

Khan Bank of Mongolia at a Strategic Crossroads

Digital Transformation in a Commodity-Dependent Economy

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Introduction

At the end of June 2026, Khan Bank JSC occupied an unusual position in Mongolia's financial system. It held 29.8% of banking-system assets in the second quarter of 2026, and in May 2026 it accounted for 34.2% of system loans and 31.5% of deposits. Its balance sheet had expanded to MNT28.1 trillion, from MNT20.3 trillion eighteen months earlier, and the loan book had reached MNT16.7 trillion. Profit after tax for the first half of 2026 was MNT357.2 billion, and the bank reported return on equity of 25.9% ([Khan Bank](#), 2026d). Every Bank of Mongolia prudential ratio was met. Yet the capital adequacy ratio, which had stood at 18.6% at the end of 2023 and 17.8% at the end of 2024, had fallen to 14.7%, against a Tier 1 threshold that the bank itself reports as 13% ([Khan Bank](#), 2025c, [2026d](#)). Three days before this case's 15 August 2026 data cut-off, the Bank of Mongolia raised its policy rate to 12.5% at an unscheduled meeting, citing annual inflation of 13.0% in July ([Bank of Mongolia](#), 2026).

Khan Bank's scale was built before the current digital-banking race. For more than a decade, the institution differentiated itself through a physical network reaching Mongolia's provinces, soum centres and border points. In 2012 it reported 512 branches and service to an estimated 70% of households ([Khan Bank](#), 2013). In 2013 an Asian Development Bank document counted 528 branches, 428 of them outside Ulaanbaatar ([Asian Development Bank](#), 2013). FMO described a 547-branch network serving about 82% of the population as of September 2024, and the bank's 2025 sustainability report listed 529 physical branches, 42 business centres, seven Digi Go digital branches and 485 kiosks serving more than 2.9 million customers ([FMO](#), 2024; [Khan Bank](#), 2026b). These figures are not perfectly comparable because the bank has used different definitions of branches, service points, customers and population reach. The

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strategic pattern is still clear: Khan Bank's historical advantage was distribution across a very large, sparsely populated country.

That advantage is now being tested. Customers increasingly expect reliable mobile applications, instant payments, flexible credit, intuitive interfaces and loyalty benefits. Khan Bank has responded with an omni-channel hub, automated salary loans, mobile and internet banking, the DigiPay wallet, the DigiPos merchant application, an AI assistant called Digi, Alipay+ connectivity and, in 2025, a machine-learning recommendation system called DigiBrain ([Khan Bank](#), 2025a, [2026c](#)). The bank reported that 99.6% of its transactions were digital in 2025 and that registered DigiPay users roughly doubled, from 240,129 to 486,311 ([Khan Bank](#), 2026b, [2026c](#)). It still does not publish a consistent monthly-active-user series, transaction-value trend, digital cost-to-serve measure or customer-retention rate. The bank's digital claims therefore demonstrate strategic activity, but not automatically economic success.

The issue is not simply whether Khan Bank should become more digital. It is how far, how quickly and under what risk appetite it should push digital growth while preserving financial inclusion, asset quality, public trust and governance discipline. A digital model can lower distribution costs and make small loans faster. It can also scale fraud, model error, over-indebtedness, outages and cyber losses. A bank that is systemically important in a commodity-dependent economy cannot evaluate technology investments only through adoption counts or short-term fee income, and in mid-2026 it could no longer treat its capital buffer as a given.

This case examines Khan Bank's strategic evolution through five connected questions. First, how did rural reach and physical infrastructure create a platform for digital transformation? Second, what evidence exists that digital channels have improved access, efficiency or revenue? Third, how should management interpret strong earnings alongside loan growth of roughly 20% a year and a capital ratio that has lost almost four percentage points since 2023? Fourth, how do commodity, inflation, currency, regulatory and governance conditions shape the bank's options? Finally, what strategic choice faces Khan Bank's board as competition moves from branch coverage toward trusted digital ecosystems?

The case is designed for business-school and executive-education discussion. It distinguishes documented facts from interpretation, identifies data-quality limitations, and treats success and shortcomings together. The central decision is deliberately unresolved: Khan Bank must choose a growth posture that is ambitious enough to defend its national franchise but conservative enough to protect resilience when Mongolia's next external or credit cycle turns.

Background and Context

Mongolia's economic and financial environment

Mongolia combines a small population, enormous geography and high exposure to minerals and China. Coal and copper exports are central to foreign-exchange earnings, fiscal revenues

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and domestic demand. In March 2024 the IMF reported growth of 7.0% in 2023, driven by record coal production and exports that more than doubled year on year ([International Monetary Fund](#), 2024). Forecasts made in 2024 and 2025 then diverged: the Asian Development Bank projected 4.1% for 2024 and 6.0% for 2025, the Bank of Mongolia's governor expected approximately 6% and 8%, and the World Bank's May 2025 update projected 6.3% for 2025 ([Asian Development Bank](#), 2024; [Bank of Mongolia](#), 2024; [World Bank](#), 2025). The outturns differed again. The IMF's June 2026 statement put growth at 5.1% in 2024 and 6.8% in 2025; the World Bank put 2025 at 6.9% ([International Monetary Fund](#), 2026; [World Bank](#), 2026). Exhibit 1 sets the forecasts beside the outturns, because the gap between them is itself information for a lender that prices credit on expected incomes.

Exhibit 1: Mongolia: Growth Forecasts by Vintage, Outturns and Policy Settings, 2023–2027

Source and publication date	2023	2024	2025	2026	2027	Other indicators reported
IMF assessment letter, 13 Mar 2024	7.0 (est.)					
ADB news release, 11 Apr 2024		4.1 f	6.0 f			
Bank of Mongolia governor, 14 Oct 2024		~6 f	~8 f			
World Bank MEU, 4 Jun 2025			6.3 f			
World Bank press release, 9 Apr 2026			6.9	5.0 f		Inflation 8.6% (2025)
ADB ADO April 2026		5.1	6.8	5.7 f	6.0 f	Policy rate 12% after +200 bp (Mar 2025); MNT –4.0% vs US\$ (2025); credit +19.0% (2025); system NPL ≈5.2%
IMF Article IV statement, 26 Jun 2026	7.4	5.1	6.8	5.8 p	5.6 p	Inflation 11.2% (May 2026); credit growth ≈17% (May 2026); reserves US\$7.4 bn (early Jun 2026)
ADB ADO July 2026				5.7 f	6.0 f	Growth and inflation forecasts unchanged from April
Bank of Mongolia MPC, 12 Aug 2026						Policy rate 12.5% (+0.5 pt); MNT reserve requirement 14.5%; inflation 13.0% (Jul 2026)

Note: Real GDP growth in per cent. f = forecast, p = projection, est. = estimate; blank cells mean the source gives no figure for that year. Outturns differ by source (6.8% vs 6.9% for 2025) and were revised (IMF: 7.0% for 2023 in 2024, 7.4% in 2026). Only material published on or before the 15 August 2026 cut-off is included. The 2024 and 2025 outturns in the ADB April 2026 row are taken from its table.

(Source: [Asian Development Bank](#), 2024, [2026a](#), [2026b](#); [Bank of Mongolia](#), 2024, [2026](#); [International Monetary Fund](#), 2024, [2026](#); [World Bank](#), 2025, [2026](#); compiled by the author)

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The outlook at the cut-off was for slower growth and stubborn inflation. The Asian Development Bank expected growth of 5.7% in 2026 and 6.0% in 2027 and kept both forecasts unchanged in July 2026; the IMF projected 5.8% and the World Bank 5.0% for 2026 ([Asian Development Bank](#), 2026a, [2026b](#); [International Monetary Fund](#), 2026; [World Bank](#), 2026). Inflation averaged 8.6% in 2025, reached 11.2% in May 2026 and 13.0% in July 2026, mostly on fuel, food and administered prices ([Asian Development Bank](#), 2026a; [Bank of Mongolia](#), 2026; [International Monetary Fund](#), 2026). The central bank had raised its policy rate from 10% to 12% in March 2025, held it there through June 2026, and raised it to 12.5% on 12 August 2026, together with a rise in the reserve requirement on tugrik liabilities to 14.5% ([Bank of Mongolia](#), 2026; [Khan Bank](#), 2026c, [2026d](#)). Bank credit grew 19.0% in 2025 after 35.5% in 2024, and the IMF estimated credit growth at about 17% in May 2026 ([Asian Development Bank](#), 2026a; [International Monetary Fund](#), 2026).

Commodity dependence creates a banking transmission mechanism. When coal and copper volumes and prices are strong, mining companies, transport firms, suppliers, households and government entities generate more income. Deposits can rise, collateral values can improve and loan demand can accelerate. When Chinese demand weakens or commodity prices fall, the same relationships can reverse. Export receipts decline, the tugrik can depreciate, imported inflation can rise and borrowers exposed to mining, construction, transport or consumption may experience simultaneous stress. A bank can therefore face a macroeconomic shock that affects funding, market risk and credit quality at once. In mid-2026 the mining side of this mechanism was running strongly: Khan Bank's half-year report cited coal output up 44% and copper concentrate output up 21% year on year as of April 2026, and the central bank pointed to higher coal and copper prices and export volumes ([Bank of Mongolia](#), 2026; [Khan Bank](#), 2026d). The inflation side was moving the other way.

