



BANKING SECTOR OVERVIEW

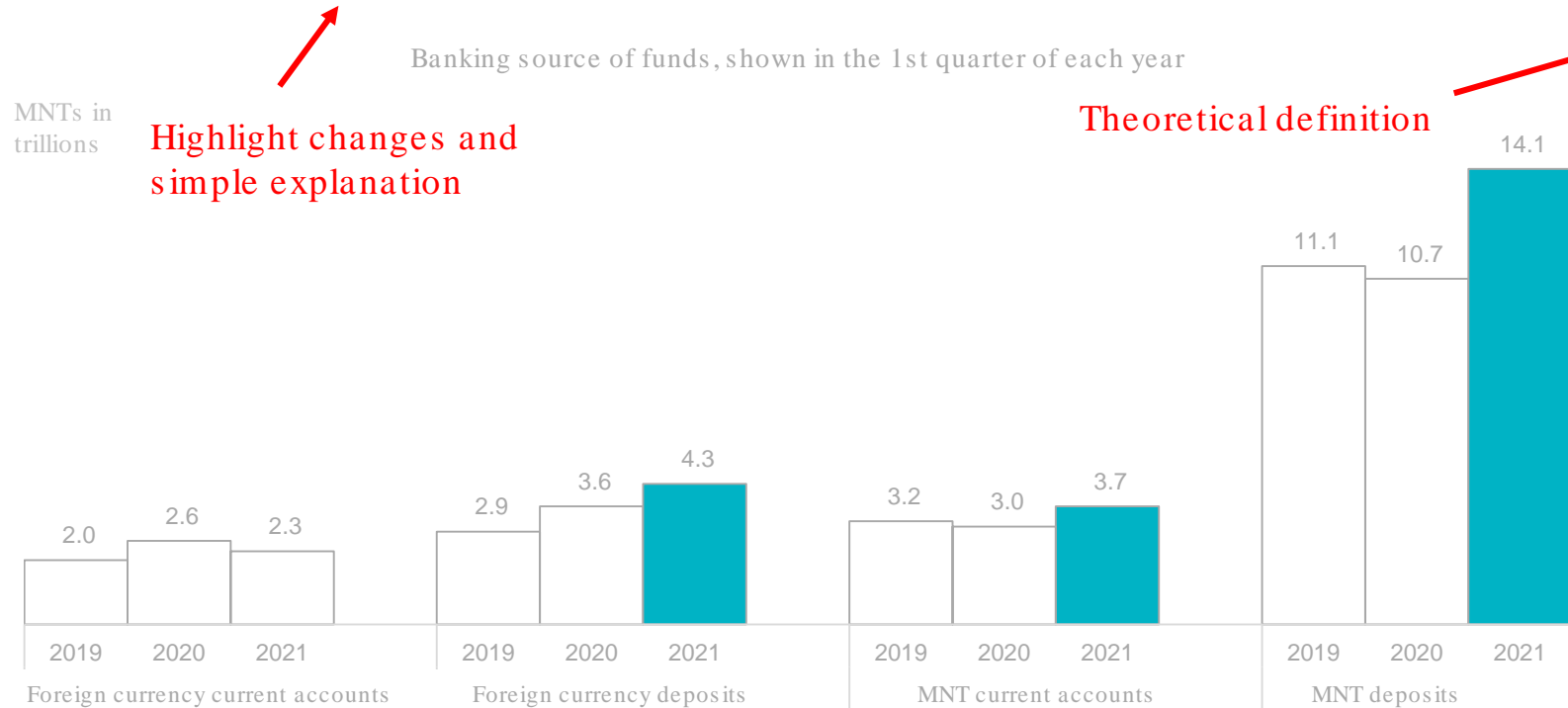
2021 1st quarter

**“MANY PEOPLE TALK THE TALK
BUT FEW WALK THE WALK”**



As of the 1st quarter of year 2021, banks' MNT deposits and current accounts are raised by 32 percent and 23 percent respectively.

Foreign currency current accounts decreased compared to the same period in year 2019. Demand deposits are being converted to time deposits due to cancellation of interests for demand deposits since last year.



Highlight changes and simple explanation

Source of funds
Note: It refers to bank current accounts and deposits.

+32%

MNT deposits have grown by 20 percent year on year.

1st quarter of 2021 performance

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THE BANKING SECTOR DURING THE PANDEMIC

2021 1st quarter

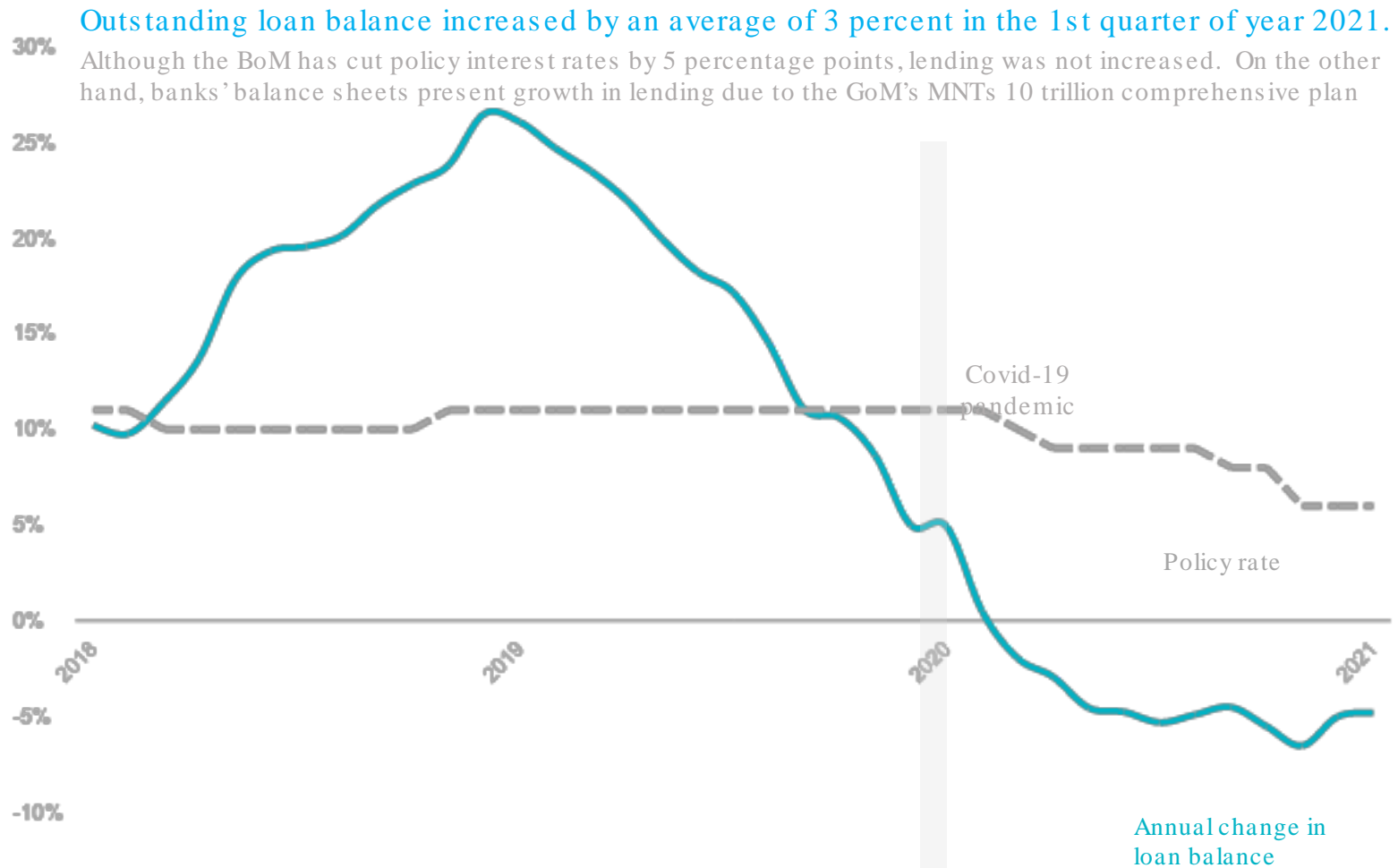
Banks' loan portfolio

Note: Outstanding loan balance increases with new issued loans and decrease with repayments.

+3%

Outstanding loan balance increased by an average of 3 percent

Source: Mongolbank
National Statistics Office

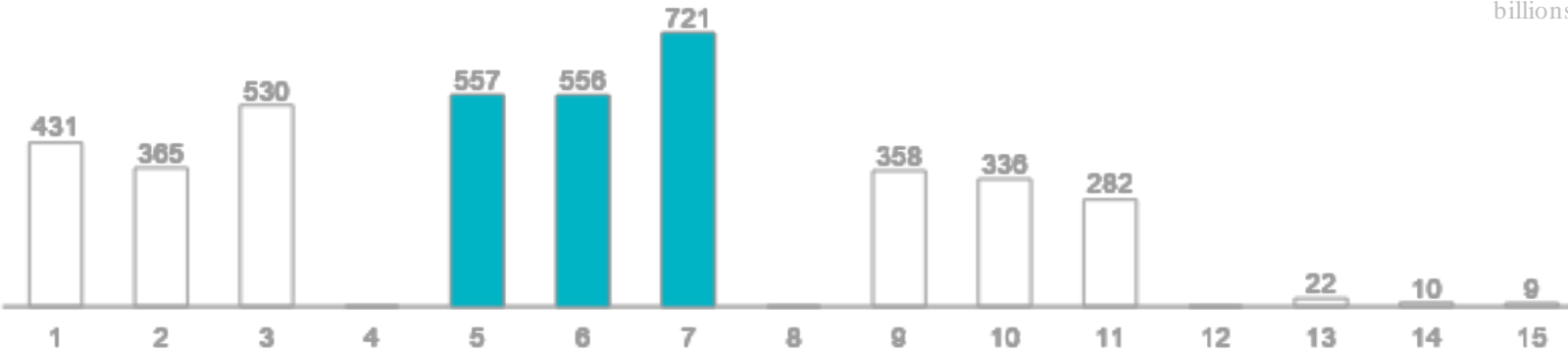


Savings secured loans are soaring.

