovereign loans to Mongolian banks to strengthen operational capacity, supporting rural finance by using banks to channel credit to underserved segments in Mongolia, and providing longer-term loans to meet the needs of MSMEs.¹¹ The project contributes to ADB'S Ger Area Development Program.

12. The country partnership strategy (both for 2012–2016 and the interim 2014–2016) takes into account the government's consideration that private sector development is a key driver of growth and that ADB is needed to strengthen financial markets to support long-term investment, innovation, and access to finance. The government already has an MSME Development Fund and a Credit Guarantee Fund in place, both of which aim to provide access to finance for MSMEs. However, the supply of credit under the government programs falls short of the demand for credit by Mongolian MSMEs (footnote 3). A large proportion of MSMEs in *ger* areas is still seeking access to longer-term finance (footnote 6).

13. The project is meeting the objectives of the government with regard to MSMEs and the finance sector, as well as the country partnership strategies and the Ger Area Development Program through the long-term nature of the loan to XacBank and onlending to MSMEs located in *ger* and rural areas of Mongolia. With ADB's loan, XacBank is able to structure longer-term facilities to MSMEs.

14. The main objectives of the project were to (i) help XacBank with medium-term financing on suitable terms so it could onlend such funds as subloans to MSMEs; (ii) ensure that rural, *ger*, and women borrowers are included in these operations; and (iii) sustain the financial capacity of XacBank to continue serving the MSMEs. These objectives are even more relevant at the time of this report because of a weaker operating environment in Mongolia.

B. Development Results

15. The project's development results are rated *satisfactory* overall.

1. Contribution to Private Sector Development and ADB Strategic Objectives

16. The effect of the project on private sector development and ADB's strategic development objectives is rated *satisfactory*. The project contributed to (i) better access to finance for MSMEs, (ii) better access for women and rural borrowers in the MSME category, and (iii) sustainability of

⁹ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

¹⁰ ADB. 2014. *Interim Country Partnership Strategy: Mongolia, 2014–2016*. Manila

¹¹ ADB. 2008. *Evaluation Study: Financial Sector in Mongolia—Transition to Market Economy Built on Successful Financial Reforms*. Manila.

services offered by XacBank to MSMEs. The loan from ADB helped XacBank to work toward key outcome and output targets specified in the project design and monitoring framework.¹² Achieving the project's developmental performance targets was challenging because of the weakening economic environment in Mongolia.¹³ From 2015 to date, the Mongolian economy has been constrained by weak commodity prices (mainly coal) in the international market and its lack of diversification.¹⁴ However, the expected impact has been achieved in that domestic credit from the finance sector as a percentage of gross domestic product increased from 25.8% in 2012 to 69.4% in 2015, although this growth slowed again between 2014 and 2015.¹⁵ Given the current improvement in the economy, coupled with XacBank's strong orientation toward MSMEs, XacBank may well achieve the performance targets within the stipulated timeframe.

17. Stronger financial capacity to serve the underserved. The project target was to make available \$30 million to MSME clients by the end of 2014, reaching 35,000 MSME borrowers and a total MSME portfolio of \$450 million by the end of 2019 (footnote 1). At the end of 2014, the MSME portfolio of XacBank had increased by \$52.2 million. The total MSME portfolio was at \$317 million at the end of 2016, on track to meeting \$450 million by the end of 2019. XacBank's loan growth was hampered by the economic environment in Mongolia (footnote 14) from 2015 to 2017, reducing the total loan portfolio to \$495 million by the end of 2016 (from \$626 million at the end of 2013). However, XacBank was able to maintain the MSME portfolio above 60% of its total loan portfolio, and its MSME borrowers numbered 21,517 at the end of 2016. XacBank's MSME focus should help it reach the performance target of 35,000 MSME borrowers by the end of 2019.

18. Better access to finance for underserved segments. The project target was to reach 18,000 women; 20,000 rural borrowers; and 7,000 *ger* area borrowers in the MSME segment of XacBank by the end of 2019. As at the end of 2016, the project had lent to 10,188 women borrowers, equaling 47% of the MSME portfolio. Even though XacBank's MSME and total loan portfolio declined because of a weakened operating environment, it maintained the share of women borrowers at 47% of the MSME portfolio. By the end of 2016, rural borrowers were at 13,346 and loans to *ger* areas were at 882. XacBank's focus on MSMEs and its presence in the *ger* areas should ensure the successful achievement of performance targets, leveraging on an improving economy to increase the portfolio from 2017 onward.

19. Sustainability of XacBank's service capacity. The sustainability of service capacity was measured by XacBank's nonperforming loan ratio (gross nonperforming loans over gross loans) and capital adequacy ratio. The appropriateness of the nonperforming loan ratio as a development indicator is low. The nonperforming loan ratio of 9.06% as at December 2016 (7.6% when the Bank of Mongolia funded mortgage portfolio is transferred to Mongolia Mortgage Corporation) is above the developmental performance threshold of 5% and also slightly above the industry's nonperforming loan ratio of 8.49%. XacBank has complied with ADB's nonperforming loan covenant (net nonperforming loans divided by regulatory capital threshold at 15%) throughout 2014 to date. The economic environment resulted in a higher than usual nonperforming loan ratio. The capital adequacy ratio stood at a robust 19.2% (industry average: 18.92%) in December 2016, well above the regulatory ratio, which reflects a high level of loss

¹² Footnote 1. Design and monitoring framework of the report and recommendation of the President.

¹³ Appendix 4. Developmental Performance Indicators. Tables A4.1–A4.2 and Figure A4.1.

¹⁴ www.tradingeconomics/Mongolia. Data on exports from 1997 to May 2017.

¹⁵ World Bank World Development Indicators. www.databank.worldbank.org/data/reports.

absorption capacity in times of economic stress. XacBank continued to lend to the MSME segment thanks to its strong capital, reach, and experience. This is a positive reflection of ADB's selection of XacBank for implementing financial assistance in Mongolia. Despite a breach on the nonperforming loan ratio XacBank has the capacity to continue to serve its target market of MSMEs.

