



BANKING SECTOR REVIEW

2021 year end overlook

ARE WE READY ?

ARE WE READY?

Economic growth was 1.4 percent as a result of the stagnation of most sectors of the economy due to the pandemic. In the future the economy is expected to regain traction depending on the pace of recovery from vaccinations and transportation logistics. In addition, government policy measures and adjustments are important to the pace of this economic recovery after the Covid-19 pandemic.

The banking sector was relatively stable and growing. Total assets of the banking sector increased by 2.3 percent at end of the year, approaching to the size of the country's GDP. However, uncertainty and risks remain in the financial markets due to geopolitics and foreign trade. Over the last two years, 3 percent employment support loans have been provided to enterprises as part of monetary and fiscal expansion policies. Individuals, businesses that have changed their loan schedules, and businesses that have received employment support soft loans will start repaying their loans in 2022, which is likely to increase non-performing loans.

Under the Banking Law, the main 5 commercial banks of Mongolia are currently preparing for their IPO, but are citizens and investors ready for the process in the face of an international financial shock caused by unforeseen external factors?



In 2021, individual loans increased steadily.

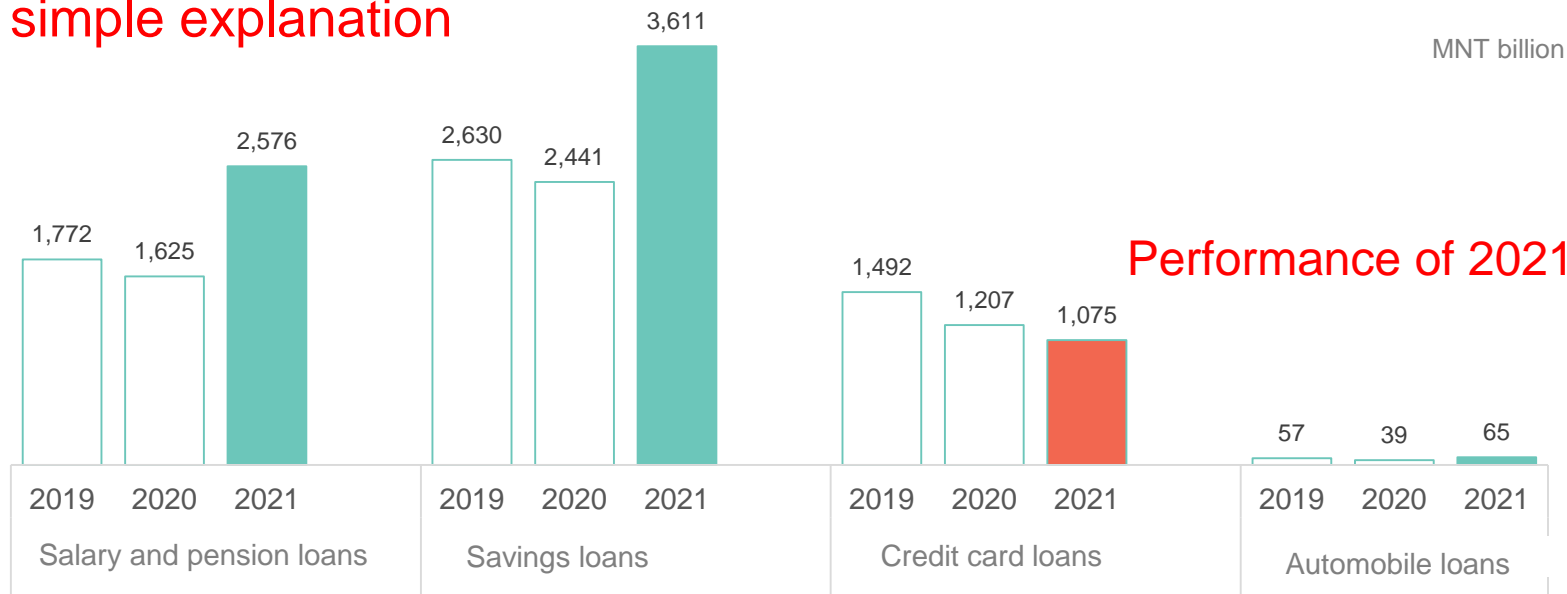
Salary, pension, and savings loans have increased.

Due to weak economic activity, banks were interested in low-risk lending.



Highlight changes and simple explanation

Individual loans, shown in end of each year



Theoretical definition



MNT billion

Performance of 2021



New loans

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

New loans increased by.

38%

HIGHLIGHTED CHANGES AND THE FUTURE TRENDS IN THE BANKING SECTOR IN 2021



Under the “MNT 10 trillion economic recovery program”, especially due to loans at 3 percent employment support loans and repo financing, total loans increased by 21 percent.



The financial performance of the five influential banks in the system was relatively good. Loans grew, credit quality improved, and resources and equity grew in 2021.



As a result of implementing the Strategy to loan interest rate reduction, the monthly loan interest rate approaching the target level of 1.19 percent.



From mid-2022, the repayment of 3 percent employment support loans will begin. This can adversely affect the quality of business loans.



Due to abnormal transportation and logistics operations, consumption is limited and savings are increased.



Over the next four months, systemically influential banks will launch IPOs.