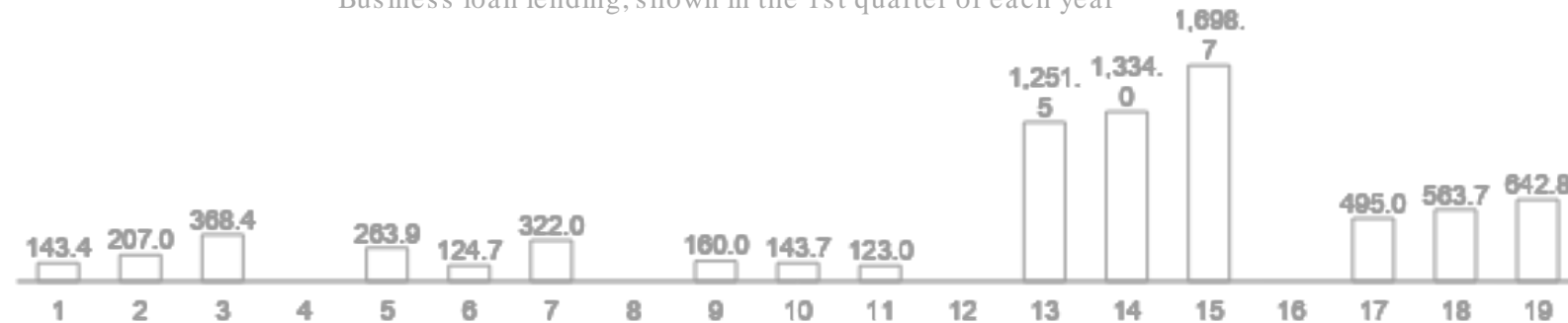
Lending in trade, service, processing sectors show growth by the impact of GoM's MNTs 10 trillion comprehensive plan.

Personal loan lending, shown in the 1st quarter of each year

MNTs in billions



Business loan lending, shown in the 1st quarter of each year



New bank loans

Note: Outstanding loan balance increases with the amount of new loans issued by the bank in a given year.

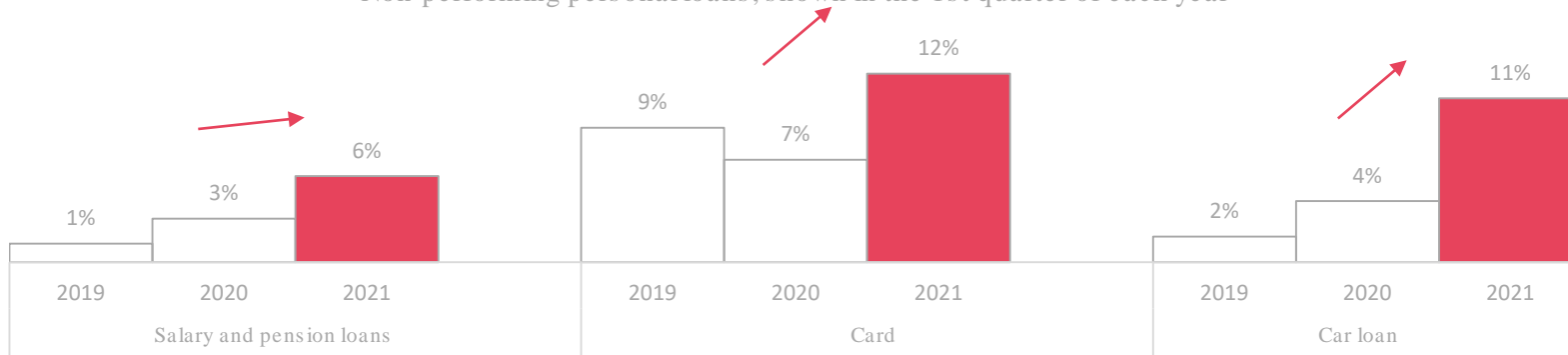
+27%

New loans increased by 27 percent in the 1st quarter of year 2021

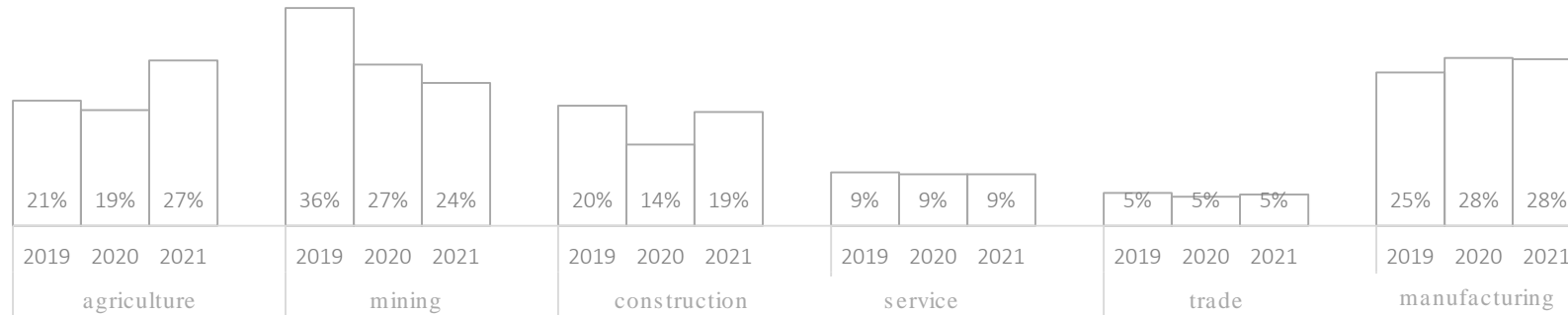
Household income disruptions are present as the banks' personal loans are becoming non-performing

1 in 3 loans in the agricultural and processing sectors, 1 in 5 loans in the construction sector are non-performing in terms of business loans.

Non-performing personal loans, shown in the 1st quarter of each year



Non-performing business loans, shown in the 1st quarter of each year



Bank loan quality

Note: If the loan is not repaid for more than 90 days, it will be transferred to non-performing loans.

11.5%

1 in 10 loans in the system are becoming non-performing

Overdue loans

Note: overdue loans refer to 16-90 days overdue.

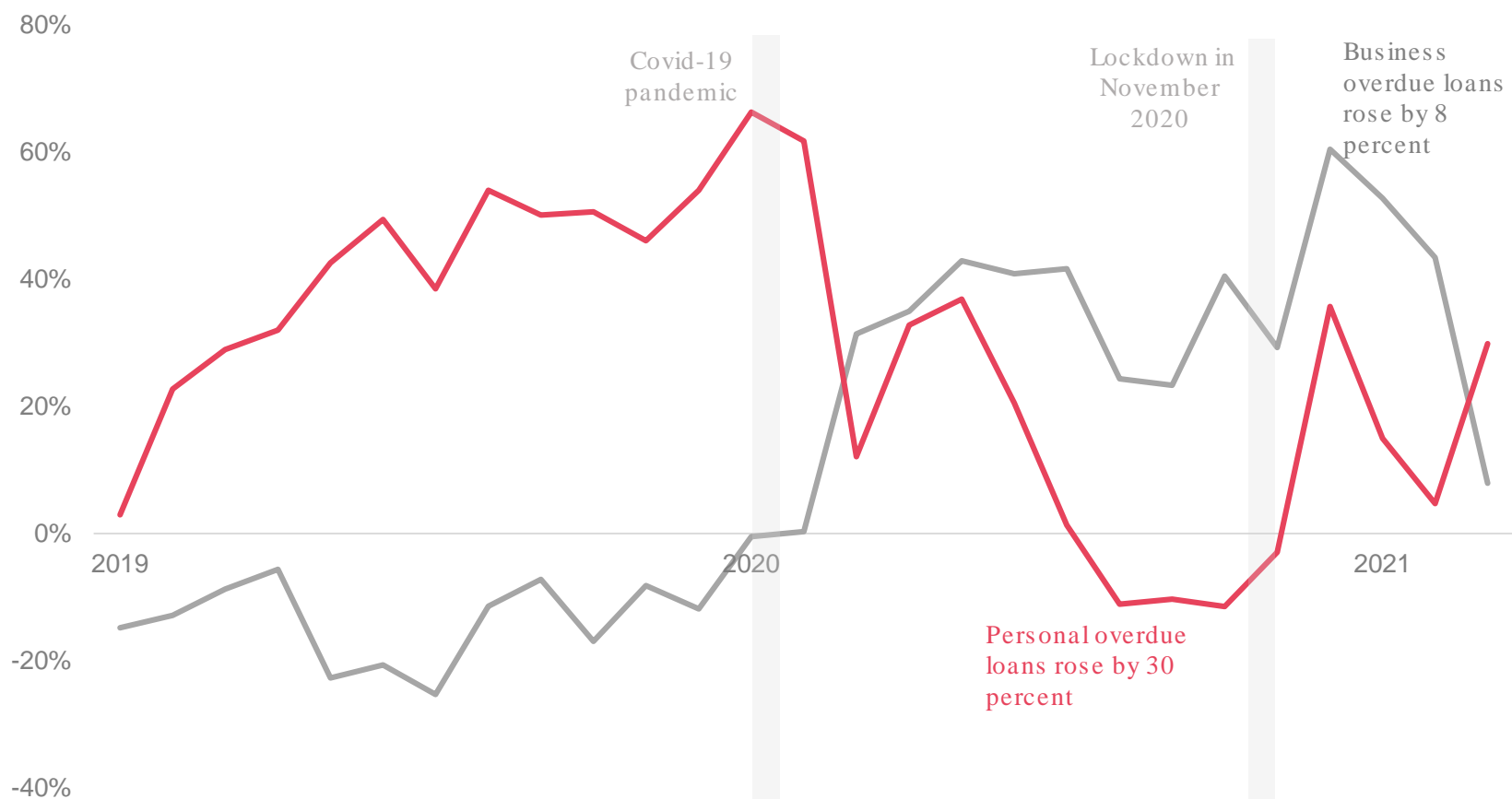
7.3%

As of the 1st quarter of year 2021, 7.3 percent of total loan portfolios is overdue.