2. Economic Performance

20. The economic performance of the project is rated *satisfactory*. This is based on the qualitative stakeholder analysis. ADB's loan to XacBank became effective in June 2014. XacBank received external validation from the Banker magazine twice in 2013 and 2016 as the best bank in Mongolia and was ranked 13th among the top 100 companies in Mongolia, as announced by the Mongolian Chamber of Commerce and Industry. In 2016, XacBank received accreditation to the Green Climate Fund,¹⁶ and certification from the Payment Card Industry Data Security Standards (PCIDSS) Council.¹⁷ XacBank completed the installation of its data center in 2016 and was the second Mongolian bank to receive a "Tier II Certification for a Constructed Facility" from the Uptime Institute.¹⁸ XacBank's commitment to people is reflected in its financial education program for the children of Mongolia. The program was absorbed into the national curriculum of the Ministry of Education of Mongolia.

21. XacBank reported a satisfactory performance during 2013–2016. It increased its total assets by a compound annual growth rate (CAGR) of 7.6%. Loan asset growth CAGR was 4% and deposit growth CAGR was 7.9%.

3. Environmental and Social Performance

22. The environmental, social, health, and safety performance of XacBank is rated *satisfactory*. ADB's senior loan was categorized as financial intermediary (FI) treated as C (FI-C) on environment, involuntary resettlement, and indigenous peoples under ADB's Safeguard Policy Statement (2009).¹⁹ Due diligence at the time of loan processing found XacBank adhering to TFG's social and environmental management policy as one of its subsidiaries, and subsequently adopting its own social and environmental management system (SEMS). The SEMS serves as a framework for environmentally sound and sustainable development, and provides the structure and processes to manage social and environmental concerns arising from XacBank's internal and external operations. It contains XacBank's goals and objectives; institutional arrangements; implementing procedures and guidelines to staff to identify and assess environmental and social impacts and risks of its operations; and documentation and performance monitoring, and reporting requirements. It also affirms XacBank's commitment to comply with national laws and regulations, including the covenants required by the shareholders and investors, and to continually improve the environmental and social performance of its operations. Due diligence also confirmed

¹⁶ XacBank. *Annual Report 2016*. Ulaanbaatar.

¹⁷ The PCIDSS Council is a global open body formed to develop, enhance, disseminate, and assist the understanding of security standards for payment account security. Members are American Express, Discover Financial Services, MasterCard, JCB International, and Visa Incorporated. <https://www.pcisecuritystandards.org/>.

¹⁸ Uptime Institute is an unbiased advisory organization focused on improving the performance, efficiency, and reliability of business-critical infrastructure through innovation, collaboration, and independent certifications. <https://uptimeinstitute.com/>.

¹⁹ While the investment was initially categorized as FI for environment during processing, the facility agreement subsequently provided for exclusion of subloans categorized as A and B for impacts on environment, involuntary resettlement, and indigenous peoples. Nevertheless, XacBank adopted and implemented a SEMS.

XacBank's commitment and capacity to manage the environmental and social impacts and risks of its existing and likely future portfolios.

23. No MSME activities with impacts on environment, indigenous peoples, and involuntary resettlement were financed using ADB proceeds, and all MSME subloans were screened against XacBank's exclusion list, which also incorporates ADB's list of prohibited investment activities. None of the subprojects was reported to be in protected and/or critical habitats or culturally or socially sensitive areas, nor resulting in any displacement of communities, including vulnerable people. Loan officers assess and monitor clients' compliance with labor, health, safety, and environmental laws, and a representation clause in the loan agreements provides for sanctions in case of noncompliance. XacBank's compliance unit oversees the implementation of its SEMS, and loan officers have not recorded any noncompliance relating to its subloans. To build staff capacity, XacBank's senior and compliance officers participate in training on environmental management. Its environmental and social staff provide regular training to loan officers in XacBank branches.

24. XacBank has a customer complaint policy and a dedicated contact number to receive customer complaints in addition to those received directly by any of its staff. These complaints are referred to the appropriate business unit for proper attention and remedy. XacBank also implements corporate social responsibility activities through its Global Fund Development Association, a nongovernment organization created by XacBank and its employees to promote financial education among children. XacBank employs over 430 staff, almost 60% of which are women and occupy positions as cashiers, account reconciliation officers, and customer service officers.

25. XacBank promotes and subscribes to both local and global sustainability initiatives. Under its "Xac Meadow" initiative, it supports tree-planting activities where average survival rate is reported to be +80%. XacBank's eco-banking department provides environmentally sustainable financial solutions by supporting energy efficiency, renewable energy, and clean technology projects. XacBank is also a founding member of the Global Alliance for Banking on Values, an accredited entity of the Green Climate Fund, and an acknowledged leader in the Mongolian Sustainable Finance Initiative of the country's banking industry.

4. Business Success

26. The business success of XacBank is rated *satisfactory* based on an analysis of the borrowers' business performance and prospects.²⁰ Appendix 1 contains a more detailed analysis of the bank's performance from 2013 to 2016 (capital adequacy, asset quality, management, earnings, and liquidity). Each of these elements is satisfactory. The ADB credit rating was set at NSO 9 for XacBank and at NSO 10 for the project at disbursement in August 2014. It was changed to NSO 10 and NSO 11 because of constraints observed in asset quality in 2015. It was changed again in November 2016 in line with the downgrading of the sovereign rating of Mongolia by the international rating agencies, to NSO 11 and NSO 12. No breaches of financial covenants as outlined in the facility agreement occurred.

27. XacBank's vision is to bring world-class financial services to Mongolia. It has pursued this goal steadily, as shown by the accreditations obtained so far (para. 19). It is identified as a

²⁰ Specifically, Alternative 4: Business Performance and Prospects of Institutions Supported under Other Financial Market Projects in para. 38 (Appendix 1) of ADB. 2014. *Guidelines for the Preparation of Project Performance Evaluation Reports on Nonsovereign Operations*. Manila.

systemically important bank in Mongolia. Its comparator banks are Khan Bank, State Development Bank, Golomt Bank, and Trade Development Bank. As at the end of 2016, XacBank delivered a return on average equity of 11.9% (second-highest among Mongolian banks) and a return on average assets of 0.95% (second-highest among Mongolian banks). XacBank achieved the fourth-highest ranking in total assets and core deposits in terms of market share. Its net interest margin averaged 5.17%, while the cost–income ratio was 51%. Its capital adequacy ratio at 19.2% is the third highest among Mongolian banks.