A flexible exchange rate can absorb an external shock, but depreciation raises the local-currency burden of unhedged foreign-currency liabilities and increases the cost of imported food, fuel, equipment and technology. The tugrik depreciated 4.0% against the US dollar in 2025 ([Asian Development Bank](#), 2026a). Khan Bank reported single-currency and aggregate foreign-exchange open positions of -2.8% and -3.1% of capital at the end of 2024, -2.6% and -2.7% at the end of 2025, and -0.4% and -0.6% at 30 June 2026, all inside the Bank of Mongolia's limits of 15% for a single currency and 30% in aggregate ([Bank of Mongolia](#), n.d.; [Khan Bank](#), 2025c, [2026c](#), [2026d](#)). Compliance reduces risk but does not eliminate it. The direction, maturity and customer distribution of the open position matter, particularly when the economy's export receipts and import costs move in opposite directions.

Financial access and the rural-distribution problem

Mongolia's access challenge is spatial as well as financial. A 2012 World Bank financial-sector assessment reported that 78% of Mongolians had an account with a formal financial institution in the 2011 Global Findex data. It also reported only 0.67 bank branches per 1,000 square

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kilometres, among the lowest geographic densities in the world, and found electronic-payment infrastructure heavily concentrated in Ulaanbaatar: only 28% of ATMs and 19% of POS terminals were located outside the capital ([World Bank](#), 2012). High account ownership could therefore coexist with long travel distances, limited cash access, weaker connectivity and high service costs outside urban areas.

Khan Bank's historical strategy addressed this paradox through a combination of branches, ATMs, salary and pension payments, remittances, agricultural and herder loans, and increasingly mobile channels. Its 2012 annual report described an office in every aimag capital, soum centre and border point ([Khan Bank](#), 2013). In 2013 an Asian Development Bank project document described the bank as operating in all 21 provinces and Ulaanbaatar, with 528 branches and 335 ATMs ([Asian Development Bank](#), 2013). The investment was not glamorous, but it was strategically important: digital banking depends on physical and network infrastructure even when the customer interface is a phone. Exhibit 2 assembles the reach indicators the bank and its lenders have published.

Exhibit 2: Khan Bank: Published Reach Indicators, 2012–2025

Reference point	Physical network	Customers and reach	Digital indicators	Source
2012	512 branches; office in every aimag capital, soum centre and border point	About 70% of households	—	{Khan Bank, 2013}
2013	528 branches (100 in Ulaanbaatar, 428 rural); 335 ATMs; all 21 provinces	—	—	{Asian Development Bank, 2013}
End-2021	97 Ulaanbaatar and 449 regional branches; 1,431 ATMs	2.7 million customers	1.6 million electronic customers (undefined)	{Khan Bank, 2023b}
2022	—	2.7 million customers; about 78% of households	About 98% of transactions digital	{Swift, 2022}
30 Sep 2024	547 branches	About 82% of population	—	{FMO, 2024}
2024	7 Digi Go digital branches	2.9 million customers; 82% of population	99.4% of transactions digital; 28% of loans online	{Khan Bank, 2025a}
2025	529 branches; 42 business centres; 7 Digi Go; 485 kiosks	More than 2.9 million customers	99.6% of transactions digital; 1.94 million internet bank and app users	{Khan Bank, 2026b; Khan Bank, 2026c}

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Note: Figures are as reported by each source and use different definitions (branches vs service points; households vs population; customers vs electronic customers), so the series is not a consistent time series. Dates are the reference dates stated in the sources. Earlier drafts cited 2014 and 2015 annual-report figures that could not be retrieved and are excluded.

(Source: [Asian Development Bank](#), 2013; [FMO](#), 2024; [Khan Bank](#), 2013, [2023b](#), [2025a](#), [2026b](#), [2026c](#); [Swift](#), 2022; compiled by the author)

At the end of 2021, according to the bank's 2023 IPO short prospectus, Khan Bank had 2.7 million customers, 97 Ulaanbaatar branches, 449 regional branches, 1,431 ATMs and 1.6 million electronic customers ([Khan Bank](#), 2023b). The term electronic customer was not defined as a monthly active user, and the bank's later disclosures use different customer and adoption measures. FMO described a 547-branch nationwide network and an estimated 82% population reach as of September 2024 ([FMO](#), 2024). By 2025 the physical count had fallen to 529 branches while kiosks, business centres and digital branches were added ([Khan Bank](#), 2026b). These data support the conclusion that Khan Bank has a large installed franchise. They do not establish that all customers are unique, active, equally served or economically profitable.

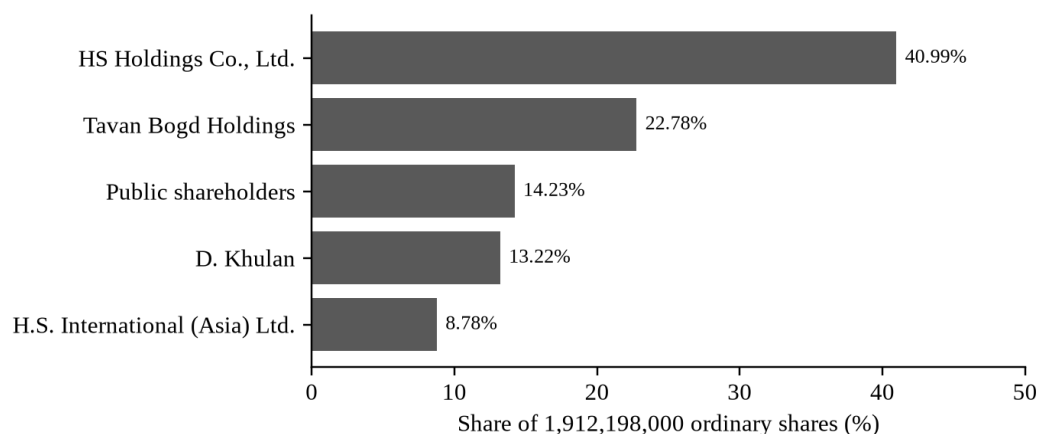
Institutional and regulatory change

Mongolia's 2023 banking reforms required five systemically important banks to reorganise as open joint-stock companies. The Financial Regulatory Commission reported that the five banks collectively raised MNT478.5 billion from 72,365 investors ([Financial Regulatory Commission](#), 2024). Khan Bank's IPO ran from 13 to 19 April 2023. It offered 191,219,800 new shares at MNT959 per share, equal to 10% of the enlarged share count of 1,912,198,000 (about 11.1% of the pre-offer count), and the audited statements record an equity increase of MNT183.38 billion from the share issue ([Khan Bank](#), 2023b, [2025b](#)). The listing broadened the shareholder base and increased disclosure requirements, but it did not remove controlling influence. HS Holdings and its wholly owned subsidiary H.S. International (Asia) together held 49.77%, Tavan Bogd Holdings held 22.78%, D. Khulan held 13.22% and public shareholders held 14.23%, a structure unchanged between the end of 2024 and June 2026 (Exhibit 3) ([Khan Bank](#), 2025a, [2026d](#)).

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Exhibit 3: Khan Bank: Shareholding Structure at 30 June 2026



Note: Percentages of 1,912,198,000 ordinary shares; the structure was identical at 31 December 2023, 31 December 2024 and 30 June 2026. H.S. International (Asia) Ltd. is a wholly owned subsidiary of HS Holdings Co., Ltd., so the HS group holds 49.77%. The 14.23% public free float includes the 191,219,800 shares issued in the April 2023 IPO at MNT959 per share (MNT183.38 billion recorded in equity); the bank reported 39,353 shareholders at 30 June 2026.

(Source: [Khan Bank](#), 2025a, [2025b](#), [2026d](#))

The Bank of Mongolia requires Tier 1 capital adequacy of at least 9% of risk-weighted assets, total capital adequacy of at least 12%, leverage of at least 5% and liquidity of at least 25%. It adds a 2% capital-conservation buffer for all banks and, for domestic systemically important banks, a systemic buffer with a constant 1% component and variable components of up to 1 percentage point. It also sets foreign-currency exposure limits, large-exposure limits and related-party exposure limits ([Bank of Mongolia](#), n.d.). Khan Bank reports its own Tier 1 threshold as 13%. That figure is consistent with the sum of the 9% minimum, the 2% conservation buffer and the maximum 2% systemic buffer, but this reconciliation is the author's reading of the published rules, not a figure the bank or regulator states ([Bank of Mongolia](#), n.d.; [Khan Bank](#), 2026d). The requirements provide a clear prudential framework, but a regulatory ratio is not the same as a full stress scenario. A bank can comply at a point in time and still face a material deterioration if loan growth, deposit concentration, collateral values or market liquidity change quickly.

Macroprudential policy tightened through the period. In March 2025 the Bank of Mongolia cut the maximum debt-service-to-income ratio on consumer loans to 50%; in January 2026 it lowered the cap to 45% and raised tugrik and foreign-currency reserve requirements to 14% and 19%. In April 2026 it decided that, from 1 October 2026, an amount equal to 25% of new foreign bond and loan funding with maturities from 360 days to three years would be included in the base for reserve requirements ([Khan Bank](#), 2026c, [2026d](#)). Khan Bank's own half-year

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report expected these measures to raise funding costs, narrow liquidity and slow consumer-loan growth, while supporting asset quality and system stability ([Khan Bank](#), 2026d).

Problem Statement

Khan Bank's strategic problem is a three-sided trade-off. It must defend its position in a banking market where digital convenience is becoming the primary basis of competition. It must continue serving remote households, micro-enterprises, herders, women-owned businesses and agricultural borrowers whose needs cannot be judged only by urban app usage. It must also protect capital, liquidity, asset quality and trust in an economy whose cycles are amplified by commodities, China demand, fiscal policy, inflation and exchange-rate movements.