MAIN FINANCIAL INDICATORS FOR THE BANKS

Performance of 2021 year end overlook

Bank Loan portfolio

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

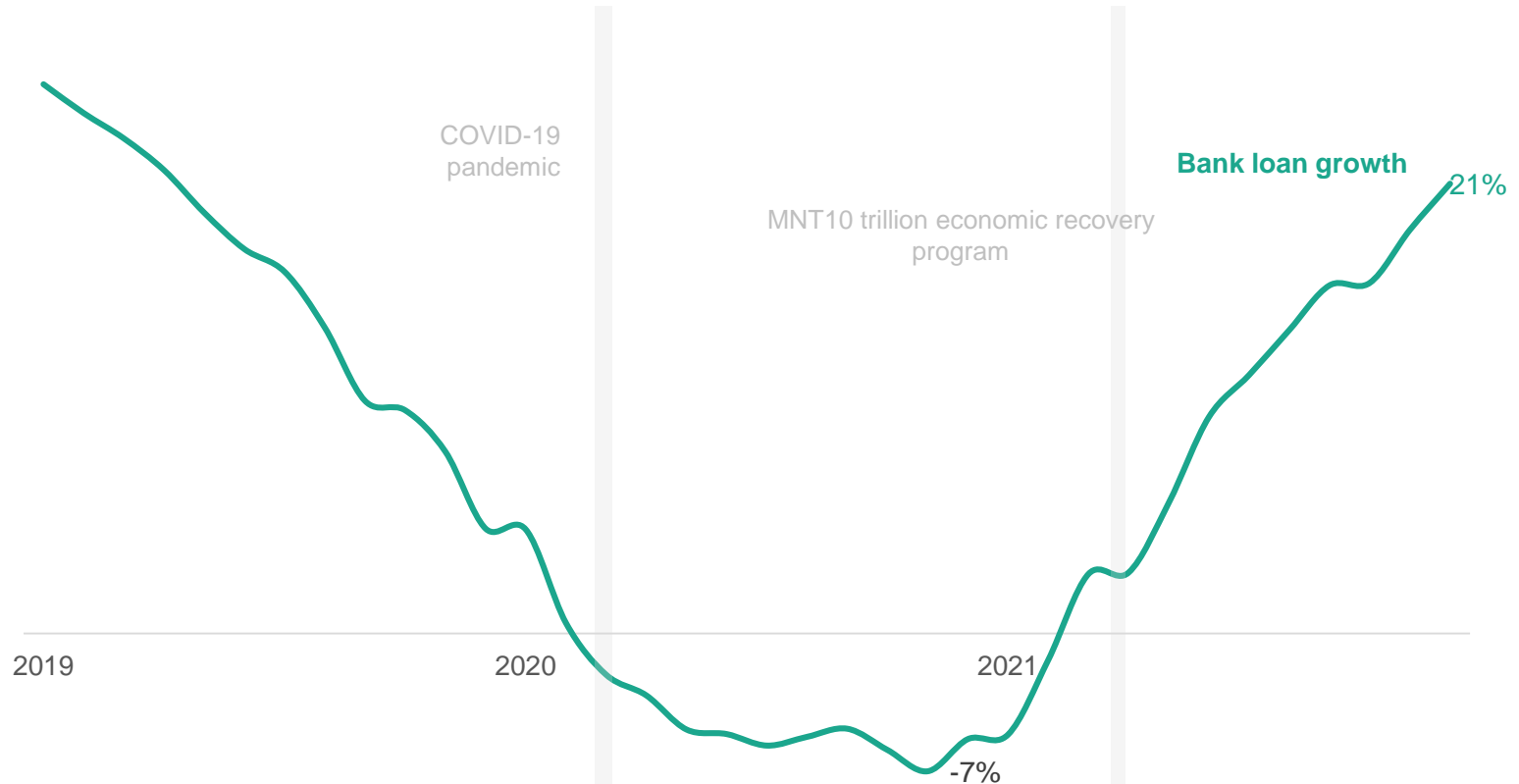
Loans increased by an average of

+21%

Source: Mongolbank
National Statistics Office of Mongolia

Employment support loans have had a significant impact on bank lending.

A mortgage loan, repo financing, and so called 3 percent soft loans provided under the “MNT10 trillion economic recovery program” have led to a steady increase in bank lending.

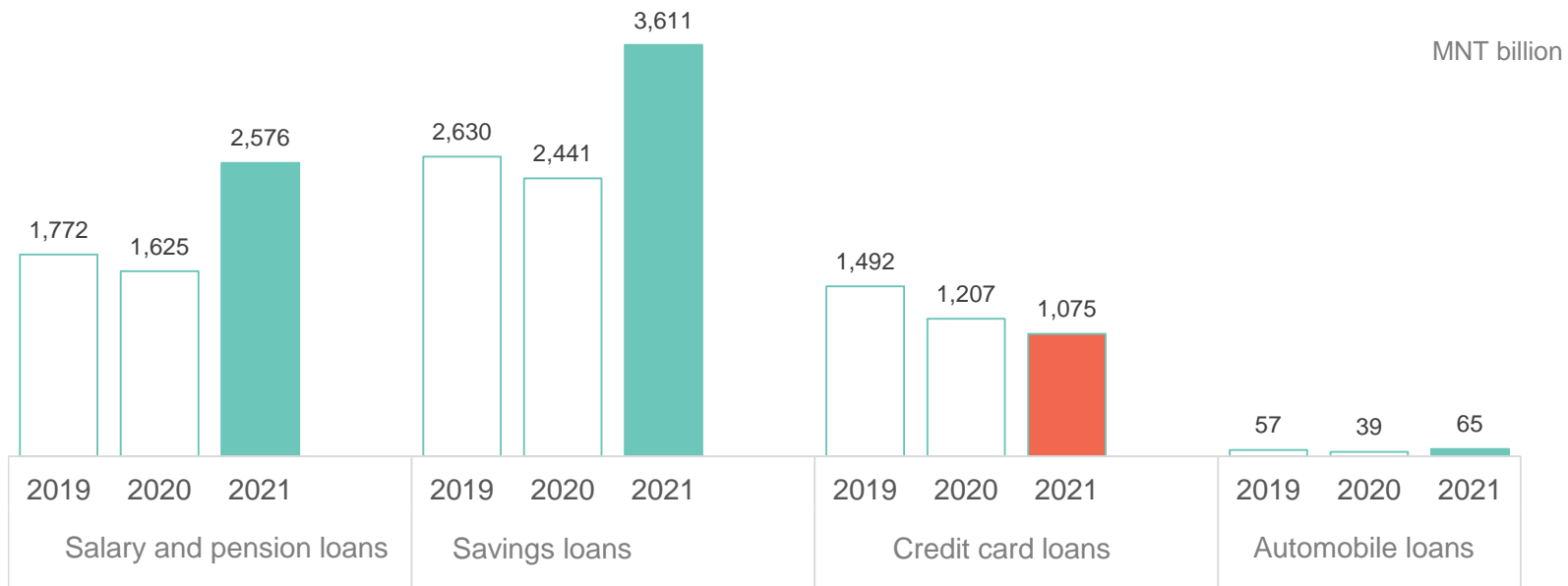


In 2021, loans for individuals increased steadily.