Source: Mongolbank
National Statistics Office

Personal overdue loans are increasing from the beginning of the year 2021.

The probability of personal loans to become non-performing is high when the government pandemic measures are lifted by July 2021.

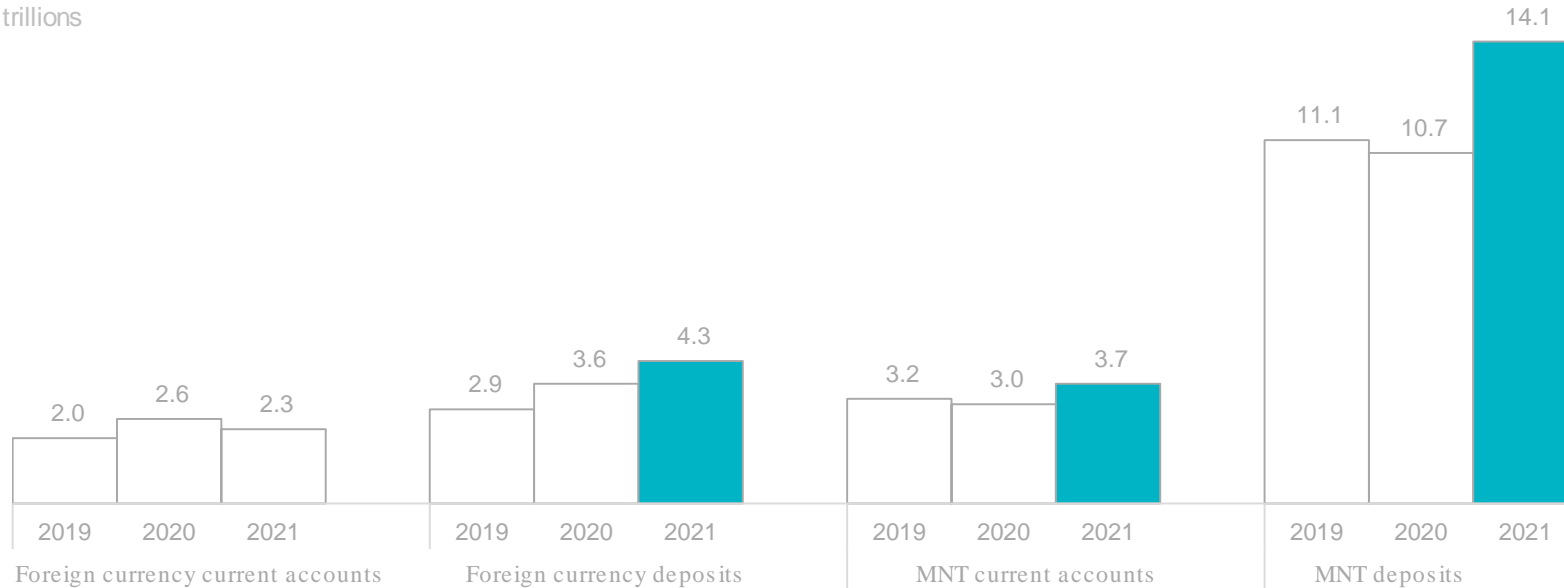


As of the 1st quarter of year 2021, banks' MNT deposits and current accounts are raised by 32 percent and 23 percent respectively.

Foreign currency current accounts decreased compared to the same period in year 2019. Demand deposits are being converted to time deposits due to cancellation of interests for demand deposits since last year.

Banking source of funds, shown in the 1st quarter of each year

MNTs in trillions



Source of funds

Note: It refers to bank current accounts and deposits.

+32%

MNT deposits have grown by 20 percent year on year.

Dollarization of the banking system

Note: It determines the percentage of deposits and loans that forms foreign currency liability and credits.

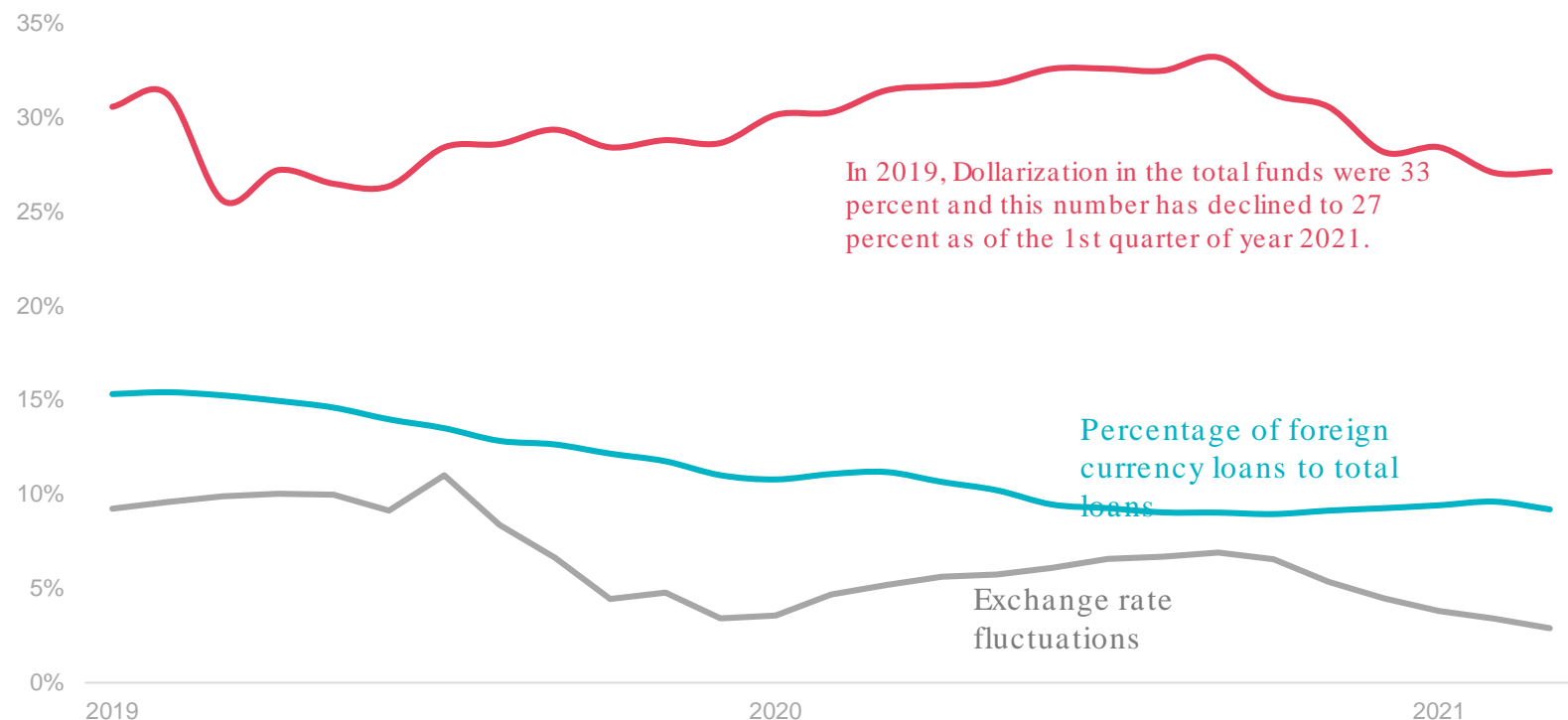
27%

Dollarization in the liability shows 27 percent of total funds in the 1st quarter of year 2021.