The bank's recent figures make the trade-off concrete (Exhibit 4). Between the end of 2023 and the end of 2025, audited total assets rose from MNT17.35 trillion to MNT23.94 trillion, and audited net loans from MNT9.02 trillion to MNT13.53 trillion ([Khan Bank](#), 2025b, [2026a](#)). For 2025 alone the calculation is:

Asset growth = $(23.942 - 20.303) / 20.303 = 17.9\%$ approximately; net loan growth = $(13.534 - 11.196) / 11.196 = 20.9\%$ approximately.

Net interest income on the audited IFRS basis increased 9.7% to MNT1.382 trillion in 2025, while profit after tax rose to MNT694.8 billion ([Khan Bank](#), 2026a). In 2024 net interest income had grown 15.8% and profit after tax had been MNT638.5 billion ([Khan Bank](#), 2025b). The balance sheet and loan book have therefore grown faster than net interest income for two consecutive years. That is not necessarily a problem: scale, pricing, provisions, fee income and operating leverage affect profit. It does, however, require management to understand whether growth is creating durable returns or merely increasing exposure.

Exhibit 4: Khan Bank: Key Financial Indicators and Prudential Ratios, 2023 to June 2026

Indicator	2023	2024	2025	H1 2026	Requirement
Total assets (MNT trillion), audited/IFRS	17.35	20.30	23.94	28.08	—
Net loans and advances to customers (MNT trillion)	9.02	11.20	13.53	15.89	—
Total equity (MNT trillion)	2.09	2.46	2.82	2.78	—
Net interest income (MNT billion), IFRS	1,087.4	1,259.7	1,381.7	704.1 (6 m)	—
Profit after tax (MNT billion)	558.8	638.5	694.8	357.2 (6 m)	—
Return on equity (%)	31.7	28.9	27.1	25.9	—
Return on assets (%)	3.5	3.4	3.3	2.9	—
Cost-income ratio (%)	40.2	40.9	44.4	46.5	—

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Indicator	2023	2024	2025	H1 2026	Requirement
NPL ratio (%)	5.3	4.3	4.3	4.1	—
Provision coverage of NPLs (%)	127.9	142.3	135.8	127.0	—
Total capital adequacy (%)	18.6	17.8	17.46	14.7	≥12
Tier 1 capital adequacy (%)	18.6	17.8	17.46	14.7	≥9 minimum; 13 as reported by bank
Liquidity ratio (%)	46.5	44.5	42.5	40.2	≥25
FX open position, single / aggregate (% of capital)	−6.3 / −6.5	−2.8 / −3.1	−2.6 / −2.7	−0.4 / −0.6	±15 / ±30

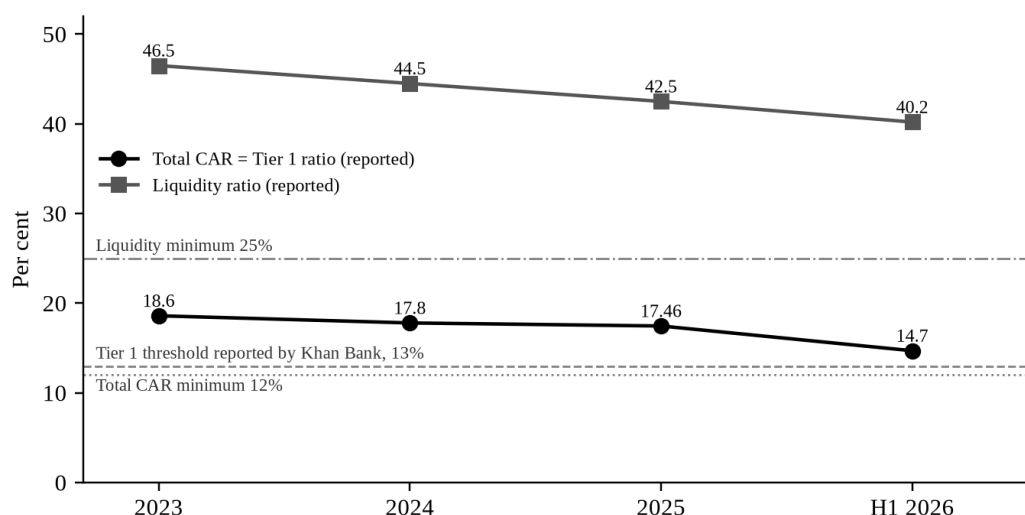
Note: Balance-sheet and income figures for 2023–2025 are audited IFRS amounts; H1 2026 figures are unaudited IFRS amounts from the half-year report. Ratios are as presented by the bank in its operational reports (the 2025 sustainability report gives ROE of 26.27% for 2025). H1 2026 ROE and ROA are as reported. The 13% Tier 1 threshold is the bank's own statement; the author reconciles it to the regulator's 9% minimum plus conservation and systemic buffers.

(Source: [Bank of Mongolia](#), n.d.; [Khan Bank](#), 2025b, [2025c](#), [2026a](#), [2026c](#), [2026d](#))

Reported returns softened in each period. ROE declined from 31.7% in 2023 to 28.9% in 2024, 27.1% in 2025 and 25.9% in the first half of 2026; ROA moved from 3.5% to 2.9%; and the cost-income ratio rose from 40.2% to 46.5% ([Khan Bank](#), 2025c, [2026c](#), [2026d](#)). The 2025 sustainability report gives ROE of 26.27% for 2025, which differs from the operational report's 27.1%; neither report explains the basis, and a different averaging convention is one possible explanation ([Khan Bank](#), 2026b, [2026c](#)). Capital and liquidity followed the same direction (Exhibit 5). The capital adequacy ratio, reported as identical to the Tier 1 ratio in every period, moved from 18.6% to 17.8%, 17.46% and then 14.7%; liquidity moved from 46.5% to 40.2% ([Khan Bank](#), 2025c, [2026c](#), [2026d](#)).

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Exhibit 5: Khan Bank: Capital Adequacy and Liquidity Against Regulatory Thresholds, 2023 to June 2026


Note: Year-end values for 2023–2025 and 30 June 2026. The bank reports total capital adequacy and Tier 1 ratios as identical. Threshold lines show the regulatory total-capital minimum (12%), the Tier 1 threshold the bank reports (13%) and the liquidity minimum (25%).

(Source: [Bank of Mongolia](#), n.d.; [Khan Bank](#), 2025c, [2026c](#), [2026d](#))

The first half of 2026 changed the character of the problem. Through 2025 the ratios remained comfortably above minimums and only the direction was a concern. By June 2026 the distance between the reported capital ratio and the bank's own 13% Tier 1 threshold had narrowed to 1.7 percentage points, while total loans grew 16.6% in six months. Equity fell 1.7%, to MNT2.78 trillion, despite half-year profit of MNT357.2 billion ([Khan Bank](#), 2026d). Earnings were also under pressure. On the local accounting basis that HS Holdings reports, first-quarter interest expense rose 36.7% year on year, net interest income was almost flat (+0.4%) and profit after tax fell 4.9%, which HS Holdings attributed mainly to higher deposit balances and deposit rates; for the half year, interest expense rose 37.8% and profit after tax 1.0% ([HS Holdings](#), 2026b, [2026c](#)). The board had approved a dividend of MNT214 per share, or MNT409.2 billion, from 2025 profits ([Khan Bank](#), 2026b). A simple roll-forward ($2,824.8 + 357.2 - 409.2 = 2,772.8$ billion) comes within MNT4 billion of the reported equity, which suggests that the dividend accounts for most of the decline; this is the author's reconciliation, not a disclosed bridge. If loan growth continues at this pace while retained earnings, risk weights, funding costs and provisions do not keep pace, the bank may have to slow growth, raise additional capital, reduce distributions or accept a lower buffer.

Asset quality presents a related ambiguity. Khan Bank reported NPL ratios of 5.1%, 5.3% and 5.3% for 2021 to 2023, 4.3% for 2024 and 2025, and 4.1% at June 2026, while provision coverage moved from 127.9% in 2023 to 142.3%, 135.8% and 127.0% ([Khan Bank](#), 2024,

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[2025c](#), [2026c](#), [2026d](#)). The Asian Development Bank put the system NPL ratio at around 5.2% in 2025 ([Asian Development Bank](#), 2026a). Definitions also differ between reports. The 2023 annual report disclosed total loans of MNT9.669 trillion while audited statements reported MNT9.017 trillion of net loans and advances to customers; the 2025 operational report gives total loans of MNT14.4 trillion in one section and MNT14.3 trillion in another; and the customer-account balance reported by HS Holdings on a local accounting basis (MNT16.40 trillion at end-2025) differs from the audited IFRS figure (MNT15.77 trillion) ([HS Holdings](#), 2026a; [Khan Bank](#), 2024, [2026a](#), [2026c](#)). These are not errors that an analyst should silently average. They show why board decisions must be based on reconciled management information rather than headline metrics.

Digital lending increases both the opportunity and the risk. Khan Bank reported that 27% of all loans originated online as of December 2023, and that 28% of total loans and 74% of consumer loans were online loans in 2024 ([Khan Bank](#), 2024, [2025a](#)). By the end of 2025 the online consumer-loan book was MNT4.33 trillion, 31% of the total loan portfolio and 88% of consumer loans excluding mortgages ([Khan Bank](#), 2026b). Automated credit inquiry, credit-bureau retrieval, decisioning and disbursement can reduce turnaround time and make small loans accessible. The IPO prospectus said an eligible salary loan could be processed in three to five minutes after an initial branch visit to sign the credit-limit agreement ([Khan Bank](#), 2023b). But rapid decisioning depends on data quality, model stability, affordability assessment, fraud controls and responsible collection. A model that works during a strong commodity cycle may understate default risk when wages, transfers or collateral values weaken, and it may behave differently again when inflation erodes real incomes.