Salary, pension, and savings loans have increased.

Due to weak economic activity, banks were interested in low-risk lending.

Individual loans, shown in end of each year



New loans

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

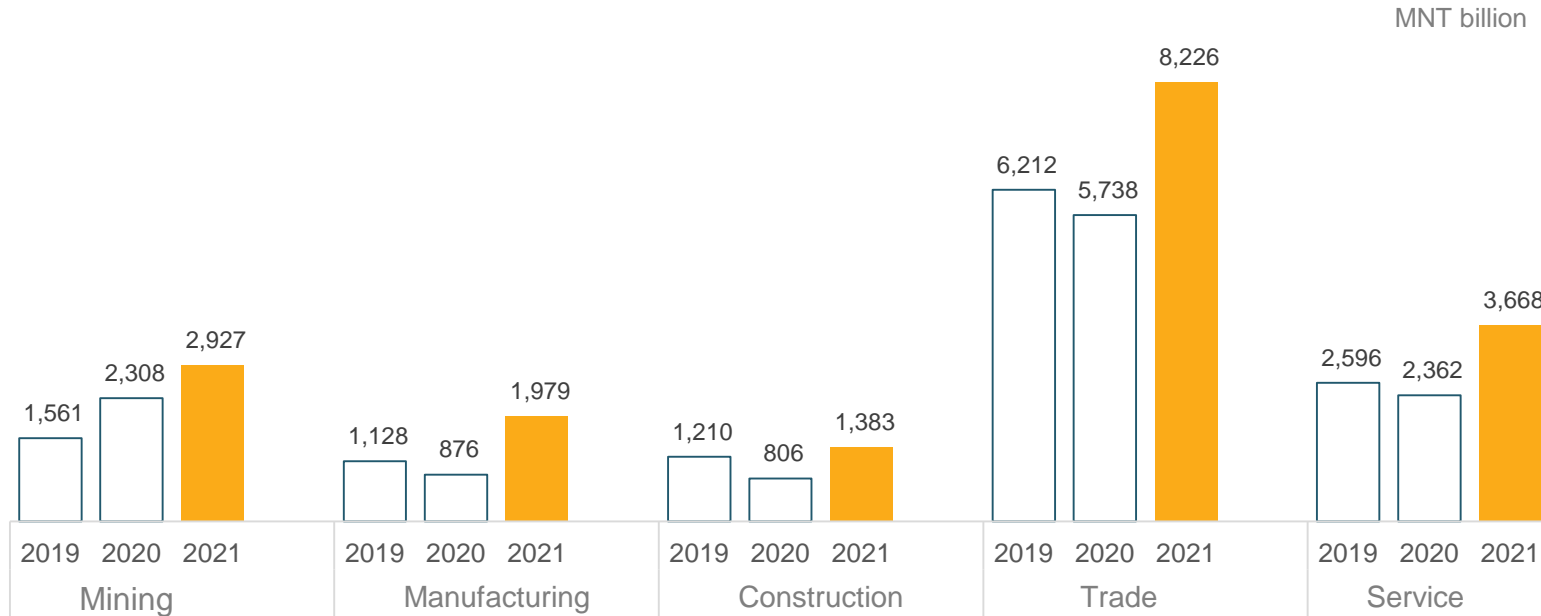
New loans increased by.

38%

In 2021, lending to key sectors of the economy will increase.

Banks are providing 3 percent loans to support jobs, which is an incentive to support the economy. The gradual easing of the quarantine has helped revive trade and services.