28. XacBank and other commercial banks in Mongolia were hurt by the weak economic environment (footnote 14) and the ensuing challenges for the banking industry during 2015 and 2016. Loan growth was affected by a decline in demand. However, XacBank achieved modest growth in its loan portfolio compared with the end of 2013, although a contraction during 2014–2015 was observed. The loan portfolio is well diversified within agriculture, manufacturing, trade, construction, services, and mining and mining supply chain services. Its deposit base grew at a slightly higher rate than other borrowings during 2015–2016, which improved the mix of borrowings. At 7.6%, XacBank had the fourth-largest market share in terms of loans.

29. During 2013–2016, XacBank, similar to other leading commercial banks in Mongolia, had a high liquidity ratio of 42.5% (regulatory ratio: minimum 20%). The industry ratio was at 41.7%. Its total capital adequacy ratio was 16.7% based on the Basel standard, and 18.9% based on the Bank of Mongolia standard, reflecting robustness to absorb economic shocks. During 2013–2016, XacBank managed asset quality well: its provision coverage was maintained at a satisfactory level of 89% versus an industry ratio of 73.7%. It utilized the 2015–2016 period to prioritize the management of nonperforming loans. Asset recovery efforts were strengthened to mitigate the nonperforming loans through collections and expeditious collateral enforcement. As a result, XacBank was able to reduce its nonperforming loan ratio to 9.06% (7.6% when Bank of Mongolia funded portfolio was transferred to Mongolia Mortgage Corporation Limited) at the end of 2016. The single-party and related-party exposure ratios are well within the loan covenant levels (Appendix 1).

C. ADB's Additionality

30. ADB's additionality is rated *satisfactory*. Its loan to XacBank was disbursed in 2014, when Mongolia's economy was beginning to soften, so that it would assist XacBank's lending to the MSME segment. The project's long tenor and grace period (from June 2014 to June 2016) improved the cash flow of XacBank because it did not have to make principal repayments. At the time of the project, ADB provided 25% of the total borrowings of XacBank.

31. The project's condition of lending to two targeted *ger* areas in an amount up to \$6 million provided access to finance for underserved rural areas of Mongolia. The conditionality on women borrowers was instrumental in that the share of women borrowers remained at 47% despite only a small growth in the total MSME loan portfolio.

D. ADB Investment Profitability

32. ADB's investment profitability is rated *satisfactory*. The pricing of the loan was endorsed by the Office of Risk Management and the Investment Committee and was within the recommended pricing for the credit rating and structure based on ADB's pricing model.²¹ The loan

²¹ ADB, Office of Risk Management. 2013. *Credit Note for Far East Horizon Limited: Loan Program for Clean Bus Leasing*. Manila.

is current and without payment delays so far. It is therefore expected to be repaid on time. ADB's \$30 million loan was priced at 6-month United States dollar LIBOR plus a credit spread of 6.1%, for a period of 5 years. The pricing was comparable with ADB's loans to other Mongolian banks during the same period (Khan Bank—credit spread of 6.1%, XacLeasing—credit spread of 6.25%)

E. ADB Work Quality

33. ADB's work quality is rated *satisfactory* based on its (i) screening, appraisal, and structuring of the project; and (ii) monitoring and supervision.

1. Screening, Appraisal, and Structuring of the Project

34. ADB's work in screening, appraisal, and structuring is rated *satisfactory*.

35. ADB selected the participating financial institution to launch the program based on stringent criteria that included reputed ownership. XacBank is a wholly owned subsidiary of TFG, which is a major Mongolian financial conglomerate. The selection of XacBank for onlending to the MSME segment came after comprehensive due diligence of the banking industry in Mongolia. The fact that XacBank has successfully navigated the difficult economic environment in Mongolia from 2015 to 2016 is sufficient evidence of the resilience of its business model and management team.

36. The project was well designed to leverage on XacBank's existing presence in *ger* areas, which included Bayankhoshuu and Selbe. The design ensured that the objectives of both the project and ADB's Ger Area Development Program would be met by specifying that a minimum lending amount of \$6 million for borrowers in the two *ger* areas had to be achieved (footnote 1). In addition, XacBank has a good concentration of women borrowers, which enabled it to provide better access for underserved segments in the MSME space. XacBank had prior experience with women borrowers from its origin as a microfinance institution, which was used as a tool to improve access to finance by MSMEs.

37. The loan facility was structured using a single approval to lend to both XacBank and TFG. Therefore, it was able to strengthen financial intermediation through both bank and leasing institutions in Mongolia. A loan to another Mongolian bank (Khan Bank) was approved by ADB's Board of Directors in June 2014. The design and monitoring framework reinforced the Ger Area Development Program and the government's lending programs to MSMEs. The project's relevance to ADB's corporate, country, and sector strategies is very high, since borrower selection was based on sound financial appraisal, Strategy 2020, the country partnership strategy, and the Ger Area Development Program.

2. Monitoring and Supervision

38. ADB's monitoring and supervision of XacBank is rated *satisfactory*. XacBank is monitored (i) for its compliance with reporting and financial covenants in the facility agreement; (ii) through review missions (in 2015, 2016, and 2017); and (iii) through periodic monitoring reports. The regular review missions provided the project team with a realistic perspective of XacBank's operations in the banking and finance industry. These missions helped open and maintain necessary communication lines to help clients meet information requirements and deadlines stipulated by ADB. The annual monitoring reports were completed and submitted on time, and approved by the Office of Risk Management.

39. The monitoring of clients' environmental, social, health, and safety performance was satisfactory. Reports were duly submitted.