The board must therefore decide whether to prioritise national digital scale, targeted inclusion, or balance-sheet resilience. A "do everything" strategy may sound attractive but could dilute accountability, and by mid-2026 the capital ratio set a firmer limit on how much of everything the bank could fund at once. The central problem is how to sequence investments and set measurable guardrails so that digital growth strengthens rather than substitutes for risk management and governance.

Methodology

This case uses secondary research and financial-statement analysis. The data cut-off is 15 August 2026: every fact, figure, forecast and policy setting reflects information published on or before that date, and the case's "present" is mid-August 2026. The evidence base includes Khan Bank's 2012, 2023 and 2024 annual reports; its 2025 sustainability report; audited financial statements for 2024 and 2025; annual operational reports for 2024 and 2025 and the first-half 2026 operational report filed with the Mongolian Stock Exchange; the 2023 IPO short prospectus and the green bond framework; results notices for Khan Bank published by HS Holdings, the largest shareholder, through the Tokyo Stock Exchange; Bank of Mongolia

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prudential rules and monetary-policy statements; Financial Regulatory Commission reporting; IMF, Asian Development Bank and World Bank macroeconomic material; an FMO project disclosure; and a Swift case study on payment controls.

Several primary sources are published only in Mongolian or Japanese; translations and summaries of them are the author's. HS Holdings figures are prepared on a local accounting basis and are unaudited; operational-report ratios are presented by the bank on its own basis; audited figures are used where they exist. Documented company claims are identified as such. Bank-reported customer reach, digital-adoption counts, certifications and market shares are not treated as independently audited outcomes unless the source states that they were audited. Where years or definitions differ, the case preserves the difference rather than creating a false time series. For example, "customer," "electronic customer," "registered DigiPay user," "household reach" and "population served" are not interchangeable.

The quantitative analysis uses reported figures and simple calculations. Growth rates are calculated as the change divided by the opening amount. Fee-income composition is calculated from audited amounts. Ownership concentration is calculated by adding disclosed percentages. The NPL and capital sensitivities presented later in the case are mechanical illustrations with stated assumptions, not forecasts. These calculations are analytical extensions of the sources, not additional reported facts. The case does not infer a Khan Bank FX loss under a hypothetical depreciation without a disclosed currency-gap table, and it does not use rating-agency commentary that could not be opened and read in full.

The case is not a valuation, investment recommendation or forensic audit. Its purpose is to support strategic discussion about sequencing, trade-offs, evidence quality and governance. The most important limitations are the absence of a consistent active-user series, incomplete disclosure of digital unit economics, lack of a current rural-versus-urban operating split, non-reconciled loan and deposit definitions in some reports, the absence of a disclosed risk-weighted-asset bridge, and limited public disclosure of stress-test outputs, cyber losses, customer churn and complaint outcomes.

Case Narrative/Analysis

From rural infrastructure to digital platform

Khan Bank's digital transformation did not begin with a mobile application. It began with a distribution problem. Mongolia's population is dispersed across a land area where branch density per square kilometre is low and rural transactions can be expensive. The bank's branch network, ATM footprint and government-payment relationships created repeated customer contact. The network also produced information about salaries, pensions, remittances, agricultural activity and small-business cash flows.

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This history matters because it changes the economics of digital adoption. A fintech starting without branches may offer a convenient interface but struggle with cash-in, cash-out, identity verification, customer education and trust outside urban centres. Khan Bank could use branches as assisted-digital locations. A customer might first open an account or sign a credit-limit agreement in person, then transact through mobile channels. The three-to-five-minute salary-loan process illustrates this hybrid model: automated processing was combined with an initial physical step rather than presented as a fully branchless system. By 2025 the bank had moved further, introducing remote onboarding of new customers in its app and reorganising local units around regional credit-analysis centres and integrated service centres for SMEs ([Khan Bank, 2026c](#)).

Building an omni-channel operating model

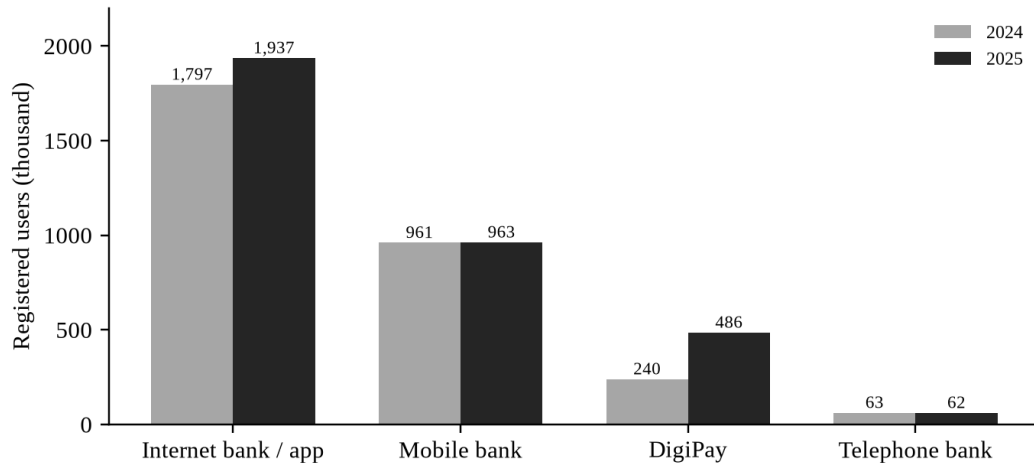
The IPO prospectus described digitalisation of operations and products beginning in 2010 and accelerating thereafter. Khan Bank conducted a digital-maturity assessment with Deloitte Digital in the first quarter of 2021 and described an Omni Channel Hub consolidating electronic-channel services ([Khan Bank, 2023b](#)). The hub connected contact-centre functions, phone, chat, interactive voice response, customer information and CRM workflows. Its strategic value lay less in the new interface than in the move toward one customer record and one service process across channels.

The bank also described Agile pilots, a scaled Agile structure, robotic process automation, design thinking, data- and AI-based personalisation and an ecosystem beyond banking. These initiatives were forward-looking objectives in the prospectus, not all independently verified completed deployments. That distinction is important in a case about transformation. A bank can announce an architecture, launch a product and still fail to capture value if its data is fragmented, staff incentives remain product-based, legacy systems constrain releases or customers do not trust the channel.

Later disclosures show some of these objectives turning into operations. For 2024 the bank reported implementing the IDCXS2022:02 international digital customer-experience standard for the second year, with a third-party evaluation score of 98.1%, and launching Mongolia's first bilingual AI-powered chatbot. It also launched DigiPay, a digital wallet for individual users, and DigiPos for merchants, opened three more Digi Go digital branches to reach seven, and integrated with Alipay for remittances and payments to China ([Khan Bank, 2025a](#)). In 2025 the bank said that 88% of chatbot queries were resolved automatically, that process automation had removed more than 104,000 hours of manual work, and that card customers and digital customers had each reached about 2 million ([Khan Bank, 2026c](#)). In the first half of 2026 it reported that AI-assisted credit analysis cut account-analysis time from 45 to 9 minutes and that 97% of foreign-exchange trades were made digitally ([Khan Bank, 2026d](#)). Exhibit 6 shows the registered-user counts the bank published for its main channels.

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Exhibit 6: Khan Bank: Registered Users of Digital Channels, 2024 and 2025



Note: Year-end counts of users by channel as reported in the 2025 sustainability report; the bank does not define whether a user is active. Corporate gateway users (1,635 in 2024; 2,062 in 2025) are omitted from the chart for scale. Channels overlap, so counts cannot be added.

(Source: [Khan Bank](#), 2026b)

The missing question is usage quality. The sustainability report counts users by channel without defining whether a user is registered, has transacted once or transacts regularly. Without monthly active users, transactions per active user, average transaction value, merchant churn, fraud rate and contribution margin, management cannot know whether DigiPay is a high-retention payment network or an acquisition campaign with limited repeat use. A figure of more than 15,000 actively used DigiPos merchant locations, which appeared in earlier versions of this analysis, could not be traced to an accessible primary source and is not used.

Digital revenue and unit economics

Audited financial statements provide one financial window into digital activity (Exhibit 7). Fee income from mobile and internet banking was MNT116.937 billion in 2023, MNT122.284 billion in 2024 and MNT128.737 billion in 2025 ([Khan Bank](#), 2025b, [2026a](#)). The nominal increases were:

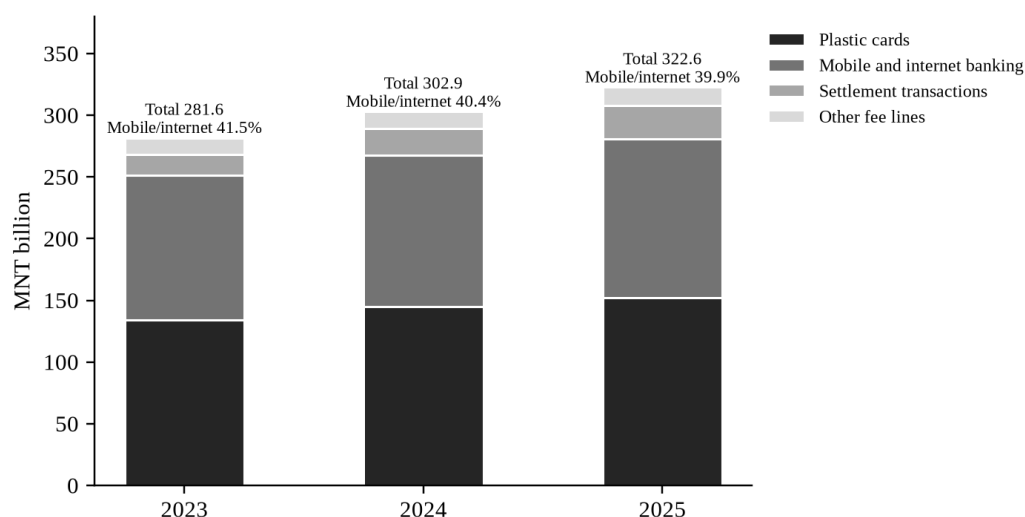
$(122.284 - 116.937) / 116.937 = 4.6\%$ in 2024; $(128.737 - 122.284) / 122.284 = 5.3\%$ in 2025.