Corporate loans, shown in end of each year



New loans

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

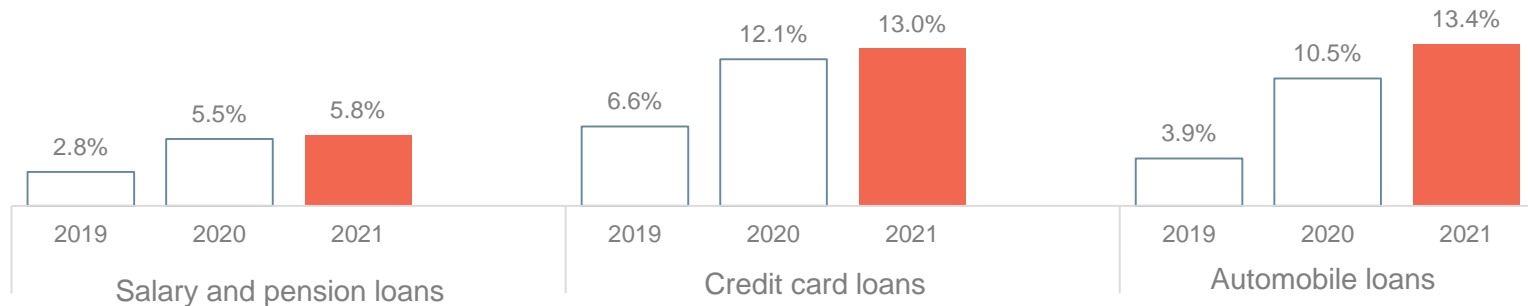
Corporate loans increased
by

49%

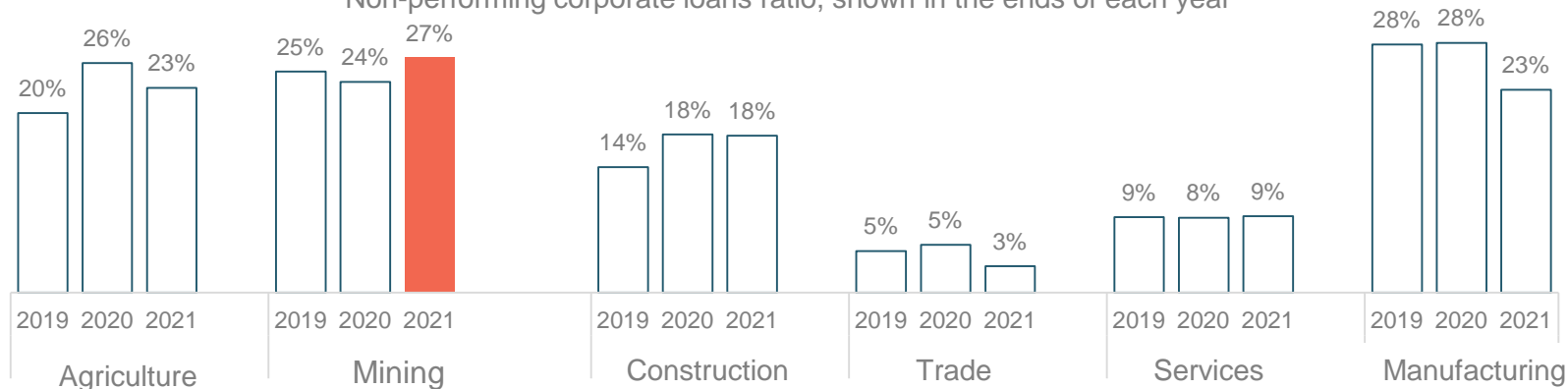
The quality of the consumer loan portfolio is gradually deteriorating.

The Law on Covid-19 Prevention and Combat has changed the loan schedule for individuals and businesses, and the normalization of regulation is now returning to its pre-pandemic level. Government benefits to household is also gradually decline. Therefore, if household income does not increase, there is a risk that the quality of loans will deteriorate.

Non-performing individual loans ratio, shown in the end of each year



Non-performing corporate loans ratio, shown in the ends of each year



Bank loan quality

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

Non-performing loans ratio in the sector

8.5%

Mongolia's place in the list of 190 countries ease of doing business

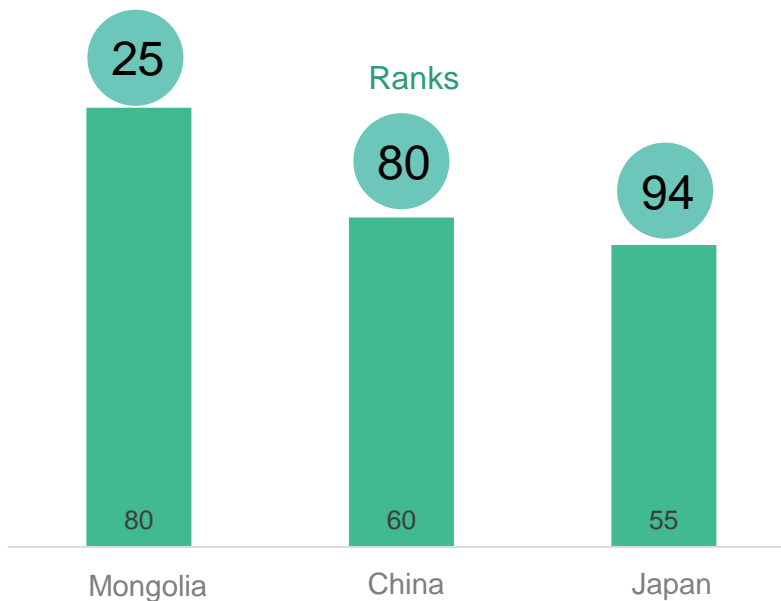


Source: World Bank, Doing Business 2020

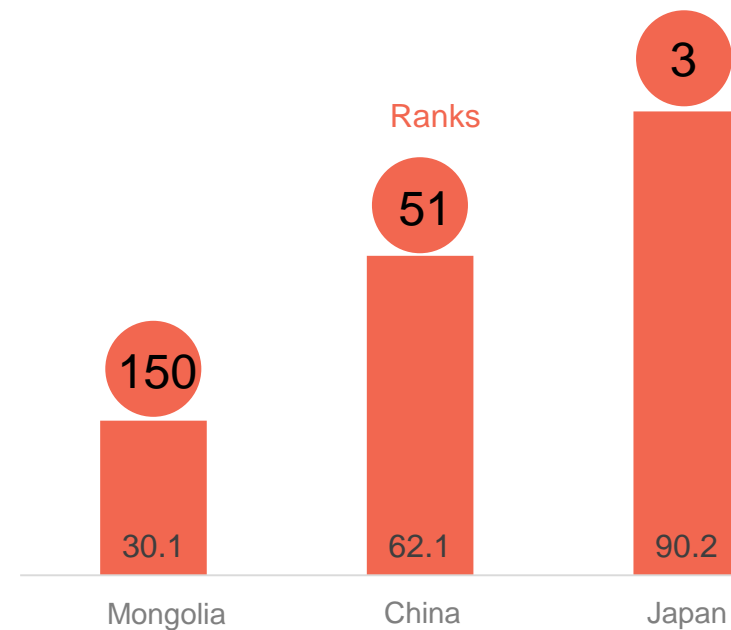
Mongolia ranked 150th in the resolving insolvency index.

Mongolia ranked 81st in the Ease of Doing Business Report because of negatively affected by infrastructure issues and the slowness of court proceedings, while the getting credit index was positive.