Source: Mongolbank
National Statistics Office

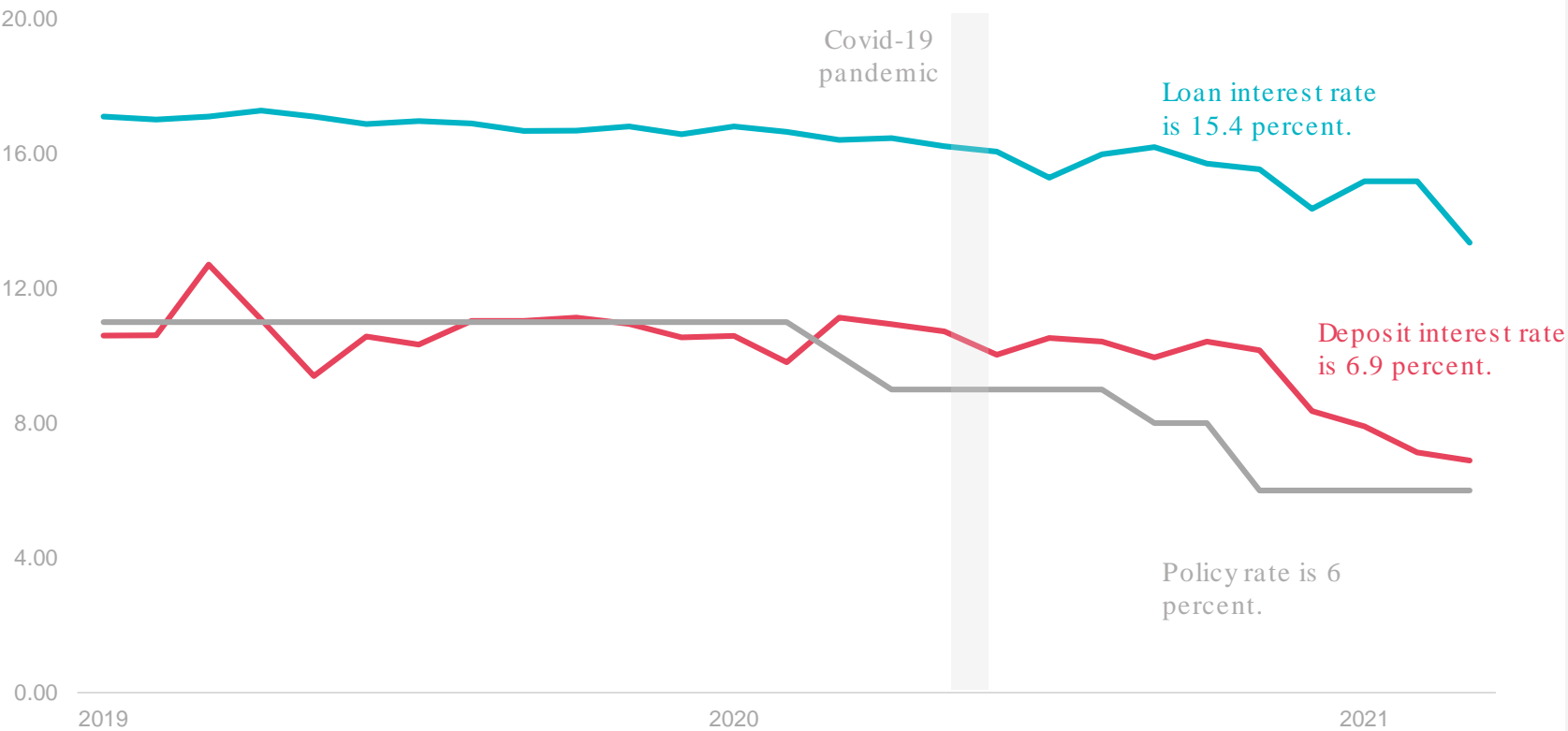
Liability (deposits and currents) dollarization has been declining since September 2020, returning to 2019 figures.

Banks' interest in lending in foreign currency has declined due to the appreciation of the US dollar against the MNTs over the past two years. As a result, the amount of foreign currency loans in total loans has been steadily declining.



The weighted average interest is not declining due to the fact that lending in general has not grown

Since last year, the interest rates on deposits and loans have decreased respectively by 4 and 1.2 percents.



Banks' weighted average interest rate

Note: The interest rate on borrowed funds and the interest rate on loans issued by banks are the weighted average interest rate in terms of time and amount.

6.9%

Weighted average interest rate on deposits reached a record low.

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MACRO ECONOMIC ENVIRONMENT DURING THE PANDEMIC

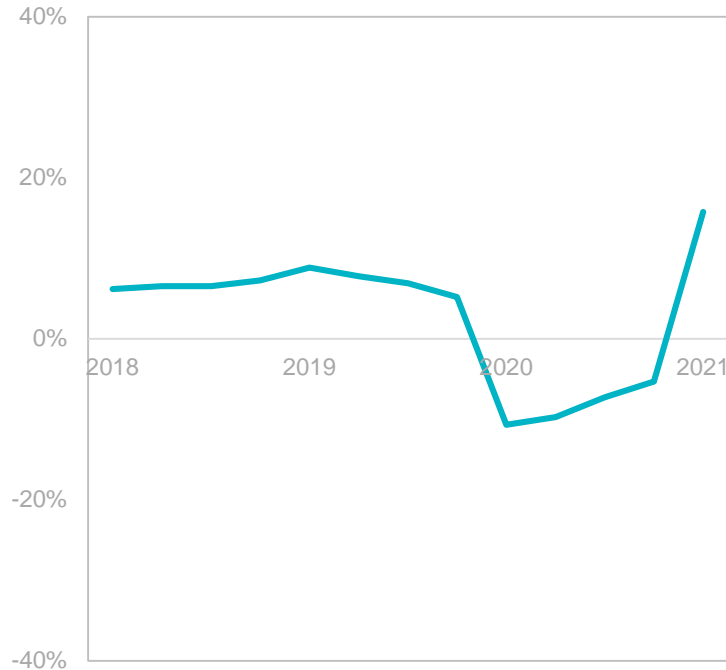
Situation in the 1st quarter of the year 2021: Commodity prices are recovering and the indicators of external sector is showing gradual improvement. The domestic economy is in a difficult situation due to the five lockdowns.

Scenario: Despite domestic vaccinations, the economy is unlikely to operate at full capacity. In addition to the pandemic, difficult issues such as the OT underground mining project, pending bond payments, budget revenue generation, and banking reform are expected in the coming years.

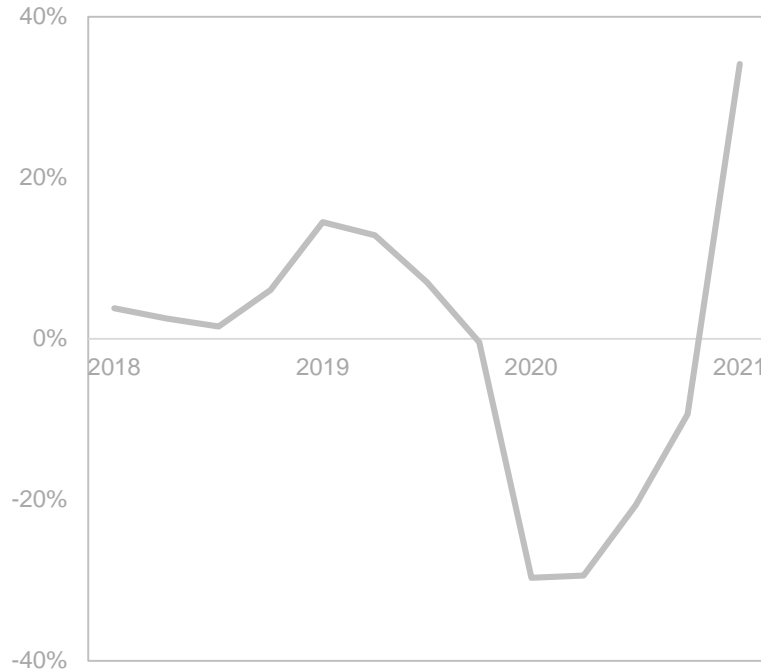
15.7 percent economic growth in the 1st quarter of the year 2021.

After declining by 30 percent a year, the mining sector has shrunk by 9 percent by the end of the year since the announcement of the Green Mining Zone in July 2020. However, the lockdown in November 2020 had a strong impact on the non-mining sector, which continued to decline.

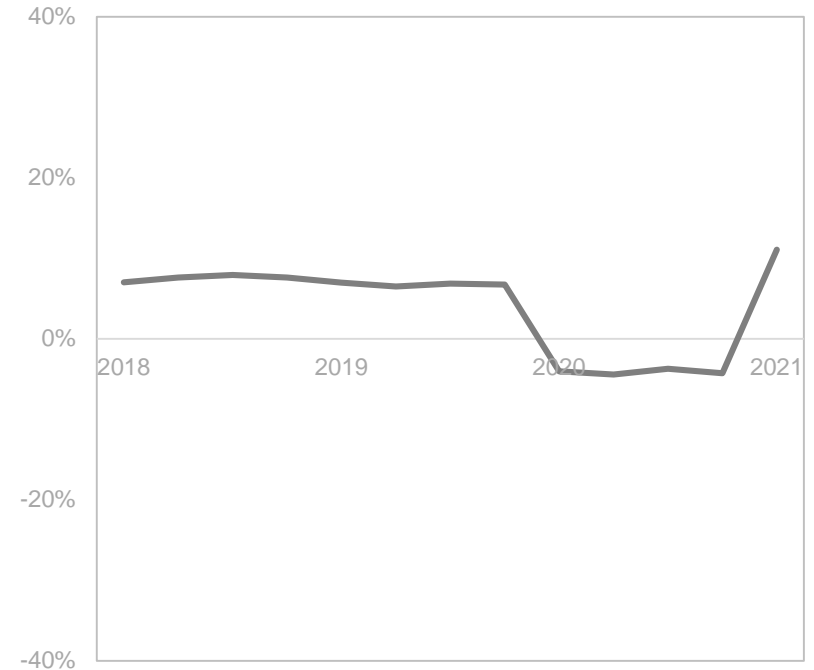
The economy grew by 15.7 percent.



The mining sector growth is 9 percent.



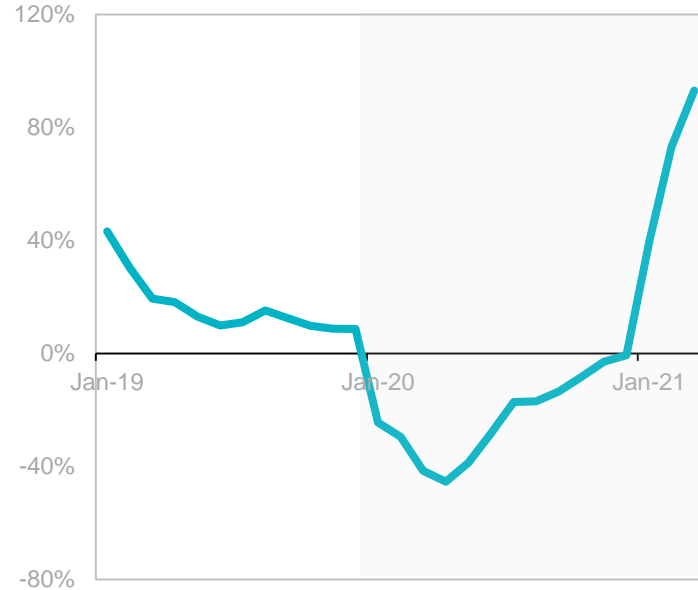
The non-mining sector growth is 11 percent.