F. Overall Evaluation

40. Overall, the project is rated *successful*.

Evaluation of ADB's Senior Loan to Industrial Bank Financial Leasing

Indicator/Rating	Less than			
	Unsatisfactory	Satisfactory	Satisfactory	Excellent
Development Results			√	
(i) Contribution to private sector development and ADB strategic development objectives			√	
(ii) Economic performance			√	
(iii) Environmental, social, health, and safety performance			√	
(iv) Business success			√	
ADB Additionality			√	
ADB Investment Profitability			√	
ADB Work Quality			√	
(i) Screening, appraisal, and structuring			√	
(ii) Monitoring and supervision			√	
Overall Rating				Successful

ADB = Asian Development Bank.
Source: ADB.

III. ISSUES, LESSONS, AND RECOMMENDED FOLLOW-UP ACTIONS

A. Issues and Lessons

41. The loan to XacBank has been effective for implementation of ADB's developmental strategies in the areas identified by the design and monitoring framework. The Mongolian economy was slowing down from the last quarter of 2014 despite which ADB disbursed the loan to XacBank. It added a significant boost to the MSME operations of the bank. It is a vital factor that MSME needs the most support during an economic downturn.

B. Recommended Follow-Up Actions

42. The design and monitoring framework includes nonperforming loan and capital adequacy ratios as performance targets in addition to other non-financial performance targets to achieve growth and sustainability of XacBank's services to MSMEs. This may impede lending decisions and growth of the MSME sector as envisaged as the outcome of the design and monitoring framework. It is proposed to eliminate financial ratios from the design and monitoring frameworks in the future as financial covenants in facility agreements are adequate to monitor financial performance of projects.

BUSINESS PERFORMANCE

A. Financial Highlights

Table A1.1: XacBank – Financial Highlights, 2013–2016

Indicator	Amount (MNT million)				CAGR (%) 2013–2016
	2013	2014	2015	2016	
Balance Sheet					
Total loans – net	1,029,541	1,313,698	1,171,289	1,157,202	4.0
Total other earning assets	497,563	512,037	504,578	666,884	10.3
Other assets	284,380	247,081	260,278	433,195	15.1
Total assets	1,811,485	2,072,815	1,936,145	2,257,280	7.6
Deposits and ST funding	786,190	832,067	906,917	986,254	7.9
Total other liabilities	888,735	1,031,492	872,903	1,091,991	7.1
Total liabilities	1,674,925	1,863,559	1,779,819	2,078,245	7.5
Total equity^a	136,559	209,256	156,325	179,035	9.4
Income statement					
Net interest income	80,690	97,409	132,338	90,544	3.9
Total operating income	92,387	96,242	100,691	110,419	6.1
Expenses and taxes	(68,015)	(84,606)	(78,207)	(88,967)	9.4
Net income	24,372	11,636	22,484	21,453	(4.2)

CAGR = compound annual growth rate, ST = short term.

^a Including subordinated debt in 2013 (MNT14.4 billion) and 2014 (MNT75.4 billion).

Note: Numbers may not sum precisely because of rounding.

Source: Audited financial statements of XacBank, 2013 to 2016.

B. Portfolio Breakdown

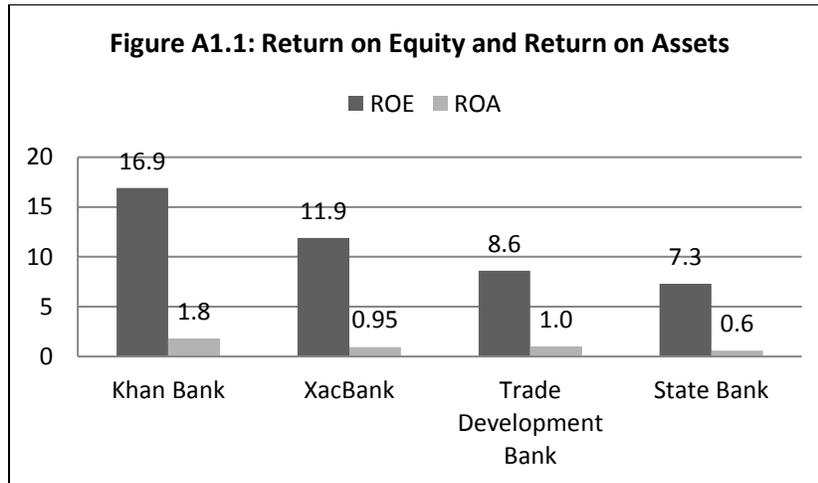
Table A1.2: XacBank – Loan Portfolio by Segment, 2013–2016

Segment	Amount (MNT million)				CAGR (%) 2013–2016
	2013	2014	2015	2016	
Loans to SMEs	541,855	666,672	566,126	571,462	1.8
MBLs	150,562	217,069	238,871	217,860	13.1
Mortgage loans	180,158	227,532	190,034	202,106	3.9
Consumer loans	100,956	108,340	100,934	125,287	7.5
Finance leases	22,992	30,986	18,968	10,475	(23.1)
Others	40,222	94,676	102,243	103,511	37.0
Total gross loans	1,036,745	1,345,274	1,217,176	1,230,701	5.9
Total loans to MSMEs	692,416	883,741	804,998	789,322	4.5
Loans to MSMEs / total loans	66.8%	65.7%	66.1%	64.1%	(1.3)
Loans to SMEs / total loans	52.3%	49.6%	46.5%	46.4%	(3.9)
MBLs / total loans	14.5%	16.1%	19.6%	17.7%	6.8

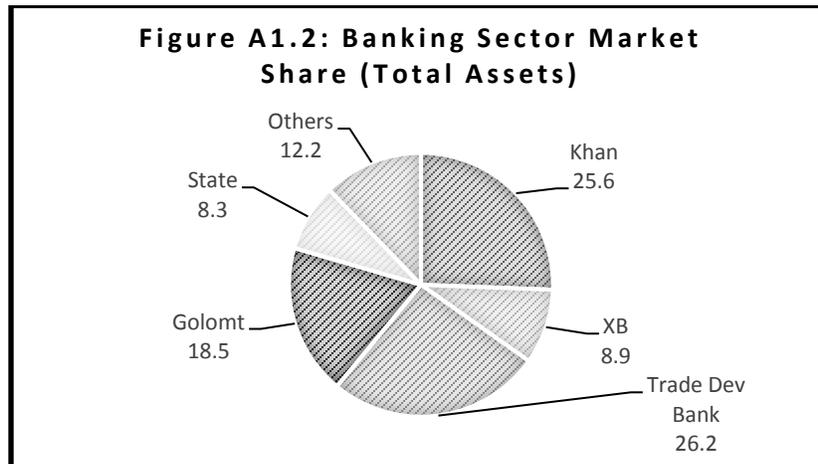
CAGR = compound annual growth rate, MBL = micro business loan, MSMEs = micro, small, and medium-sized enterprises, SMEs = small and medium-sized enterprises.