Mongolia leads in terms of getting credit in Asia.



Mongolia ranks last in terms of resolving insolvency issues in Asia.



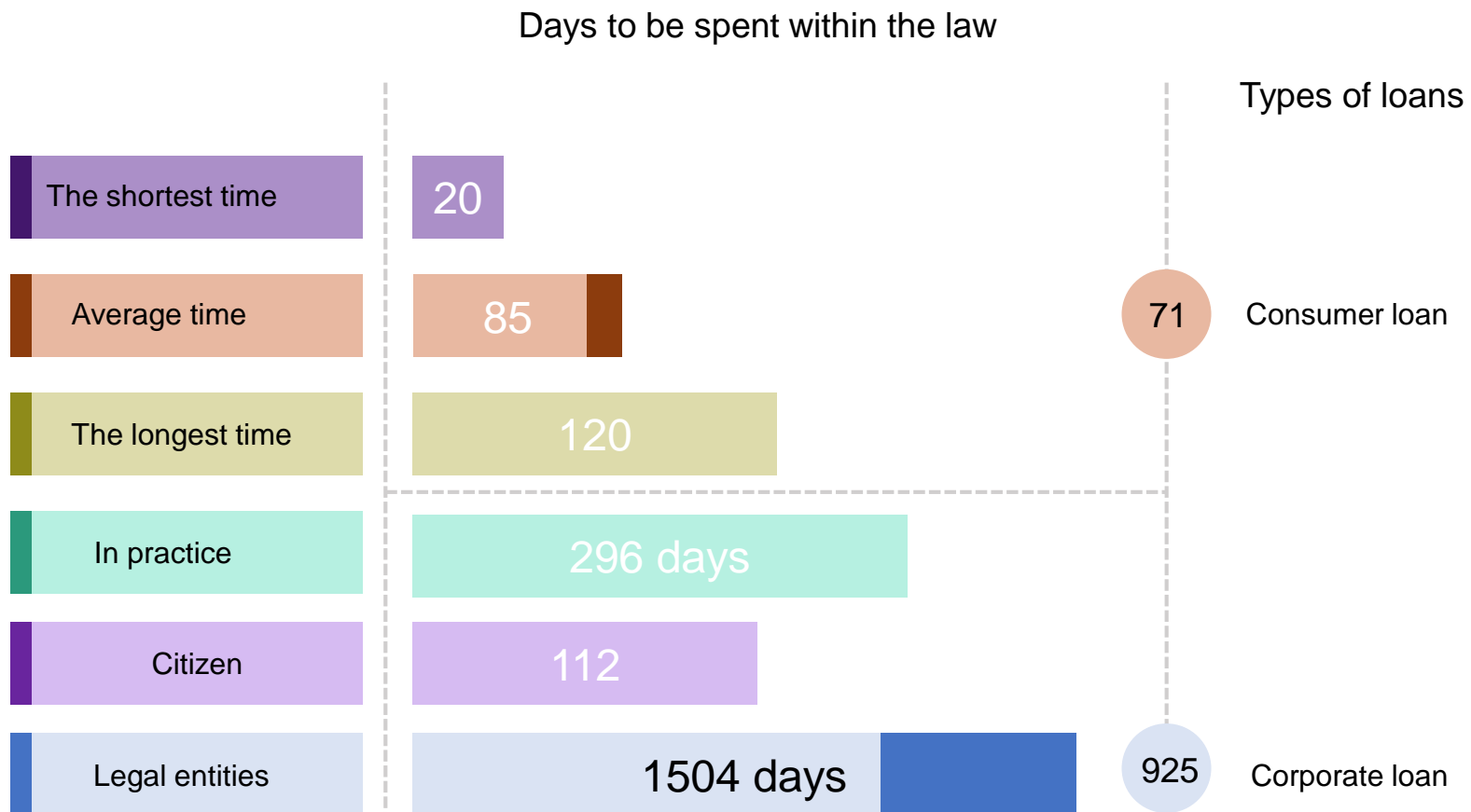
The average time of resolving insolvency in Mongolia is

4 years

It takes 925 days to repay a corporate loan.

During the insolvency proceedings involving domestic legal entities, 15 percent of total loans and receivables are spent on court costs.

Recovery rate indicator for creditors of the resolving insolvency is 18.2 percent.