Total fee and commission income was MNT281.634 billion in 2023, MNT302.874 billion in 2024 and MNT322.615 billion in 2025. Mobile and internet banking therefore represented approximately 41.5%, 40.4% and 39.9% of fee and commission income in the three years. Card fees, the largest line, grew from MNT134.127 billion to MNT152.266 billion over the same period.

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Exhibit 7: Khan Bank: Fee and Commission Income by Source, 2023–2025



Note: Audited amounts in MNT billion. 'Other fee lines' combines guarantees, cash operations, transfers and other fees. Mobile-service commission expense was 27.2, 33.6 and 35.3 billion in 2023, 2024 and 2025, so mobile and internet fee income net of that expense was 89.8, 88.7 and 93.4 billion (author's calculation, before staff, technology and other costs).

(Source: [Khan Bank](#), 2025b, [2026a](#))

Mobile and internet banking were thus a material source of fee income, but their nominal growth lagged the growth in total assets and loans by a wide margin, and in 2025 it ran below average inflation of 8.6%. The statements also report commission expense on mobile services of MNT27.154 billion in 2023, MNT33.590 billion in 2024 and MNT35.291 billion in 2025. A simplified contribution measure, before allocating staff, technology, fraud, depreciation and overhead costs, is mobile and internet fee income less mobile-service commission expense: MNT89.8 billion, MNT88.7 billion and MNT93.4 billion. This is not a true product profit figure; it is only a transparent reminder that gross digital fees are not net economic value. One interpretation, which the disclosures do not allow to be tested, is that the economic return on digital channels now arrives mainly through cheaper loan origination and deposit gathering rather than through fees.

Inclusion and competition

Khan Bank's scale can support inclusion in at least four ways. First, branches and agents can bring identity, deposits and payments to remote communities. Second, digital channels can reduce travel and waiting costs. Third, automated small-ticket credit can make underwriting more affordable. Fourth, merchant acceptance can formalise transactions and help small businesses build records.

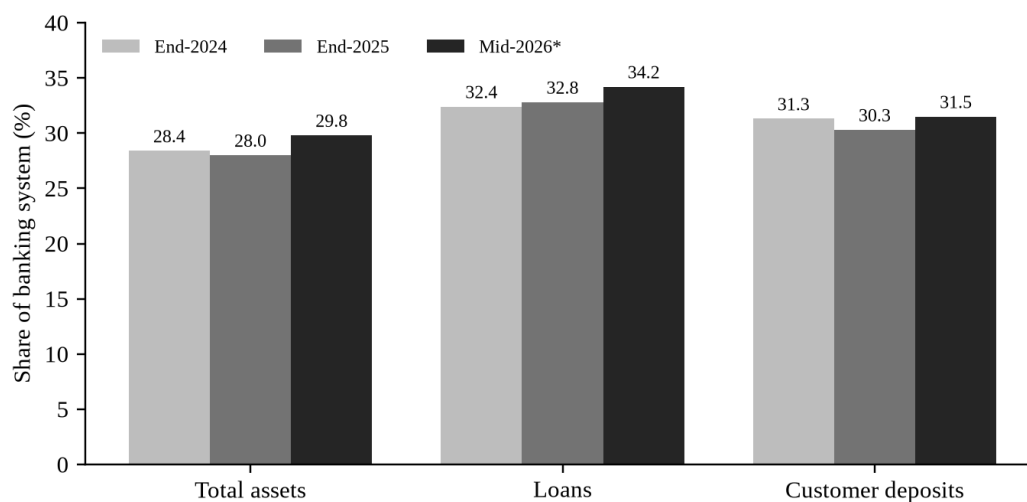
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The historical evidence supports the first two mechanisms. Khan Bank reported offices in every province capital, soum centre and border point, and its network carried salaries, pensions, social-welfare payments and remittances. FMO and the Asian Development Bank independently identified rural reach and MSME financing as part of the bank's development rationale ([Asian Development Bank](#), 2013; [FMO](#), 2024). In 2025 the bank raised US\$530 million of long-term funding, including MNT30 billion through a domestic gender bond, and reported that 37% of the funds raised went to micro, SME and women-owned businesses, 34% to sustainable agriculture and 28% to green projects; it raised a further US\$242 million from international financial institutions in the first half of 2026 ([Khan Bank](#), 2026c, [2026d](#)). The evidence is weaker on outcomes. The public reports do not provide branch-level rural transaction volumes, travel-time reductions, account dormancy, gender or income segmentation, fees by location, ATM uptime or customer complaints.

Competitive position has strengthened rather than eroded so far. Exhibit 8 shows market shares at three dates. The loan share rose from 32.4% at the end of 2024 to 34.2% in May 2026, while the asset share moved from 28.4% to 29.8% ([Khan Bank](#), 2025c, [2026c](#), [2026d](#)). For a bank already holding about a third of system loans, a rising share cuts both ways: it confirms the franchise, but it also raises the bank's systemic weight and its exposure to the national credit cycle.

Exhibit 8: Khan Bank: Share of the Mongolian Banking System, End-2024 to Mid-2026



Note: Per cent of system totals as reported by the bank. *Mid-2026: the asset share is for the second quarter of 2026; the loan and deposit shares are for May 2026. Deposit shares refer to customer deposits for 2024 and 2025 and to total deposits for 2026, as described in each report.

(Source: [Khan Bank](#), 2025c, [2026c](#), [2026d](#))

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Digital lending and the credit cycle

The rise in online lending from 27% of loans in 2023 to 31% in 2025 is a major operating change. A loan application that once required a customer to visit a branch, present documents and wait for manual review can be processed using customer data, credit-bureau information, salary records and automated rules. In 2025 the bank also began offering fully digital business loans secured on real estate with limits of up to MNT200 million, and in 2026 it extended online loans to employed customers with six months of continuous social-insurance contributions ([Khan Bank](#), 2026c, [2026d](#)). The benefits include faster service, broader reach and potentially lower processing costs.

The risks are equally important. Digital lending can create selection bias when historical data reflects a period of high employment, strong commodity demand or generous wage growth. It can embed discrimination if proxies for location, employer, gender, language or device type reproduce existing inequalities. It can invite fraud through synthetic identities, account takeover or manipulated documents. It can generate conduct risk if customers do not understand fees, effective interest rates, repayment obligations or the consequences of multiple digital loans. The regulator's successive cuts to the debt-service-to-income cap, to 50% in 2025 and 45% in 2026, suggest that household leverage was already a supervisory concern ([Khan Bank](#), 2026c, [2026d](#)).

The auditor's report on Khan Bank's 2025 financial statements identifies the expected credit-loss allowance on loans and advances to customers as the key audit matter ([Khan Bank](#), 2026a). The bank's accounting notes describe a process that uses staging, probability of default, loss given default, forward-looking macroeconomic scenarios and probability weighting ([Khan Bank](#), 2025b). Individually assessed loans include significant loans that are past due, restructured or on a watchlist, while other loans are assessed on a portfolio basis. This is consistent with the complexity of IFRS 9, but it also means that a digitally originated portfolio can look healthy until macroeconomic assumptions change. The credit-loss charge fell from MNT118.6 billion in 2024 to MNT92.6 billion in 2025 even as net loans grew by about a fifth ([Khan Bank](#), 2026a).

A useful board metric would separate credit performance by channel, product and vintage. For example, management could compare the 12-month default rate of online salary loans originated in each quarter with branch-originated loans after controlling for customer and product characteristics. It could track first-payment default, roll rates from current to past due, restructuring, recovery and loss given default. A digital channel should not be judged only on approval speed or volume. It should earn the right to grow through risk-adjusted returns.

Risk management in a commodity-dependent economy

Khan Bank reports formal controls for credit, market, liquidity, operational, compliance and information-security risk. The 2024 report describes quarterly stress testing of material risks

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and a value-at-risk approach at a 99% confidence interval using variance-covariance and historical-simulation methods ([Khan Bank, 2025a](#)). The bank prepares ICAAP and ILAAP reports for the regulator and reported that the supervisory review (SREP) assessed it as meeting requirements, with a score of 3 ([Khan Bank, 2026c](#)). These processes are positive evidence of risk architecture.

Liquidity was 40.2% at June 2026 against a 25% regulatory minimum, down from 46.5% at the end of 2023. In 2023 the bank said excess liquidity was invested in Bank of Mongolia bills, Mongolian government bonds, short-term US government bonds and interbank placements, and it reported purchasing 43.5% of Bank of Mongolia bills offered in the primary market that year ([Khan Bank, 2024](#)). This provides a liquidity buffer and an income source, but it may also create concentration and interest-rate exposure. The board needs to distinguish liquid assets that can be sold quickly in a stress market from assets whose liquidity depends on domestic confidence. Higher reserve requirements, raised again on 12 August 2026, also convert part of the balance sheet into balances held at the central bank ([Bank of Mongolia, 2026](#)).