Source: Audited financial statements of XacBank, 2013 to 2016.

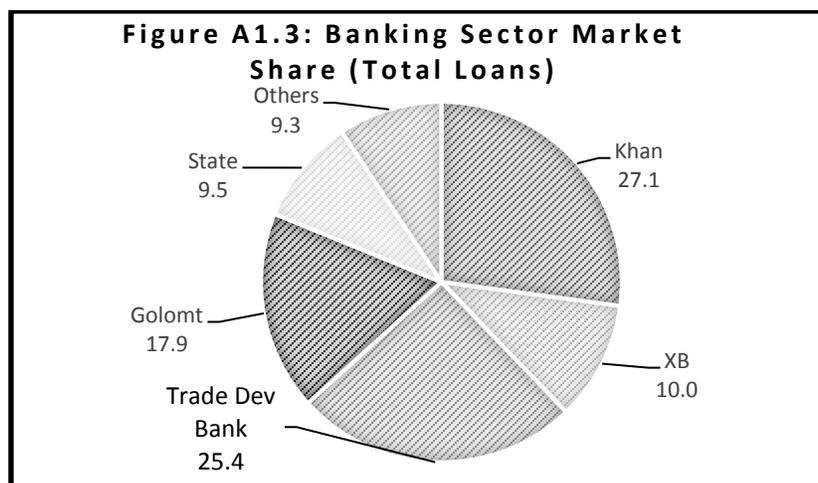
Comparison with Peers



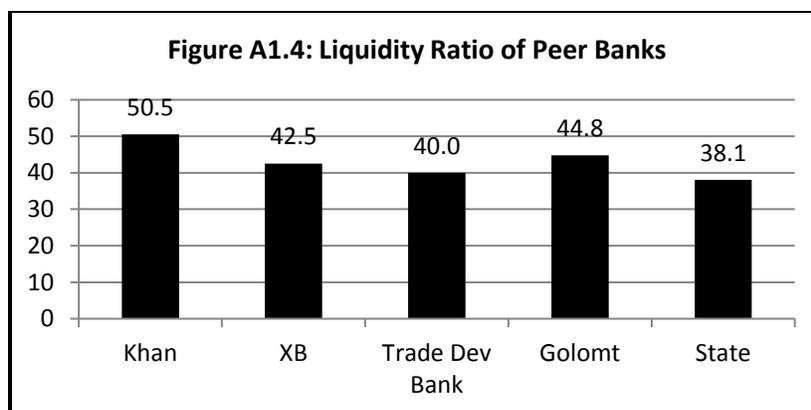
Source: Bank of Mongolia, as of year-end 2016.



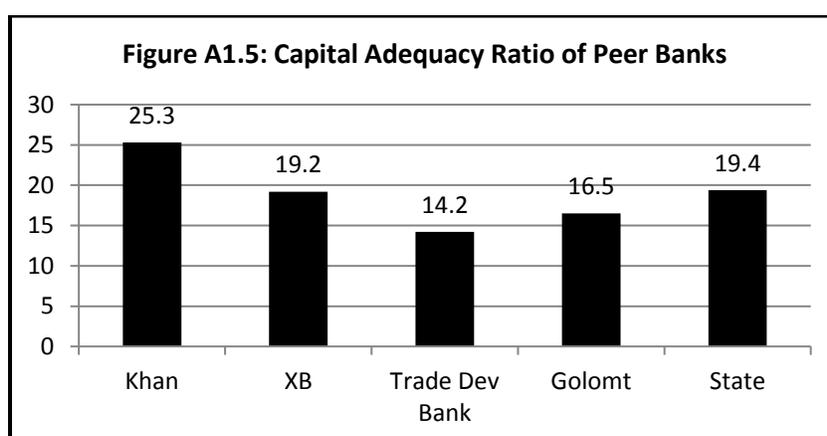
Source: Bank of Mongolia, as of year-end 2016.



Source: Bank of Mongolia, as of year-end 2016.



Source: Bank of Mongolia, as of year-end 2016.



Source: Bank of Mongolia, as of year-end 2016.

C. Business Analysis

1. Capital Adequacy

1. XacBank's capital is robust with tier 1 and total capital at a high level from 2013 through 2016. The total capital adequacy ratio has been above the regulatory ratio throughout this period. The quality of capital, which is measured by the concentration in tier 1, has been more than 50% in the capital mix.

Table A1.3: XacBank – Capital Adequacy, 2013–2016
(%)

Ratio	Amount (MNT million)			
	2013	2014	2015	2016
Tier 1 capital ratio	11.18	9.81	13.72	12.73
Total capital adequacy ratio (CAR)	16.54	16.99	20.57	19.19
Regulatory capital ratio ^a	16.2	17.0	20.8	18.9
Tier 1 to regulatory capital ratio ^b	68.0	57.7	66.7	66.3
TCE to total assets	6.38	5.94	7.43	7.42

TCE = tangible common equity.

^a Regulatory capital ratio = regulatory capital / risk-weighted assets. (Covenant requirement is greater than or equal to 15%.)

^b Tier 1 to regulatory capital ratio = tier 1 capital / regulatory capital. (Covenant requirement is greater than or equal to 50%.)

Source: Audited financial statements of XacBank, 2013–2015; borrower's compliance certificates.

2. Asset Quality

2. XacBank has managed asset quality well in a challenging economic environment with marginal gross domestic product growth. The ADB covenants on nonperforming loans and related and/or single-party exposure ratios were successfully adhered to. XacBank has been able to maintain a high loan loss reserve ratio of over 80% despite the deterioration in asset quality, thanks to its strong capital. Net nonperforming loans remained at a single-digit level during 2013–2016 despite an increase in 2015–2016 as a result of high loan loss provisions.