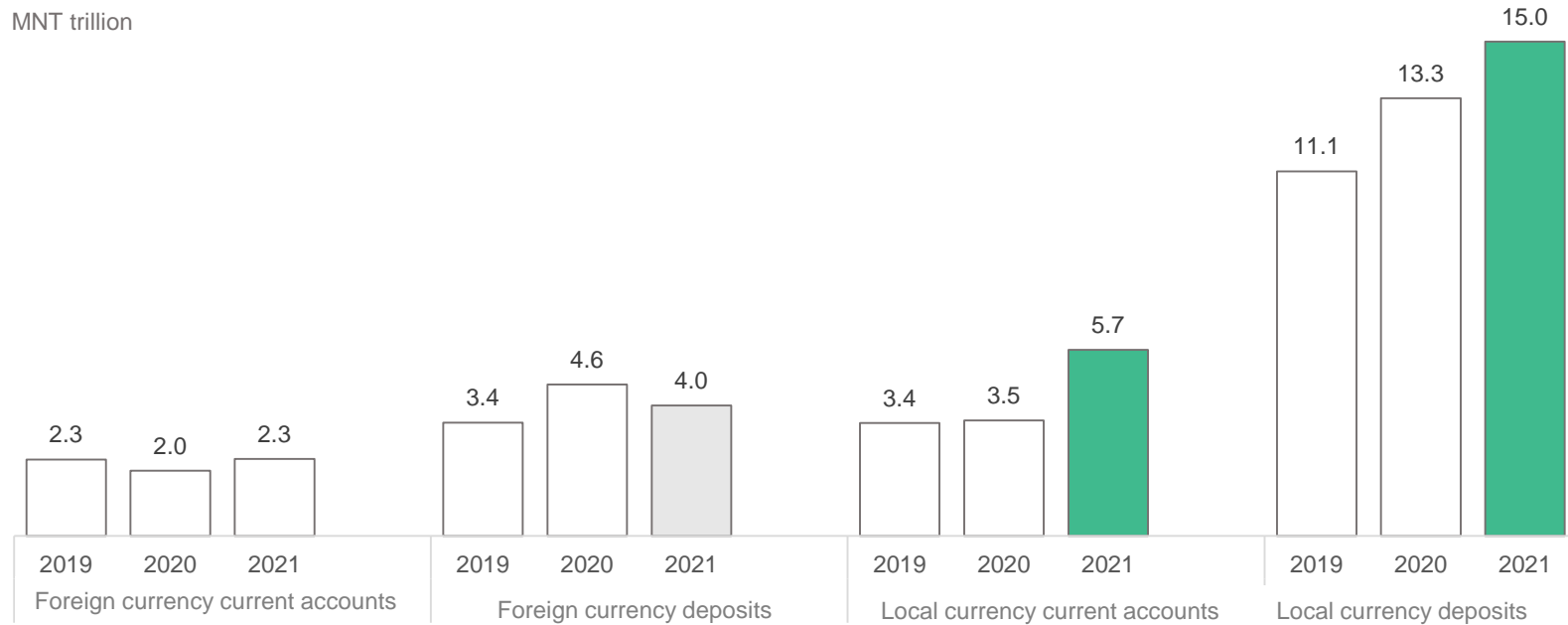


Restrictions on consumption and a lack of investment opportunities have increased savings.

Due to the epidemic, many days of quarantine and transportation logistics have become abnormal. As a result, consumption constraints, lack of investment opportunities, and relative exchange rate stability have encouraged the growth of tugrug's deposits.

The amount of current accounts and deposits

MNT trillion



Bank liability

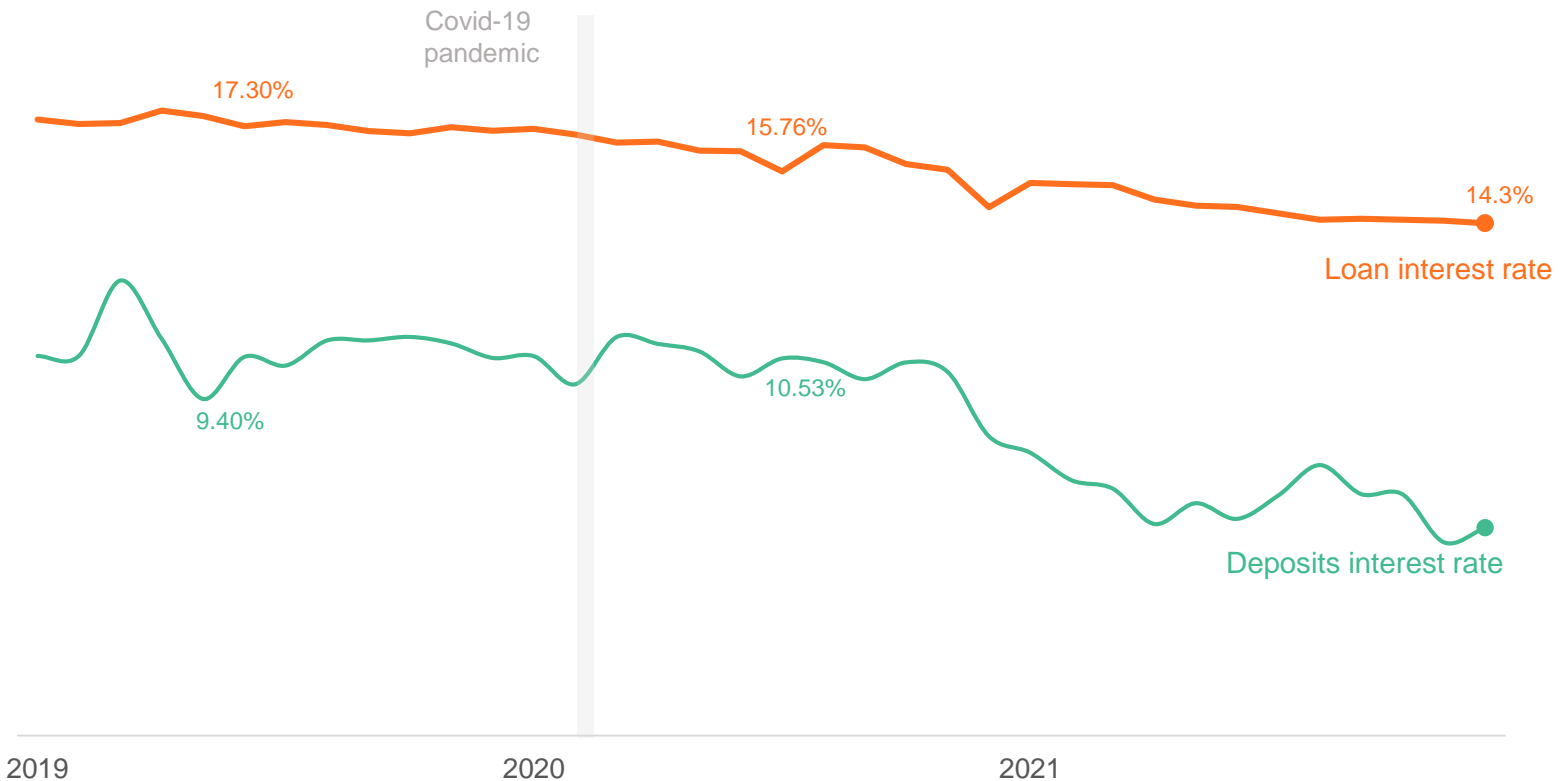
Note: It refers to bank current accounts and deposits.