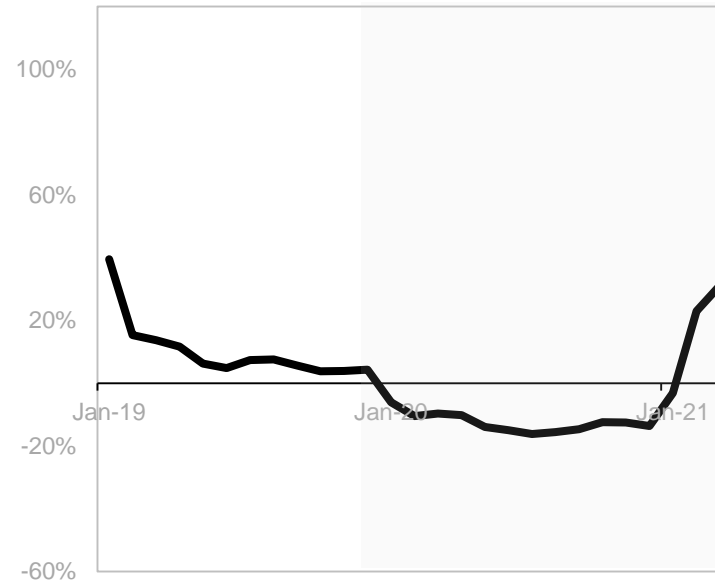
Increase in export reaches 93 percent per annum in the 1st quarter of the year 2021

- Due to the confirmed covid cases in the Gashuunsukhait, export is expected to pause for another month even though the copper and coal mining operation is normal.
- Despite the active importing, limitations stay high. In the result, there is surplus in the balance of payments.

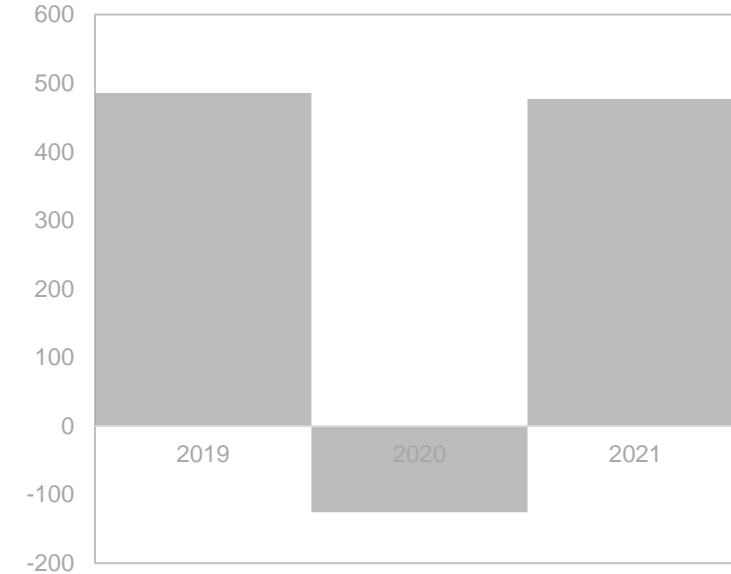
Exports grew 93 percent year-on-year to \$ 2 billion.



Imports rose 31 percent year-on-year to \$ 1.5 billion.



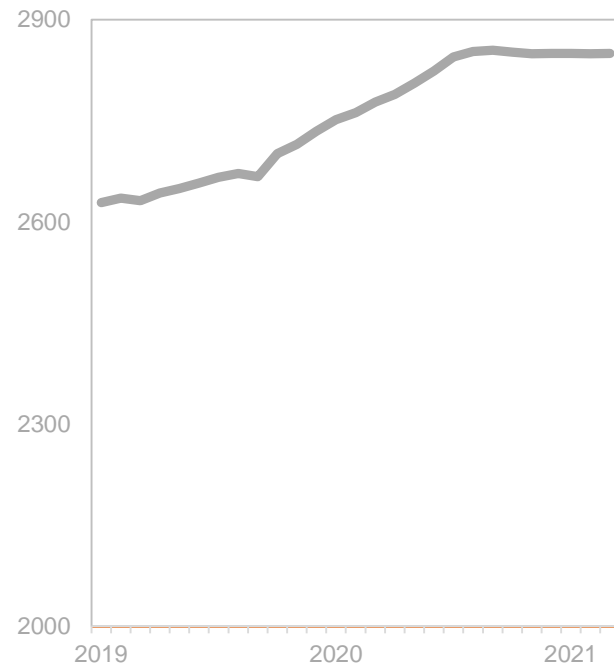
Trade balance, 1st quarter of each year, \$ million



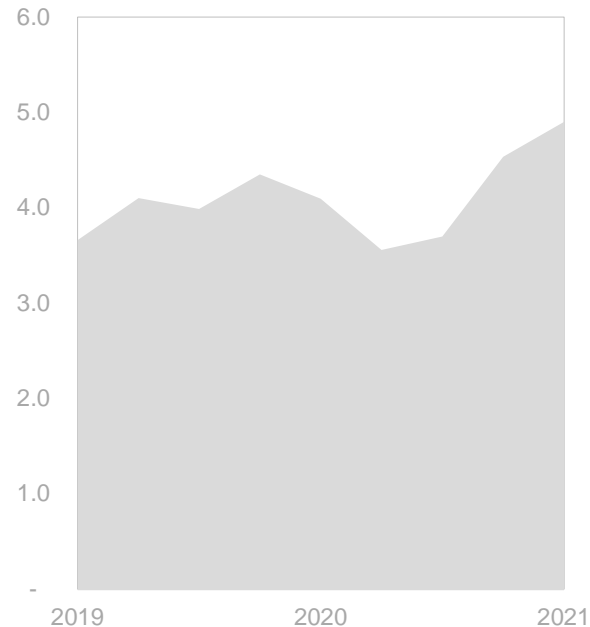
There is a risk of soaring inflation in spite of exchange rate being stabilized

- Foreign trades and domestic economic activities are positive, setting off the exchange rate being stabilized. In turn, foreign currency resources reach up to the level where over months of imports can be paid.
- Nevertheless, local food inflation is significantly rising (8%) which is seen as a continuous rise in inflation. The policy rate is assumed to be increasing from the year 2022.

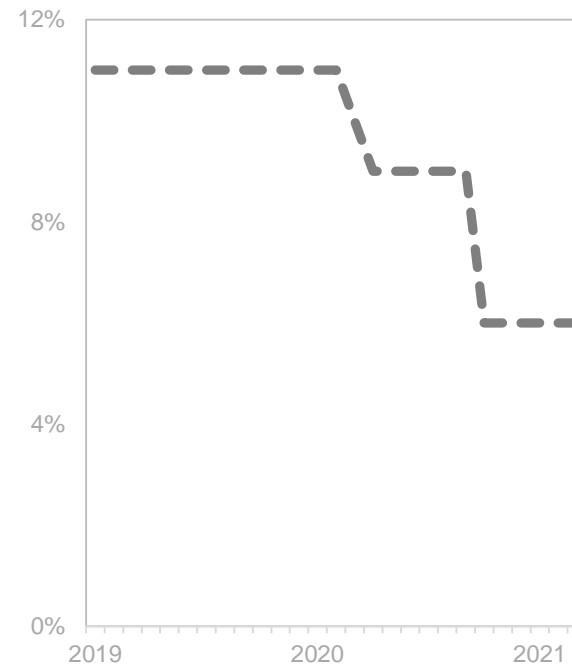
The exchange rate stabilized.



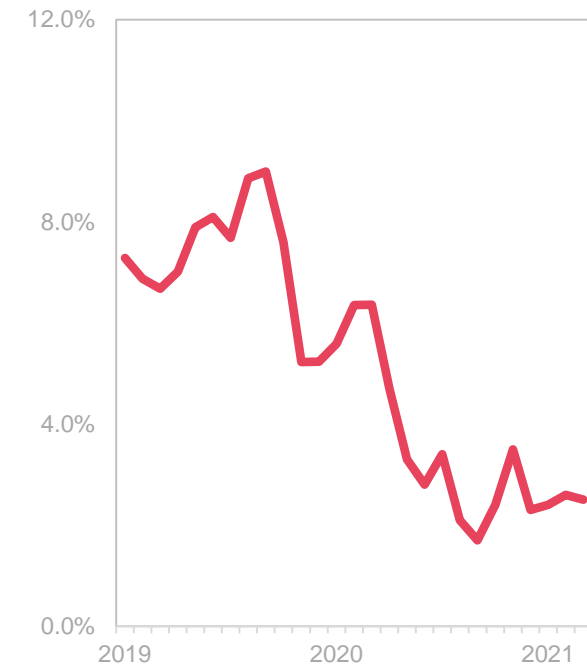
Foreign exchange reserves reached \$ 4.9 billion.