Table A1.4: XacBank – Asset Quality Indicators, 2013–2016
(%)

Ratio	Amount (MNT million)			
	2013	2014	2015	2016
NPL ratio (gross NPLs to gross loans)	2.00	3.89	6.40	9.06
Net NPL ratio ^a	(2.0)	1.0	2.5	5.6
LLRs to NPLs ^b	88.2	90.93	85.88	80.36
Net NPLs to TCE	8.62	31.14	41.74	52.64
Related-party exposure ratio ^c	8.2	10.6	11.6	5.4
Single-party exposure ratio ^d	12.4	11.1	11.4	11.1

NPL = nonperforming lease, LLR = loan loss reserve, TCE = tangible common equity.

^a Net NPL ratio = (total NPLs less LLRs) / regulatory capital. (Covenant requirement is less than or equal to 15%.)

^b Loan Loss Reserves

^c Related-party exposure ratio = total exposure to the borrower's related parties / regulatory capital. (Covenant requirement is less than or equal to 15%.)

^d Single-party exposure ratio = single-party exposure / regulatory capital. (Covenant requirement is less than or equal to 15%.)

Source: Audited financial statements of XacBank, 2013–2015; borrower's compliance certificates.

3. Management

3. XacBank has three independent non-executive directors (out of 10 directors) on the board. It has a well-experienced and qualified senior management team. They have strengthened the risk and recoveries divisions with appropriate resources. XacBank abides by the governing laws and regulations of Mongolia and, as a universal commercial bank, is subject to the governance rules and procedures issued from time to time by the Central Bank of Mongolia, the banking regulator. XacBank submits regular corporate governance reports to the Central Bank of Mongolia according to the "Procedures for implementing corporate governance principles in commercial banks" renewed and issued in September 2014. Two new independent directors were appointed and approved in 2015 in compliance with the "Regulations for nomination, appointment and release from office of independent directors" renewed and issued in February 2015.

4. Earnings

4. Net interest margins declined, leading to a decline in net income and return on assets. However, the net interest margin is above 5%. Costs have been curtailed as evidenced in the reduced cost–income ratio. Cost reduction strategies as per improvements in the distribution network have been favorable to XacBank's earnings. Return on assets and return on equity have both declined as a result of falling net interest income.

Table A1.5: XacBank – Profitability and Efficiency Indicators, 2013–2016

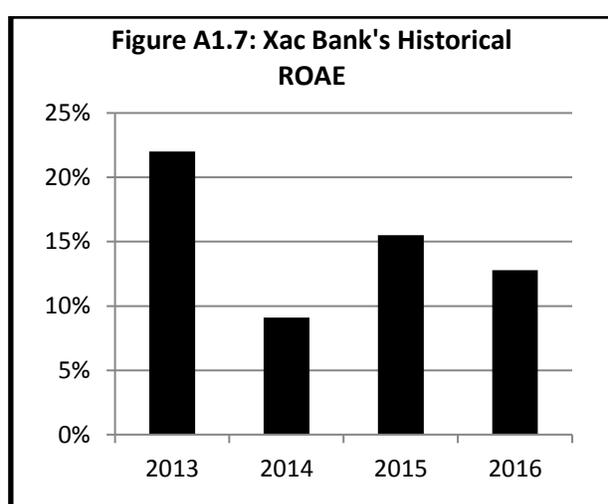
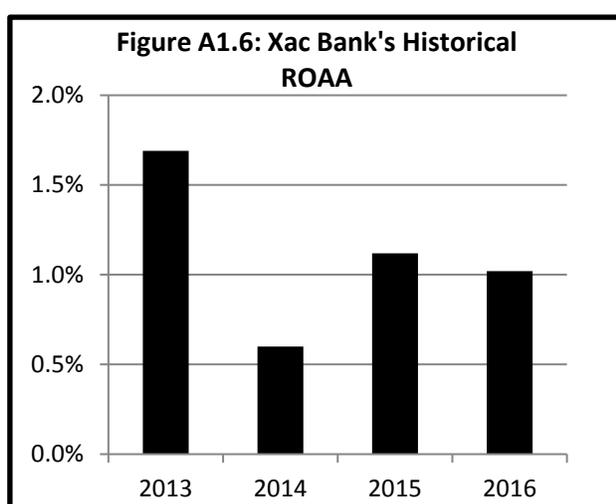
(% , unless otherwise stated)

	2013	2014	2015	2016
Net income (MNT million)	24,372.31	11,635.71	22,484.45	21,452.58
Net income growth rate	59.85	(52.26)	93	(4.59)
Provision / NII	12.00	30.57	15.55	26.89
NII / non-interest income (x) ^a	4.55	(4.18)	(83.46)	4.55
Return on average equity	22	9.09	15.50	12.79
Return on average assets	1.69	0.60	1.12	1.02
Net interest margin	6.74	5.81	7.56	5.17
Cost-income ratio	57.76	56.69	53.99	51.05

NII = net interest income.

^a Including net fee and commission income, trading income, dividend income, foreign exchange income, and other operating income.

Source: Audited financial statements of XacBank, 2013–2016; Asian Development Bank.



Source: Audited financial statements of XacBank.

5. Liquidity

5. XacBank has shown significant positive growth in customer deposits, reaching 50% of total borrowings, which represents a continuous increase from 2013. Within the customer deposits category, foreign currency deposits increased to over 20%. The liquidity ratio is well above the regulatory ratio.

Table A1.6: XacBank – Liquidity Indicators, 2013–2016

(%)

	2013	2014	2015	2016
Total loans to total deposits	162.61	170.71	139.85	126.64
Customer deposits to total funding	38.89	43.41	50.51	48.17
Customer deposit growth rate	24.89	23.78	11.09	11.20
Liquidity ratio (liquid assets / total assets)	17.34	18.09	9.78	16.27
Liquid assets / (deposits + money market funding)	18.96	20.40	10.79	17.95
(Market funds – liquid assets) / total assets	38.57	32.09	35.07	30.70

Sources: Audited financial statements of XacBank, 2013–2016; Asian Development Bank.