Local currency deposits grew by

+13%

As a result of the implementing “Strategy to loan interest rate reduction”, interest rates have reached historic low level.

In the first half of 2021, the interest rate including soft loans reached 11.5 percent, while at the end of the year it increased by 1.5 percentage points to 13.5 percent.



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..

Loan interest rate

14.3%

MAIN FINANCIAL INDICATORS FOR BANKS

Performance of 2021 year end overlook

Bank assets

Note: Adding the owners' equity to the total liabilities of the bank becomes the bank's assets.

Assets of the 5 major banks increased by

12%

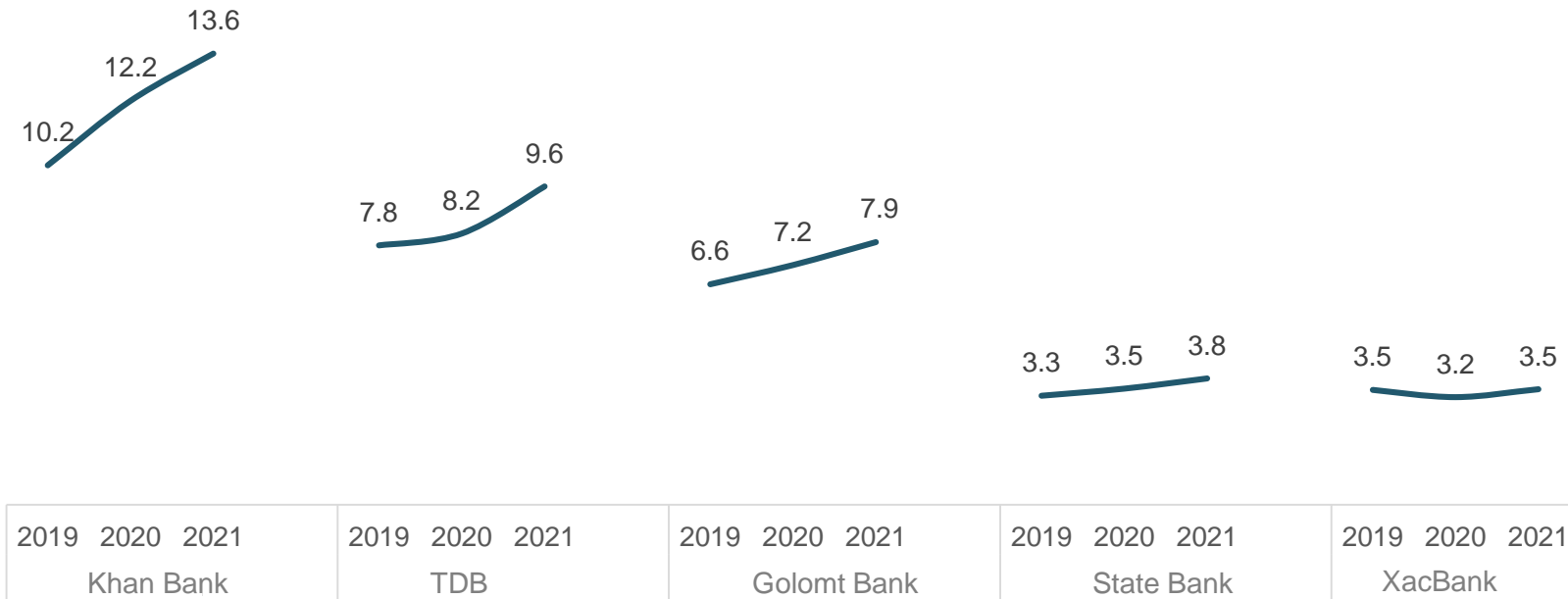
Source: Mongolbank
National Statistics Office of Mongolia

Total assets of the banking system increased by MNT 4.3 trillion, most of which was due to the growth of assets of systemically important banks.

Assets of Khan Bank and TDB increased by MNT 1.4 trillion.