Policy interest rate



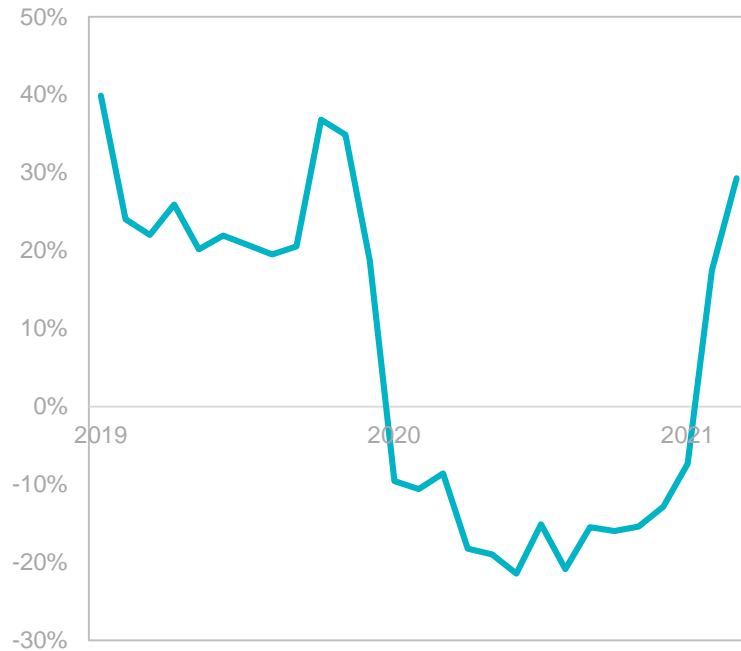
Inflation is on the rise.



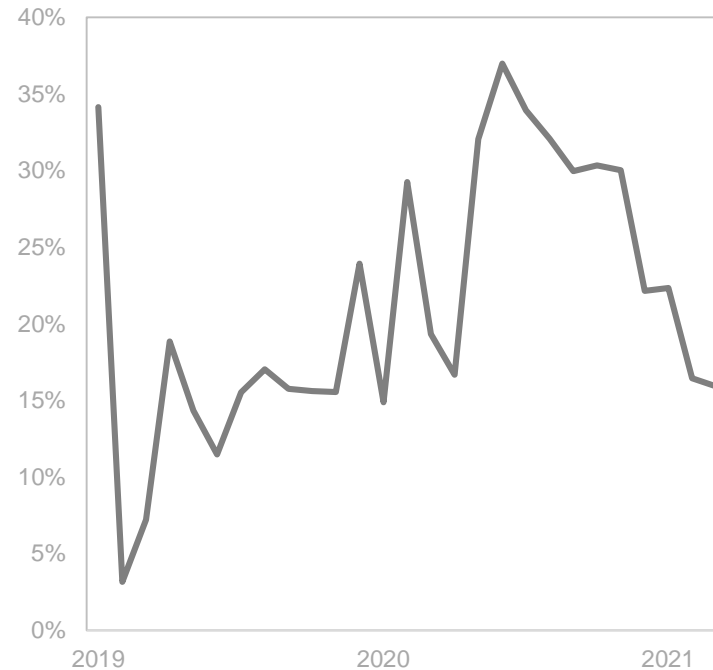
As of the 1st quarter of the year 2021, budget revenue growth is 29 percent. On the other hand, budget challenges remain.

The lockdowns taken in 2020 led to declining budget revenues. However, pandemic related socio economic measures led us to sharp increases in public spending. For example, 39 percent of public expenditures are welfare, 20 percent are construction and infrastructure investments and 11 percent are for debt repayments

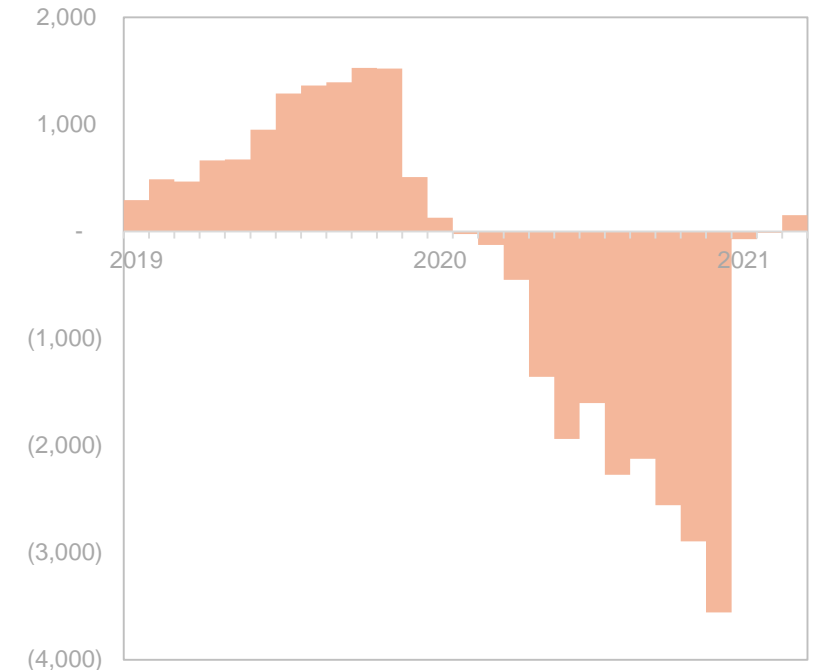
Budget revenue increased by 29 percent.



Budget expenditure increased by 16 percent.



Budget profit, deficit, ₹ billion



3

INDICATORS FOR 5 SYSTEMIC BANKS

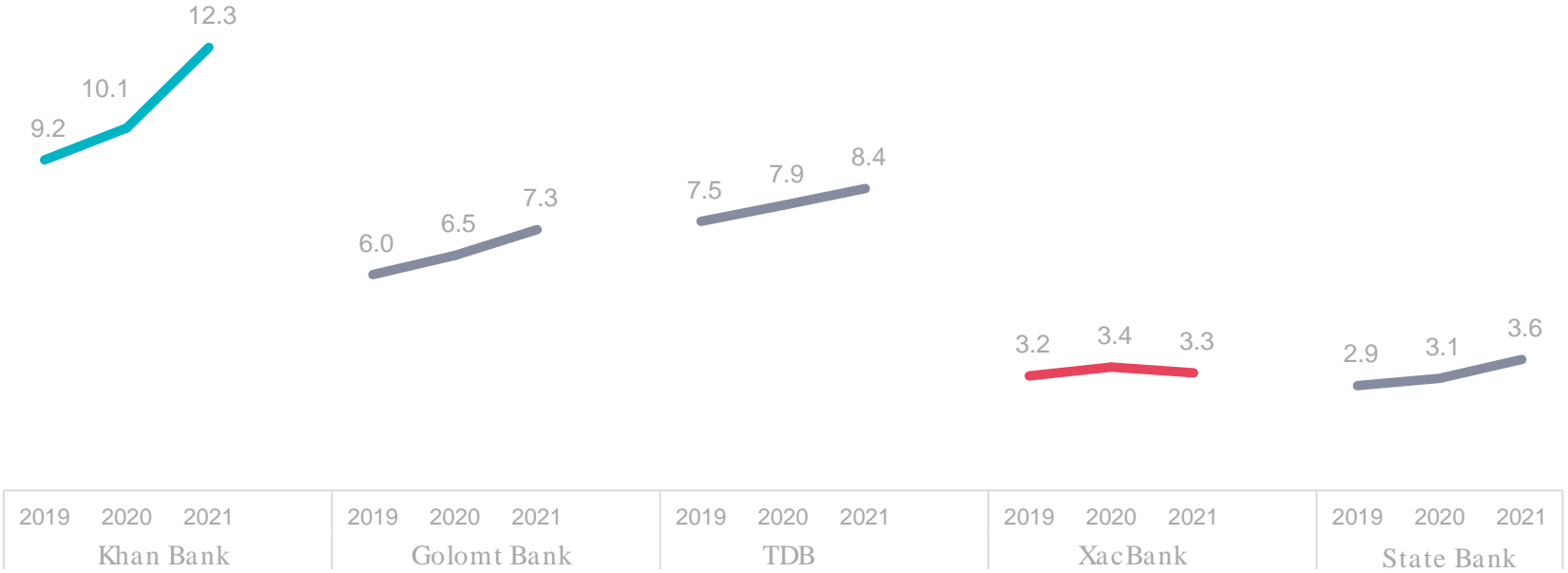
2021, Q1 Performance overview

Assets of 1 out of big 5 decreased

The Xac Bank's assets dropped by ₮ 100 billion, while the other four's assets increased to some extent. As for the Khan Bank, the asset growth is the highest.

MNTs in trillions

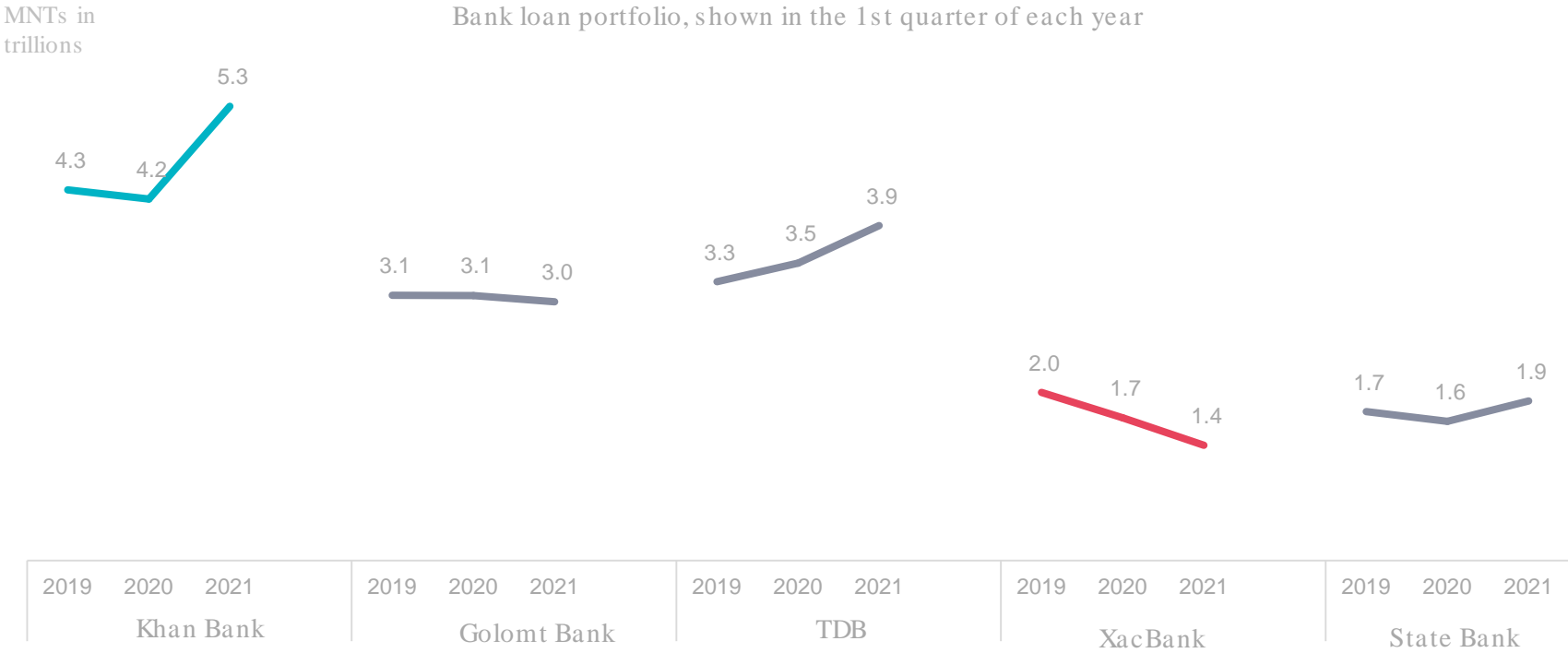
Bank assets, shown in the 1st quarter of each year