Credit risk is cyclical. At June 2026 Khan Bank reported NPLs of MNT678.7 billion, or 4.1% of total loans, with provision coverage of 127.0% ([Khan Bank, 2026d](#)). A board should ask what would happen if the ratio returned to 5.3%, the level reported for 2022 and 2023. Using the denominator implied by MNT678.7 billion divided by 4.1%, total loans are approximately MNT16.55 trillion. A rise from 4.1% to 5.3% would imply roughly MNT199 billion of additional non-performing loans before recoveries or changes in provisions, equal to about 56% of first-half 2026 profit, and would cut coverage to about 98% if the allowance did not grow (Exhibit 9). This is a simple sensitivity, not a forecast, and the result depends on definition consistency. It shows why a one-percentage-point change matters at Khan Bank's scale.

Exhibit 9: Illustrative Sensitivity of Non-Performing Loans to the NPL Ratio, Base 30 June 2026

NPL ratio scenario	NPLs (MNT billion)	Change vs base (MNT billion)	Change as % of H1 2026 profit	Coverage if allowance unchanged (%)
4.1% (reported, June 2026)	678.7	0	0	127.0
4.3% (end-2024 and end-2025 level)	711.8	33.1	9	121.1
5.2% (approximate system level, 2025)	860.8	182.1	51	100.1
5.3% (Khan Bank level, 2022 and 2023)	877.3	198.6	56	98.2
6.1% (+2 points vs June 2026)	1,009.8	331.1	93	85.4

Note: Hypothetical, not a forecast. Loan denominator implied as $678.7 / 0.041 = \text{MNT}16,554$ billion and held constant; loss allowance held at $127.0\% \times 678.7 = \text{MNT}862$ billion; H1 2026 profit after tax MNT357.2 billion. Ignores recoveries, collateral, write-offs, tax and changes in risk weights. Definitions of NPLs differ between the bank's reports and the system figure.

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(Source: [Asian Development Bank](#), 2026a; [Khan Bank](#), 2024, [2025c](#), [2026d](#); calculations by the author)

Capital is where the credit, growth and dividend questions meet. To make the interaction explicit, this case proposes a teaching lens labelled the capital clock; it is a proposed lens, not a validated model. If regulatory capital is held constant, the capital ratio falls in proportion to growth in risk-weighted assets, so the 14.7% reported at June 2026 can absorb risk-weighted-asset growth of about 13% ($14.7 / 13 - 1$) before reaching the 13% Tier 1 threshold. Retained profit winds the clock back; dividends and loan growth wind it forward. The lens is related to the familiar sustainable-growth-rate idea, in which equity can grow at return on equity multiplied by the retention ratio, but it differs in two ways: it measures the runway against a regulatory floor rather than a target balance sheet, and it asks which business lines, digital consumer lending above all, consume that runway fastest. Its main boundary is data. Khan Bank does not publish the risk-weighted-asset bridge needed to run it precisely, so Exhibit 10 assumes that regulatory capital moves with book equity and that risk-weighted assets grow at the stated rates.

Exhibit 10: Proposed Capital-Clock Lens: Illustrative Capital Ratio After Further Growth, from 14.7% at 30 June 2026

Growth in qualifying capital	RWA growth +5%	RWA growth +10%	RWA growth +16.6%
0% (no retention, e.g. profit fully distributed)	14.0	13.4	12.6*
+6.4% (half of an H1 2026-sized profit retained)	14.9	14.2	13.4
+12.9% (an H1 2026-sized profit fully retained)	15.8	15.1	14.2

Note: Hypothetical teaching illustration of a proposed lens; not a forecast and not a regulatory calculation. Ratio = $14.7\% \times (1 + \text{capital growth}) / (1 + \text{RWA growth})$. Assumes qualifying capital moves in proportion to book equity (MNT2,776 billion at June 2026; H1 2026 profit MNT357.2 billion = 12.9%) and that risk-weighted assets (RWA), which the bank does not disclose, grow at the stated rates; 16.6% equals total loan growth in H1 2026. *Below the 13% Tier 1 threshold reported by the bank. With no capital growth, RWA growth of about 13% ($14.7 / 13 - 1$) would reach the threshold.

(Source: [Khan Bank](#), 2026d; calculations by the author)

Foreign-exchange risk is linked to the same macro cycle. The bank reports FX forwards and swaps, cross-currency interest-rate swaps and USD-denominated long-term borrowings designated as hedged items; the notional amount of those hedged borrowings rose from US\$320.7 million at the end of 2023 to US\$372.2 million at the end of 2024 and US\$454.8 million at the end of 2025 ([Khan Bank](#), 2025b, [2026a](#)). Hedging reduces mismatch but introduces counterparty, basis, collateral and hedge-ineffectiveness risk. Value-at-risk models can be less reliable in unstable markets. The regulator's new reserve treatment of medium-term foreign funding from October 2026 also raises the cost of a funding source the bank has used

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to finance growth. Stress tests should therefore include a sharp tugrik depreciation, a fall in coal prices, higher funding costs, persistent inflation and deterioration in borrowers' cash flows at the same time.

Cybersecurity, compliance and operational resilience

Digital scale raises the consequences of operational failure. A Swift case study published in November 2022 reported that about 98% of Khan Bank transactions were then made through digital channels, that outbound Swift payment traffic had increased 57% over the previous year and that about 70% of outgoing payments were denominated in US dollars. The bank implemented Swift Payment Controls with rules for message counts, aggregate amounts, high-risk countries, new beneficiaries and out-of-hours payments, and the case study reported that the controls intercepted one phishing attempt and three payments to high-risk countries ([Swift](#), 2022). The bank's own figure for digital transactions had risen to 99.4% in 2024 and 99.6% in 2025 ([Khan Bank](#), 2025a, [2026c](#)).

These controls are a strength, but the Swift evidence comes from a vendor-authored success story. It does not disclose total attempted fraud, false positives, losses, recovery time, penetration-test results or material cyber incidents. Authorised-payment fraud remains difficult because a customer may be manipulated into approving a payment. Later disclosures add detail on the defensive side. The bank reported 99.9% availability of customer-facing systems in 2025 and the first half of 2026, raised its cyber security operations centre to a "Bronze" maturity level with 97 of 105 planned improvements completed, introduced real-time fraud scoring at log-in and payment, and commissioned a new data centre that it described as meeting Uptime Institute Tier III requirements ([Khan Bank](#), 2026c, [2026d](#)). It is also replacing its core platform with TCS BaNCS GBP in three phases over three years ([Khan Bank](#), 2026d). Core-system migrations and data-centre moves are periods of elevated operational risk, and both were under way at the cut-off.

Cybersecurity also has a customer-trust dimension. A rural customer who loses access to an account during a network outage may have fewer alternatives than an urban customer with multiple banks and payment apps. A fraud event can reduce digital adoption, increase calls to branches and damage the inclusion gains that the technology was intended to create. The board should therefore consider availability, recovery time, customer reimbursement, incident communication and third-party resilience as strategic metrics rather than technical appendices.

Anti-money-laundering and counter-terrorist-financing controls are similarly intertwined with digital growth. Khan Bank states that it complies with international and domestic AML/CFT requirements and that in 2024 it upgraded its automated monitoring system for suspicious-activity identification and financial-crime prevention; its Board Risk Committee receives monthly reports from the executive risk and compliance committees ([Khan Bank](#), 2025a). Swift materials refer to transaction screening, sanctions compliance, Swift gpi and an ISO 20022

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programme ([Swift](#), 2022). The public sources reviewed do not provide alert volumes, suspicious-transaction-report counts, sanctions breaches, regulatory findings or remediation timelines. The absence of such disclosure is not evidence of absence of problems. It simply limits external assessment.

Governance after the IPO

The IPO changed the context in which strategy is approved. Khan Bank became more visible to public shareholders, of whom there were about 39,000 by mid-2026, while retaining concentrated ownership ([Khan Bank](#), 2026d). Its board works through committees covering audit, risk, governance, and nomination and human resources, at least two of them chaired by independent directors ([Khan Bank](#), 2023b, [2025a](#)). The public record does not describe in detail how executive performance is measured or how growth, risk and customer outcomes are weighted in remuneration.

This system can support transformation if incentives reward long-term customer and risk outcomes. It can undermine resilience if management is rewarded mainly for loan growth, profit, app downloads or short-term share performance. A balanced scorecard would include risk-adjusted return on capital, digital contribution margin, complaint resolution, customer retention, rural service quality, model performance, cyber resilience and capital-buffer preservation.

Dividend policy shows the tension directly. Dividends paid rose from MNT180.7 billion in 2023 to MNT271.0 billion in 2024 and MNT373.5 billion in 2025, and the dividend approved in February 2026 was MNT409.2 billion ([Khan Bank](#), 2025b, [2026a](#), [2026b](#)). Against 2025 profit of MNT694.8 billion, that is a payout of about 59%. Public investors may value the payout, and the largest shareholder reports Khan Bank's results to its own investors every quarter ([HS Holdings](#), 2026c), but retained earnings are the bank's main source of internal capital for growth and shock absorption.

The concentrated ownership structure makes related-party and conflict-of-interest controls especially important. The Bank of Mongolia limits related-party exposures to 5% of capital for a single party and 20% in total, and it requires disclosure of compliance ([Bank of Mongolia](#), n.d.). The case does not allege a governance breach. It asks a more general question: can formal committees and a public listing provide enough challenge when the bank is both a national infrastructure provider and a large private company with powerful shareholders? The answer depends on director independence, information quality, access to internal audit, willingness to stop profitable growth and equal treatment of minority shareholders. Exhibit 11 summarises the main risks, the evidence available at the cut-off and the indicators a board could watch.