FINANCIAL STATEMENTS

Table A2.1: XacBank – Statement of Financial Position, 2013–2016
(MNT million)

	2013	2014	2015	2016
Total loans – net	1,029,541	1,313,698	1,171,289	1,157,202
Other earning assets	497,563	512,037	504,578	666,884
Fixed assets	29,595	31,242	34,797	41,480
Other non-earning assets	254,785	215,839	225,481	391,715
Total assets	1,811,485	2,072,815	1,936,145	2,257,280
Deposits and market funding	786,190	832,067	906,917	986,254
Other liabilities	415,615	697,526	384,080	747,014
Long-term borrowings	473,120	333,967	488,822	344,977
Total liabilities	1,674,925	1,863,559	1,779,819	2,078,245
Subordinated debt	14,354	75,415	-	-
Common stock (including capital surplus)	55,343	55,343	55,343	55,343
Retained earnings	56,331	67,967	90,451	103,760
Reserves	10,531	10,531	10,531	19,932
Total equity	122,205	133,841	156,325	179,035
Total liabilities and equity	1,811,485	2,072,815	1,936,145	2,257,280

Note: Numbers may not sum precisely because of rounding.

Sources: Audited financial statements of XacBank, 2013–2016; Asian Development Bank.

Table A2.2: XacBank – Income Statement, 2013–2016
(MNT million)

Item	2013	2014	2015	2016
Interest income	181,022.3	238,455.8	277,576.7	260,906.9
Interest expense	100,332.2	141,046.7	145,238.9	170,362.7
Net interest income	80,690.1	97,409.2	132,337.8	90,544.2
Net fee and commission income	5,017.3	6,671.6	7,021.4	8,692.5
Other operating income	6,679.5	(7,838.7)	(38,668.1)	11,182.7
Total operating income	92,386.8	96,242.1	100,691.1	110,419.5
Less: operating expense	54,019.2	54,791.4	54,632.4	56,530.1
Pre-provision income	38,367.7	41,450.7	46,058.7	53,889.3
Loss provisions	9,681.5	29,776.5	20,581.3	24,351.5
Income after loss provisions	28,686.2	11,674.2	25,477.4	29,537.8
Net non-operating income	(1,206.4)	(533.8)	710.8	6,334.1
Pretax income	29,892.6	12,208.0	24,766.5	23,203.7
Taxes	5,520.3	572.3	2,282.1	1,751.1
Net income	24,372.3	11,635.7	22,484.5	21,452.6

Note: Numbers may not sum precisely because of rounding.

Sources: Audited financial statements of XacBank, 2013–2016; Asian Development Bank.

**RESULTS AND RATINGS FOR PROJECT CONTRIBUTIONS TO PRIVATE SECTOR DEVELOPMENT
AND ADB STRATEGIC DEVELOPMENT OBJECTIVES—FINANCIAL INTERMEDIARIES
(for Small and Medium-Sized Enterprise Financing)**

Results Area	Actual achievements	Rating	Justification	Potential future achievements	Risk
1. Financial institution and subborrower PSD effects					
1.1 Improved skills: (i) Improved SME credit skills in the participating financial institution(s). (ii) Contribution via the participating financial institution(s) to improved subborrower skills in operation of their businesses, e.g., via appropriate loan conditions, advisory services by the bank(s).	The project targeted 20% of the loan of \$30 million to be lent to MSMEs in the Bayankhoshuu and Selbe <i>ger</i> areas. It was implemented using the setup of business incubator buildings combining vocational training and renting space for SMEs under ADB's Ger Area Development Program as a vehicle.	Satisfactory	The project helped improve the subborrower skills through the presence of XacBank's branches in <i>ger</i> areas and its MSME portfolio.	XacBank may be better able to grow the MSME portfolios in <i>ger</i> areas in the future.	Low
1.2 Improved standards: Improved standards and practices with regard to corporate governance and transparency; stakeholder relations; or environmental, social, and health systems in participating financial institutions or subborrowers.	A social, environmental, and monitoring system was a precondition for the disbursement of funds to XacBank.	Satisfactory	The SEMS at XacBank serves as a framework for environmentally sound and sustainable development, and provides the structure and processes to manage social and environmental concerns arising from its internal and external operations. It contains XacBank's goals and objectives; institutional arrangements; implementing procedures, and staff guidelines on identifying and assessing environmental	XacBank promotes and subscribes to both local and global sustainability initiatives. Under its "Xac Meadow" initiative, it supports tree-planting activities where average survival rate is reported to be +80%. XacBank's eco-banking department provides environmentally sustainable financial solutions by supporting projects in energy efficiency, renewable energy, and clean technologies. XacBank is also a founding member of the Global	

Results Area	Actual achievements	Rating	Justification	Potential future achievements	Risk
			and social impacts and risks of its operations	Alliance for Banking on Values, an accredited entity of the Green Climate Fund, and an acknowledged leader in the Mongolian Sustainable Finance Initiative of the country's banking industry.	
1.3 Innovation: Innovative ways of offering effective banking services to SMEs (including new products, services, and technologies)	XacBank began discounting invoices issued by multinational companies involved in large mining projects to local suppliers (MSMEs). This helped their cash flows. In addition, the financing was given to MSMEs without collateral based on the strength of the invoice.	Satisfactory	This is the first time a bank in Mongolia is offering invoice discounting to Mongolian suppliers who may not have collateral to offer commercial banks.	Mongolian MSMEs would be encouraged to improve their business and upgrade their service levels to cater to international standards with funding made available through such financing instruments.	Medium
1.4 Catalytic element: Mobilizing or inducing more local or foreign market financing or foreign direct investment for the supported financial institution or subborrowers.	Since 2014, XacBank has increased offshore and foreign currency borrowings.	Satisfactory	Since 2013, XacBank has increased its long-term borrowings from offshore lenders by 37%. The project in 2014 assisted this growth. At the time of the project, ADB's loan was 25% of XacBank's long-term borrowings, which fell to 16% in 2015.	The presence of ADB in the liability portfolio of the company has assisted in increasing XacBank's credibility. The 5-year tenor has helped build confidence in other lenders.	Low
1.5. Improved business performance. Expanded SME lending with good portfolio and sub-borrower performance. Expansion of market share.	The MSME portfolio of XacBank after the project was maintained at 65%.	Satisfactory	XacBank's MSME portfolio has been above 60%. A decline in economic growth occurred soon after the project, and the nonperforming loan ratio averaged 5.34% in 2013–2016.	Stronger growth in the MSME portfolio.	