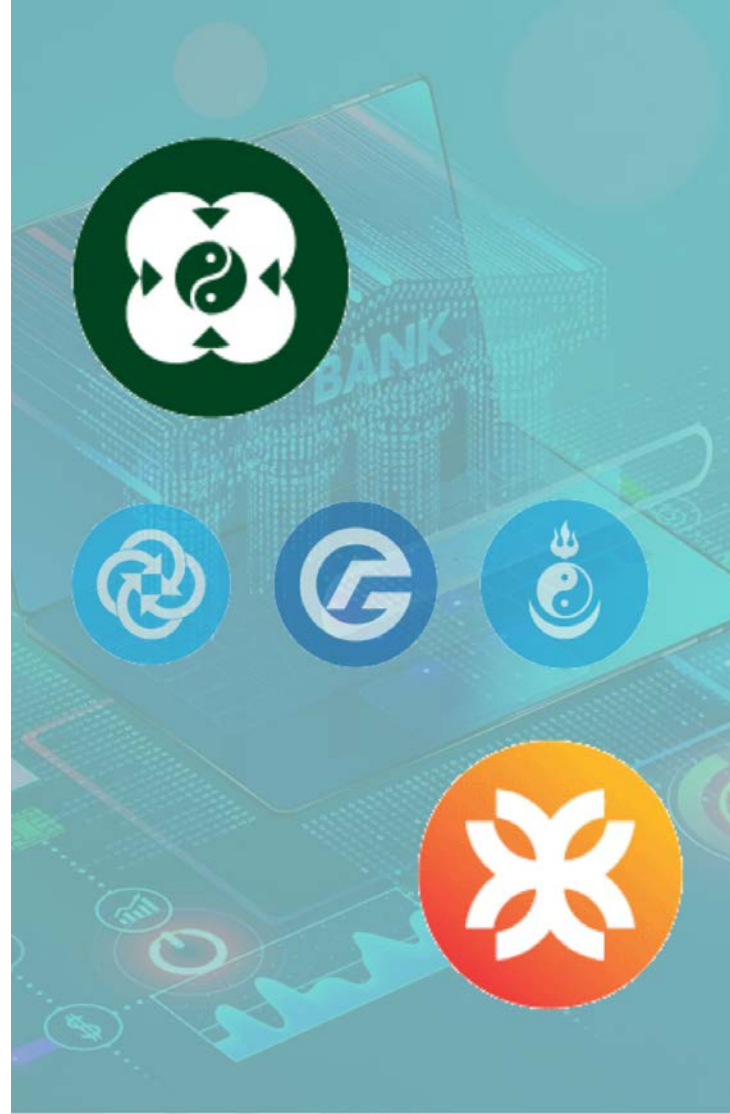
Source: Unaudited statements of banks

Of the 5 systemically important banks, outstanding loan balances of 1 have decreased.

Xacbanks' loan balances decreased by ₮ 300 billion, the others' loan balances show growth. The Khan bank's loan balance increase amount is relatively high due to the GoM 10 trillion comprehensive plan.

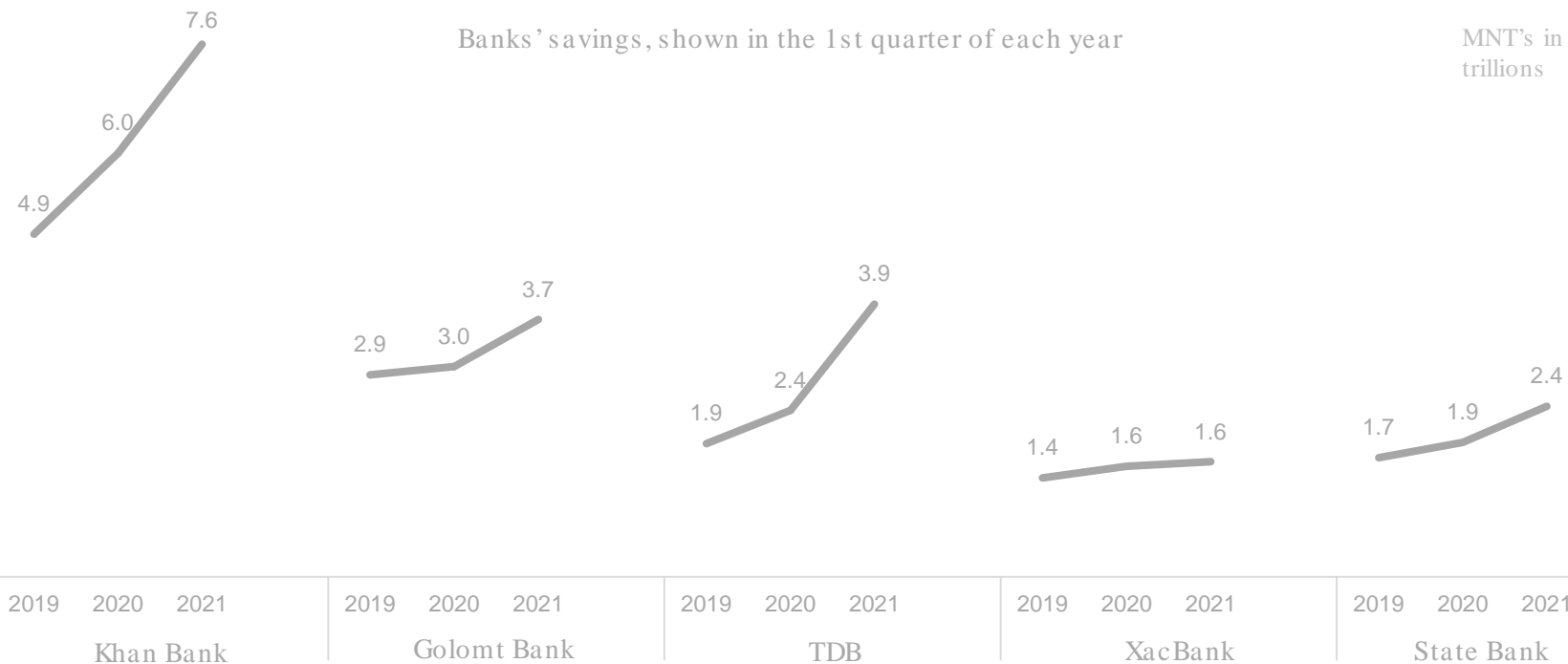


Source: Unaudited statements of banks



The deposits have grown constantly as of the 1st quarter of the year 2021.

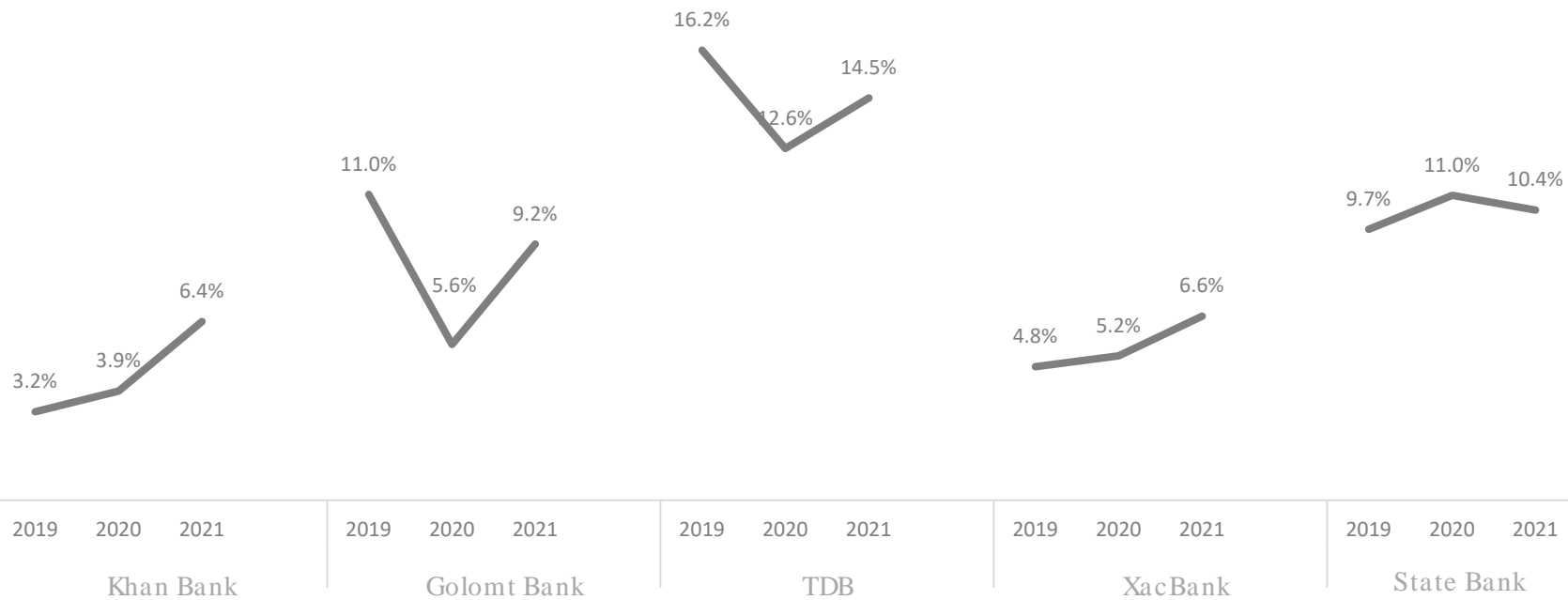
Banks' savings/deposit rates decreased. However people and companies' attitudes towards persistent savings remain positive.