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Exhibit 11: Khan Bank: Risk Matrix at the 15 August 2026 Cut-off

Risk	Evidence at cut-off	Direction since 2024	Indicator a board could monitor
Capital adequacy	CAR and Tier 1 14.7% vs 13% reported threshold; equity –1.7% in H1 2026 after MNT409.2 bn dividend	Rising	RWA bridge; capital-clock runway; payout ratio
Credit and household leverage	NPL 4.1%; coverage down from 142.3% to 127.0%; online loans 31% of book; DSTI cap cut to 45%	Rising	Vintage default by channel; first-payment default; restructuring
Inflation and interest rates	Inflation 13.0% (Jul 2026); policy rate 12.5%; interest expense +37.8% y/y in H1 2026	Rising	Net interest margin; deposit pricing; real-income stress on borrowers
Funding and liquidity	Liquidity 40.2% vs 25%; reserve requirements raised; foreign-funding reserve rule from Oct 2026	Rising	Funding tenor; FX funding share; liquid assets net of reserves
FX and commodity	FX positions –0.4% / –0.6%; hedged USD borrowings US\$454.8 m; coal and copper strong	Stable	Combined depreciation and coal-price stress result
Operational and cyber	99.9% availability; Bronze SOC maturity; core migration and data-centre move under way	Rising	Incidents, recovery time, fraud losses, migration milestones
Governance and data quality	85.77% held by three holders; definitional differences across reports	Stable	Reconciled data dictionary; independent-director challenge

Note: Qualitative assessment by the author based on the evidence cited in the case; 'direction' compares the cut-off position with end-2024. y/y = year on year; SOC = security operations centre; DSTI = debt-service-to-income ratio. Not a rating or a probability estimate.

(Source: [Bank of Mongolia](#), 2026; [HS Holdings](#), 2026c; [Khan Bank](#), 2025c, [2026a](#), [2026b](#), [2026d](#); assessment by the author)

Findings

First, Khan Bank's original competitive advantage was a distribution system, not merely a branch count. Its presence in rural and remote areas, its role in salaries, pensions, welfare payments and remittances, and its investment in connectivity created trust, customer data and transaction frequency. That platform makes digital migration more credible than for a purely urban entrant. However, branch or customer reach is not the same as active use, affordability or service quality.

Second, digital transformation is operationally real but economically under-measured in public disclosures. The bank has automated salary loans, an omni-channel hub, mobile and internet banking, DigiPay, DigiPos, an AI assistant, machine-learning recommendations and international wallet connections, and 99.6% of transactions were digital in 2025. Mobile and

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internet banking generated about 40% of fee and commission income, but that fee line grew only about 5% a year. The bank does not publish a consistent funnel from registration to active use to retention, nor a fully allocated contribution margin. Product launches and registration counts are not, by themselves, proof of economic value.

Third, digital inclusion and digital risk are inseparable. Automated loans and mobile payments can reduce distance and processing time, particularly in a country where geographic access is costly. The same systems can amplify fraud, over-indebtedness, model bias and outages. The evidence is consistent with a hybrid model in which branches remain important for onboarding, advice, cash and customer protection while digital channels handle routine transactions and suitable credit; it does not by itself establish the right balance between them.

Fourth, financial performance remained strong but growth has consumed most of the safety margin. Assets grew about 18% and audited net loans about 21% in 2025, and total loans grew a further 16.6% in the first half of 2026. ROE, ROA, liquidity and capital adequacy declined in each period, and the capital ratio stood 1.7 percentage points above the bank's own Tier 1 threshold in June 2026. The pattern is a signal rather than a failure, but by mid-2026 it had become a constraint on strategy rather than a trend to monitor.

Fifth, Mongolia's macroeconomic opportunity is also Khan Bank's concentration risk. Coal and copper growth, rising reserves and Chinese demand support loan and deposit expansion. A commodity or China shock can affect the tugrik, inflation, liquidity, borrower income and collateral at the same time. In mid-2026 the immediate pressure came from inflation and tighter monetary and macroprudential policy rather than from commodities. Khan Bank's formal FX limits, VaR, hedging, ICAAP and quarterly stress testing are strengths, but public disclosures do not show the loss under a combined tail scenario.

Sixth, governance has improved in form, but the public-company transition does not remove concentrated control. The IPO increased public ownership and disclosure, and the board's committees cover audit, risk, governance and human resources. Nevertheless, 85.77% of shares remained with two corporate groups and one individual shareholder through June 2026. Independent challenge therefore matters most when digital growth, dividends and capital buffers compete for the same retained earnings.

Seventh, the central evidence gap is management information quality. Different reports use different definitions for loans, deposits, NPLs, ROE, customers, branches and digital users. The case cannot produce a clean adoption or profitability time series without reconciled denominators. A mature digital bank should be able to report a consistent data dictionary and explain how each metric supports a decision.

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Proposed Solutions/Recommendations

The board's choice can be framed as three strategic options for the next planning cycle, together with a set of enabling measures that would be needed under any of them. The options are presented as alternatives with their trade-offs; the case does not rank them. Exhibit 12 compares them on criteria drawn from the evidence above.

Option A: National digital scale

Under this option the bank would direct most incremental investment to the digital ecosystem and automated lending: the core-system migration, DigiPay and merchant acceptance, AI-based credit and service, and growth in online consumer and small-business loans. Its case rests on the market-share gains of 2024 to 2026, the speed and cost advantages of automated processing, and the risk that competitors with lighter cost bases capture younger urban customers. Its main costs are capital consumption, since consumer and business loans carry the risk weights that drive the capital clock, and exposure to household leverage at a time when the regulator was tightening debt-service limits. It would probably require a lower dividend payout, external capital or both.

Option B: Rural assisted-digital and MSME inclusion

Under this option the bank would put the network at the centre: branches redesigned as assisted-digital centres, regional credit-analysis hubs, herder and agricultural lending, and women-owned and green business finance funded by long-term lines from development lenders. Its case rests on Khan Bank's distinctive distribution advantage, the availability of long-tenor funding from international financial institutions, and the policy direction toward business rather than consumer credit. Its costs are a heavier fixed-cost base, lower near-term fee growth, concentration in agriculture and climate-exposed borrowers, and weaker measurement of outcomes, since the bank does not yet publish the rural data needed to show that inclusion is working.

Option C: Capital and resilience first

Under this option the bank would slow risk-weighted-asset growth, retain more earnings, extend funding tenor and prioritise the core migration, cyber maturity and reconciled management information before scaling further. Its case rests on the 1.7-point capital margin, rising inflation and policy rates, the new reserve treatment of foreign funding, and the operational risk of moving core systems and data centres at the same time. Its costs are lost market share at a moment of strong loan demand, lower near-term returns for shareholders accustomed to rising dividends, and the possibility that competitors use the pause to take digital customers.

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Exhibit 12: Comparison of Three Strategic Options for the Next Planning Cycle

Criterion	A: National digital scale	B: Rural assisted-digital and MSME inclusion	C: Capital and resilience first
Capital consumption	Highest; fast growth in risk-weighted consumer and SME loans	Moderate; development-finance lines may fund growth	Lowest; slower RWA growth and higher retention
Near-term earnings	Higher volumes; pressure from funding costs and provisions	Lower fee growth; higher fixed costs	Lower growth; dividend may be cut
Inclusion outcomes	Broad reach for digitally capable customers; risk of exclusion for others	Strongest fit with rural and MSME mandate	Maintained but not expanded
Exposure to the 2026 policy tightening	High; consumer credit targeted by DSTI limits	Moderate; agricultural and climate risk	Low
Operational risk	Higher during core migration	Moderate	Lower; capacity focused on migration
Evidence available to the board	Registration counts, fee data; no active-user or vintage data published	Reach data; few outcome measures	Prudential ratios; no RWA bridge published
Main stakeholder tension	Customers and regulator vs growth targets	Development lenders vs shareholders' return expectations	Shareholders' dividend expectations vs capital

Note: Qualitative comparison compiled by the author from the evidence in the case. The criteria are not weighted and the options are not ranked; weighting is left to discussion. Hybrid combinations are possible but draw on the same capital margin.

(Source: Author's analysis based on [Bank of Mongolia](#), 2026; [Khan Bank](#), 2026b, [2026c](#), [2026d](#))

The measures below are drawn from the evidence and would apply in some form under each option. They are offered as inputs for the board's discussion rather than as a prescribed answer; their intensity and timing depend on the option chosen.

1. A risk-adjusted digital-growth mandate

Digital growth could be approved only when each product has a measurable economic and risk case. For consumer payments, management could report active users, frequency, transaction value, net fee contribution, fraud loss, complaints and retention. For digital lending, it could report approval rate, time to decision, first-payment default, 30/90-day delinquency, recovery, loss given default and risk-adjusted return by vintage. Under such a mandate, a product would not be scaled because it has a large registration count.

A minimum capital and liquidity buffer above regulatory requirements could be set, with the growth plan conditional on preserving that buffer under stress. Dividend policy could be linked to projected risk-weighted-asset growth and stress-test results. Option A implies the largest

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draw on the buffer and Option C the smallest; the size of buffer the board regards as adequate is a matter for its risk appetite, not something this case can determine.

2. The branch network as an assisted-digital and inclusion platform

Branches and digital channels need not be treated as substitutes everywhere. In major urban areas, routine payments and service requests can migrate quickly. In remote areas, selected branches could remain assisted-digital centres for identity, financial literacy, cash, dispute resolution, SME advice and agricultural or herder lending. Branch productivity could be measured by customer outcomes and digital activation, not only by transaction volume.