Results Area	Actual achievements	Rating	Justification	Potential future achievements	Risk
2. PSD effects beyond financial intermediaries and subborrowers					
2.1 Private sector expansion and institutional impact: 2.1.1 Contribution to an increased private sector share and role in the economy. 2.1.2 Contribution to expanded SME lending in the financial system. 2.1.3 Improved SME access to formal credit and banking services in the economy.	N/A XacBank concentrates on MSME segment.	Satisfactory			
2.2 Competition: Enhanced competition in SME market segment among local banks or other types of financial institutions (including new product and service offerings, local-currency products) and/or contribution to increased competition in key sub-borrower markets.	N/A	N/A			
2.3 Demonstration effects: Replication of new ways of offering effective banking services to SMEs by other banks or institutions.		N/A			
2.4 Links: Contribution to local savings and deposit mobilization via networks of participant bank(s); contribution to notable upstream or downstream link effects to sub-borrowers' businesses in their industries or the economy.	XacBank relies on deposit growth via networks of participating banks. It uses mobile telephony with appropriate applications to offer banking services.	Satisfactory	XacBank has 140 ATMs and 2,672 sales points.	The potential for distribution of banking services through mobile telephony is high.	Low
2.5 Catalytic element: Contribution to mobilization of other local or international financing for financial institutions with SME business, and by positive demonstration to market providers of debt and risk capital to SMEs.	N/A	N/A	N/A	N/A	N/A
2.6 Affected laws, frameworks, regulation: Contribution to (i) improved laws, regulation, and inspection affecting SME financing; or (ii) a more enabling environment for	N/A	N/A	N/A	N/A	N/A

Results Area	Actual achievements	Rating	Justification	Potential future achievements	Risk
SMEs via lobby activity, policy dialogue, or otherwise.					
3. Contributions to other ADB strategic objectives					
3.1 Inclusion: Increased availability or reduced cost of financial services for the poor and other disadvantaged groups. Indirect inclusion benefits generated by subprojects/borrowers through forward/backward links to poor, female, or rural entrepreneurs; the provision of services or products for the poor, women, and rural populations; and employment of such groups.	The project targeted MSMEs with emphasis on rural, <i>ger</i> area, and women borrowers.	Satisfactory	Out of total project lending, 6% was to MSMEs located in <i>ger</i> areas, particularly in Bayankhoshuu and Selbe.	There is potential for growth in the MSME sector.	Low
3.2 Job creation: Creation of additional sustainable jobs or self-employment. Distinguish between jobs created within supported financial institutions, sub-borrowers and beyond.	N/A	N/A	N/A	N/A	N/A
3.3. Environmental sustainability: Contribution to reductions in GHG emissions and other environmental improvements through relevant lending policies and practices, and targeting of / allocations for borrowers with environmentally beneficial investments.	N/A	N/A	N/A	N/A	N/A
3.4. Regional integration: Project contributions to regional cooperation and integration by facilitating trade or cross-border financial transactions.		N/A			
3.5 Any other project development outputs and outcomes					
4. Overall Rating		Satisfactory			

ADB = Asian Development Bank, GHG = greenhouse gas, N/A = not applicable, PSD = private sector development, SMEs = small and medium-sized enterprises, MSMEs = micro small and medium enterprises.

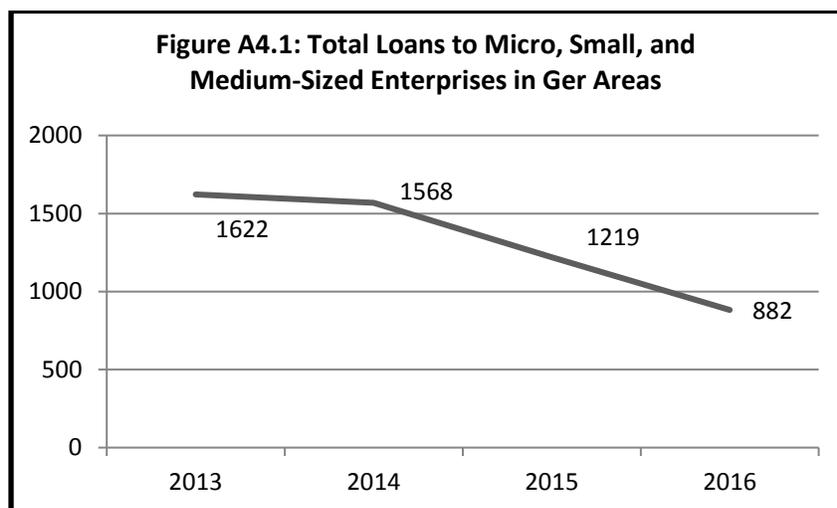
DEVELOPMENTAL PERFORMANCE INDICATORS

Table A4.1: XacBank – Male and Female Borrowers, 2013–2016

Segment	Amount (MNT million)				CAGR (%) 2013–2016
	2013	2014	2015	2016	
Total MSME borrowers	26,220	29,872	27,003	21,517	(6.4)
Male MSME borrowers	13,673	15,690	14,241	11,329	(6.1)
Female MSME borrowers	12,547	14,182	12,762	10,188	(6.7)
% of male MSMEs / Total	52	53	53	53	
% of female MSMEs / Total	48	47	47	47	

Table A4.2: XacBank – Rural and Urban Borrowers, 2013–2016

Segment	Amount (MNT million)				CAGR (%) 2013–2016
	2013	2014	2015	2016	
Total MSME borrowers	26,220	29,872	27,003	21,517	(6.4)
Urban MSME borrowers	10,563	12,111	10,635	8,171	(8.2)
Rural MSME borrowers	15,657	17,761	16,368	13,346	(5.2)
% of urban MSMEs / Total	40	41	39	38	
% of rural MSMEs / Total	60	59	61	62	



Source: XacBank.