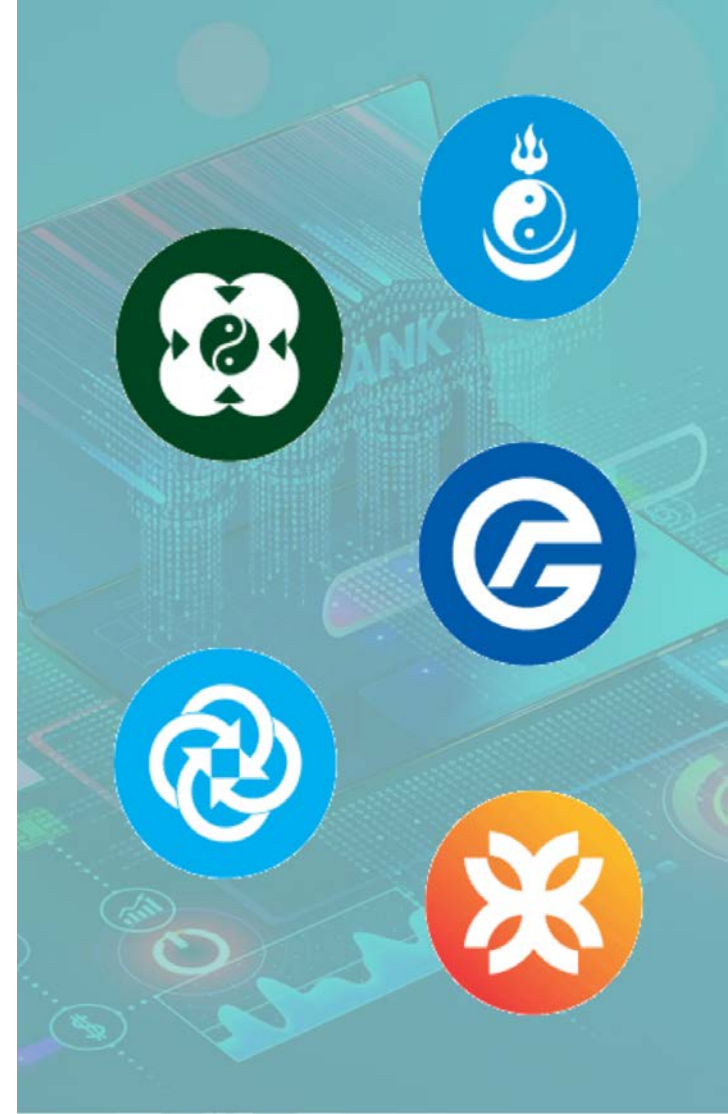
Out of the big 5, the State bank NPL ratio dropped slightly.

The other four banks' NPL growth did not stop, TDB showing the highest percentage among others.

NPL ratio, shown in the 1st quarter of each year



Source: Unaudited statements of banks



Capital adequacy ratio

Capital Adequacy Ratio is also known as Capital to Risk Assets Ratio, is the ratio of a bank's capital to its risk. National regulators track a bank's CAR to ensure that it can absorb a reasonable amount of loss and complies with statutory Capital requirements.

12%

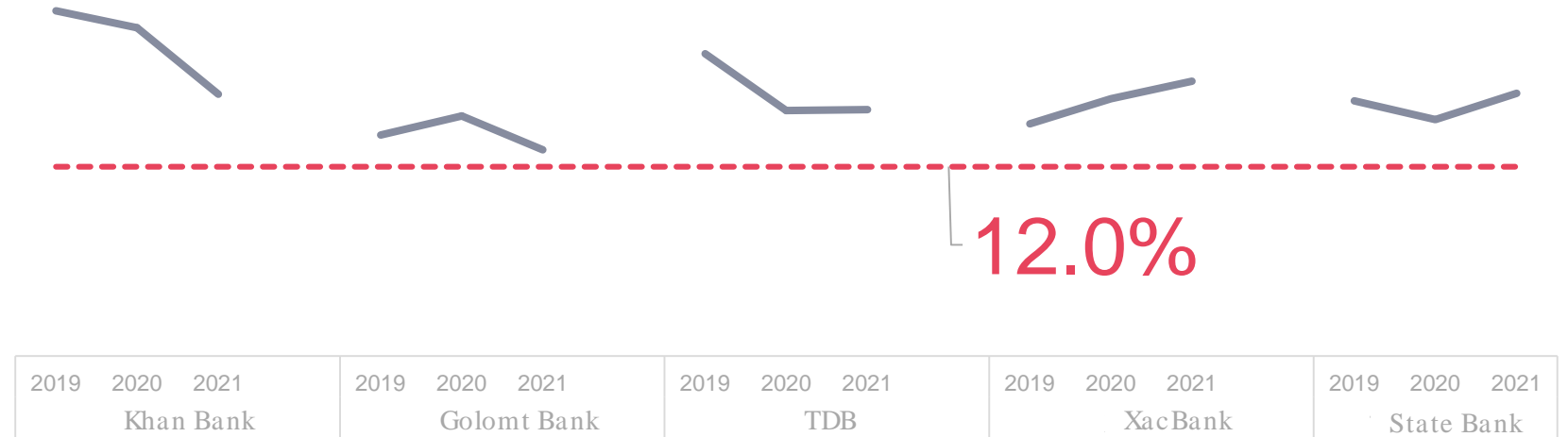
Statutory capital adequacy ratio

Source: Mongolbank
National Statistics Office

Big 5 has been steadily increasing their capital, showing financial strength in the capital adequacy ratio requirement

The data shows drops in 3 banks' CARs except Xac and State. Still, all comply with the statutory CAR requirement.

Capital adequacy, shown in the 1st quarter of each year

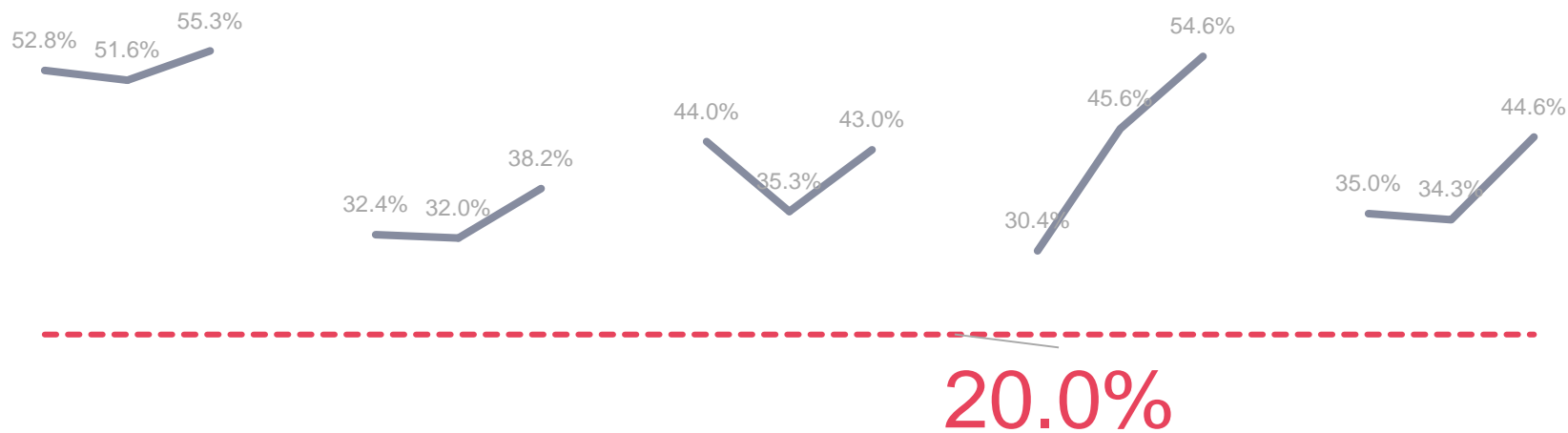


Source: Banks statements

The big 5 are in good states in terms of liquidity requirements.

Due to the outbreaks, the issuances of overall loans other than the GoM's 10 trillion comprehensive plan instruments and repo financing to support small and medium enterprises has not increased significantly. As a result, the liquidity ratio of all banks remains high.

Liquidity ratio, shown in the 1st quarter of each year



2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Khan Bank			Golomt Bank			TDB			XacBank			State Bank		

Source: Unaudited statements of banks