A rural-inclusion dashboard could disclose service availability, ATM and connectivity uptime, average travel distance or time for key transactions, digital adoption by province, gender and age where legally appropriate, complaint-resolution time, and the share of vulnerable customers receiving assisted support. This would make inclusion a measurable operating responsibility rather than a reach claim, and it is a precondition for evaluating Option B on its merits.

3. A responsible digital-credit control tower

A channel-level credit-risk control tower could combine model monitoring, affordability, fraud and collections. It would monitor population stability, reject-inference concerns, drift in income and employment variables, approval disparities, early arrears and customer indebtedness. Models would be recalibrated when commodity, wage, inflation or exchange-rate conditions move beyond historical ranges.

A clear pause-and-review trigger is one possible design. For example, if first-payment default or 30-day delinquency in a digital product exceeds a defined tolerance for two consecutive vintages, growth would slow while the model, underwriting rules and collections process are reviewed. The specific threshold would be set using the bank's risk appetite, not imposed by this case.

4. Cyber and third-party resilience around customer trust

Payment controls could be supplemented with independent testing of account takeover, authorised-payment fraud, social engineering, mobile malware, cloud and telecom outages, vendor compromise and recovery, with particular attention to the core-system and data-centre migrations under way in 2026. Board reporting could include material incidents, attempted fraud, prevented fraud, false-positive rates, customer reimbursement, recovery time and lessons learned, alongside clear customer communication after incidents and safe alternatives for remote communities.

Cyber risk could also be built into product approval, so that a payment or AI feature does not launch without a documented threat model, data-governance review, privacy assessment,

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fallback process and recovery test. The Risk Committee and internal audit would need direct access to relevant product, vendor and incident information.

5. Diversified growth without abandoning Mongolia's productive economy

Financing for agriculture, SMEs, women-owned enterprises and green activities can continue while concentration is evaluated by borrower, sector, geography, currency and collateral. Sustainable finance is more credible when supported by measurable outcomes rather than labels. The bank's exclusion list and three-colour environmental and social risk screening, set out in its green bond framework, are useful foundations ([Khan Bank, 2023a](#)). A further step would be portfolio-level reporting on climate exposure, financed emissions where feasible, agricultural shock sensitivity and the performance of green and inclusion loans.

Diversification does not mean avoiding mining-linked activity entirely. It means understanding second-order exposures: transporters dependent on coal volumes, suppliers paid by mining companies, households whose income depends on commodity-linked wages and government contracts, and collateral whose value rises and falls with the cycle.

6. More decision-useful governance information

One reconciled strategic dashboard would help under every option. Its data dictionary would define total loans, loans at amortised cost, customer deposits, total funding, NPLs, impaired loans, ROE, electronic customers, active digital customers, product adopters, active merchants, branches and service points. Each metric would show the reporting date, denominator, source, assurance status and change from the prior period.

Independent directors could receive product-level stress information and a risk-weighted-asset bridge before approving major digital investments or dividends. Executive incentives could balance growth and profitability with capital, asset quality, customer and resilience measures. Public disclosure could explain why definitions differ between operational, audited, sustainability and shareholder reports. Better disclosure is more than a compliance exercise: it reduces internal debate over whose numbers are correct.

Implementation Plan

The phases below describe how any of the three options could be put into effect. Where the options differ, the plan notes the choice the board would face; it does not presume which option is chosen.

Phase 1: 0–90 days — establish the decision architecture

The board would approve the chosen growth posture, the risk-buffer principles and the data dictionary. Management would inventory all digital products and classify them by customer segment, revenue, cost, channel, credit exposure, risk weight and criticality. The bank would establish a baseline for active users, transaction frequency, fee income, mobile-service

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expenses, fraud, complaints, uptime and customer-support demand, and would prepare a risk-weighted-asset bridge showing which products consume the capital clock.

The Chief Risk Officer, Chief Information Officer, Chief Financial Officer and business heads would jointly specify three immediate stress scenarios: a 10% tugrik depreciation combined with higher funding costs and inflation persisting above 13%; a coal-price and China-demand shock; and a digital outage or cyber event during the core-system migration or a high-volume payment period. The scenarios would be translated into capital, liquidity, earnings, NPL, customer and operational effects. The board need not wait for perfect data; it can document assumptions and improve them.

Phase 2: 3–12 months — pilot measurable growth

A limited number of products would be chosen for controlled scaling. A portfolio consistent with the case's evidence would include one digital salary-loan product, DigiPay, DigiPos and a rural assisted-digital programme; under Option C the list would be shorter and under Option A longer. Each pilot would have a defined target customer, adoption objective, contribution-margin hypothesis, inclusion outcome, risk limit, capital budget and stop condition.

For digital credit, the bank would run vintage monitoring and compare online and branch-originated performance. For DigiPay and DigiPos, it would track active use, repeat transactions, merchant retention and net economics after incentives, telecom, payment-rail and fraud costs. For rural inclusion, it would measure the change in travel burden, service availability and successful digital transactions rather than only registrations.

The Risk Committee would receive monthly reporting during the pilot. Internal audit would independently test data quality and key controls. Customer-protection teams would review disclosures, consent, dispute handling and accessibility. Independent directors would have the authority to pause a pilot if the evidence deteriorates.

Phase 3: 12–24 months — scale what earns the right to scale

Products that meet their thresholds would be rolled out with province-level monitoring. Branches would be redesigned around assisted digital, advice, cash and complex service, and branch staff would be rewarded for successful digital activation and customer outcomes, not for preventing customers from moving to digital channels.

At this stage, further ecosystem partnerships could be considered, including tourism, merchant services, agricultural value chains and cross-border payments. Partnerships would pass a concentration and third-party-risk review, with clear economics for discounts, revenue sharing, data access, settlement and customer liability.

Capital planning would be integrated with the scale decision. Management would project risk-weighted assets, expected-loss provisions, retained earnings, dividend payout and capital

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adequacy under base and stress cases. If the strategic plan requires rapid loan growth, the board would weigh whether to retain more earnings, raise capital, reduce risk weights through better collateral and underwriting, or slow expansion.

Phase 4: 24 months and beyond — institutionalise resilience

The final phase would turn the pilots and controls into standing practice. The growth mandate, risk-buffer principles and data dictionary would be reviewed annually against outcomes, with the capital clock reported to the board alongside the budget. Digital-credit models would be validated over at least one full credit cycle, including any downturn that follows the 2026 tightening, before limits are raised further. After the core-system migration, the bank would test recovery of the new platform and data centre under realistic failure scenarios and report the results to the Risk Committee. The rural-inclusion dashboard and reconciled metrics would move into public disclosure so that investors and the regulator can assess the strategy on the same numbers the board uses. Each element extends a measure already set out in Phases 1 to 3; none requires a new strategic premise.

Conclusion

Khan Bank's history shows that financial inclusion and digital transformation are not opposing strategies. Its rural branches, payment relationships, customer trust and connectivity investments created the foundation on which digital channels could scale. The bank now has evidence of meaningful digital activity: automated credit processes, a substantial mobile and internet fee base, rapid growth in DigiPay registrations, AI assistance, international payment interoperability and almost entirely digital transactions. It also has strong reported profitability, a rising market share and capital and liquidity ratios that, at the cut-off, still met every regulatory requirement.

The shortcomings are equally important. Public disclosures do not yet show whether digital products are profitable after full costs, whether adoption is active and retained, whether digital credit performs better than branch credit after a cycle turns, or whether rural customers receive the same service reliability as urban customers. Loan growth has been fast, returns and buffers have softened for three consecutive periods, and in mid-2026 the capital ratio sat 1.7 points above the bank's own threshold while inflation reached 13% and the policy rate rose. Mongolia's commodity and China exposure can transmit external shocks into credit, liquidity and currency risk. Cyber, AML/CFT and model risks grow as the bank becomes more digital and migrates its core systems.

The decision facing Khan Bank's board therefore goes beyond a choice between digital and physical channels. The board must decide whether to pursue rapid nationwide digital scale, a more targeted inclusion-led model or a resilience-first model, and on what terms. Each option

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draws on the same retained earnings and the same capital margin, and each would leave the bank exposed in a different way if the next cycle turned against it.

Strategic decision-making problem

In the planning cycle that follows the August 2026 rate increase, should Khan Bank allocate the majority of incremental investment and capital to a national digital ecosystem and automated lending, to rural assisted-digital and MSME inclusion, or to capital and resilience buffers? How should the board choose among the options when each produces different short-term returns, customer outcomes, capital consumption and risk exposures?

Discussion questions

1. Which competitive advantage is most defensible for Khan Bank in mid-2026: rural distribution, customer trust, data, capital, digital experience or ecosystem partnerships? What evidence supports the choice?
2. Does the bank's performance from 2024 to mid-2026 justify continued loan growth of about 20% a year? Using Exhibits 5, 9 and 10, how could a growth ceiling be set from capital, liquidity, NPL and stress-test constraints?
3. What additional metrics are required to determine whether DigiPay, DigiPos and mobile lending create economic value rather than only registrations?
4. How should Khan Bank divide responsibilities between branches, mobile channels and third-party partners in serving remote households, elderly customers, small firms and herders?
5. With the capital ratio at 14.7% against a 13% Tier 1 threshold, how should the board weigh dividends, IPO-era public-market expectations and the interests of the controlling shareholders against capital retention?
6. What combined inflation, tugrik, interest-rate and commodity scenario would be most threatening to Khan Bank? Which balance-sheet and governance controls should respond first?
7. Which of the three options in Exhibit 12 is most defensible for the board, and which trade-off would that choice require it to accept? What evidence, if it appeared in the next two reporting periods, would justify switching to another option?

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