Banks total assets

MNT trillion



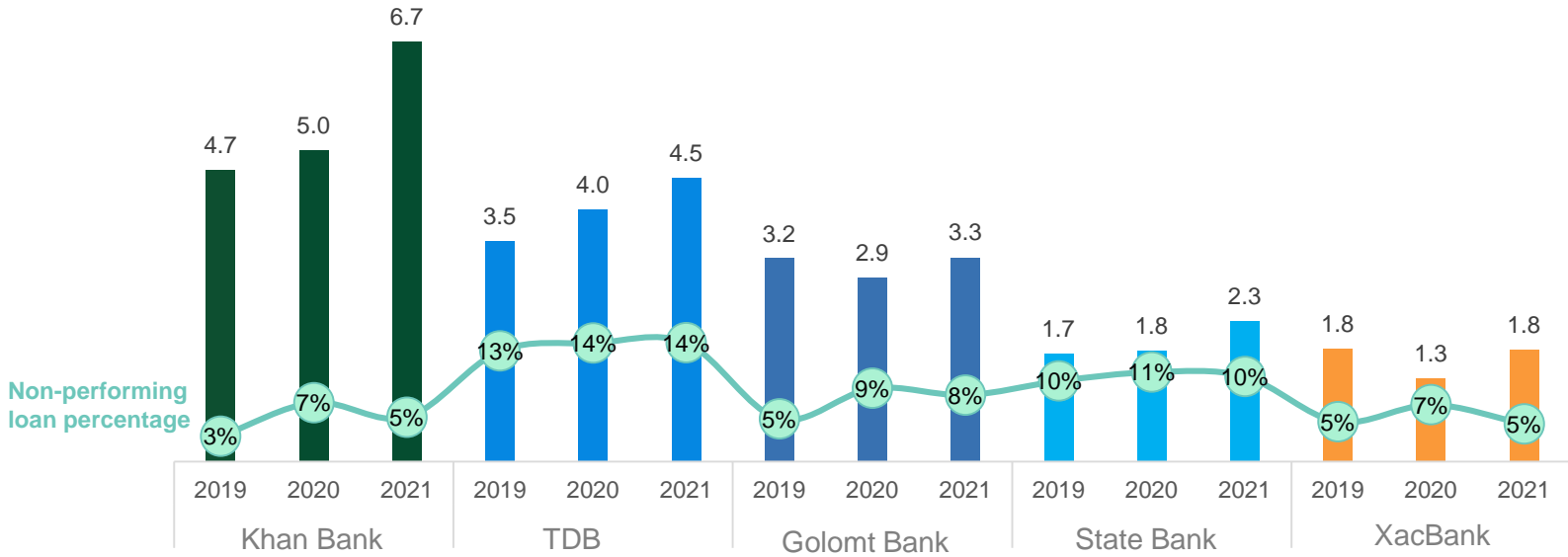
Source: Unaudited statement of banks

As part of employment support loans, banks' loan portfolios increased by MNT 3.4 trillion.

Although the loan portfolio of banks increased in 2021, one in 10 loans from the 5 main influential banks will be non-performing. Khan Bank's non-performing loans have increased, while XacBank has the lowest non-performing loans ratio at 5 percent.

Banks total outstanding loan balance

MNT trillion



Source: Unaudited statement of banks

Banks total outstanding loan balance

Note: The amount of outstanding loans to individuals and businesses.

The loan portfolio of the 5 main banks has increased

23%

Source: Mongolbank
National Statistics Office of Mongolia

Banks liability

Notes: Amounts of deposits from individuals, organizations and investors.

Banks' liability have increased by.

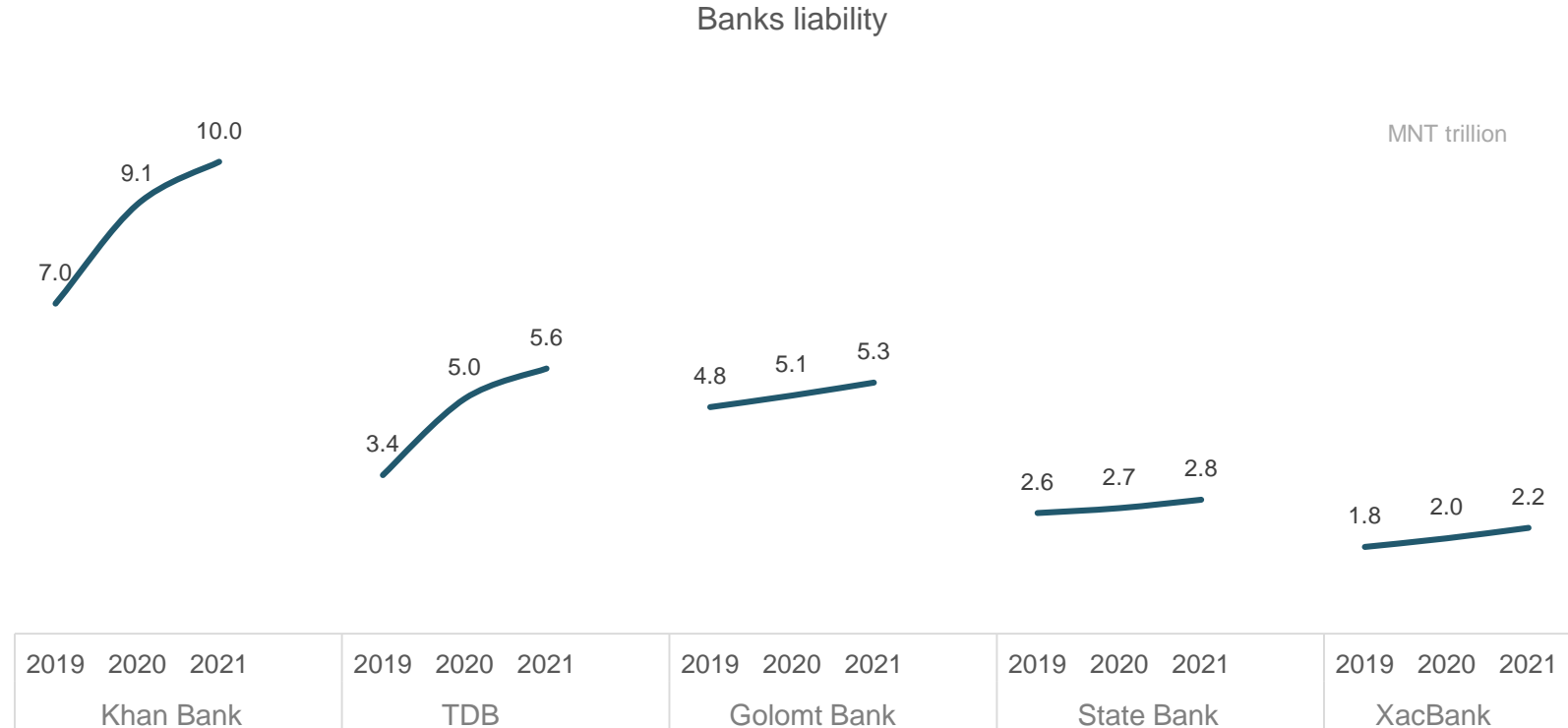
9%

Source: Mongolbank
National Statistics Office of Mongolia

In 2021, the total liabilities of the sector increased by MNT 4.3 trillion.

Khan Bank's source of fund increased by MNT 0.9 trillion.

As a result of the economic recovery program, banks current accounts increased by 46 percent from the previous year.



Source: Unaudited statement of banks

Capital adequacy of banks

Note: It determines whether an entity has sufficient capital to cover financial and operational risk losses.

Average capital adequacy of banks

15%

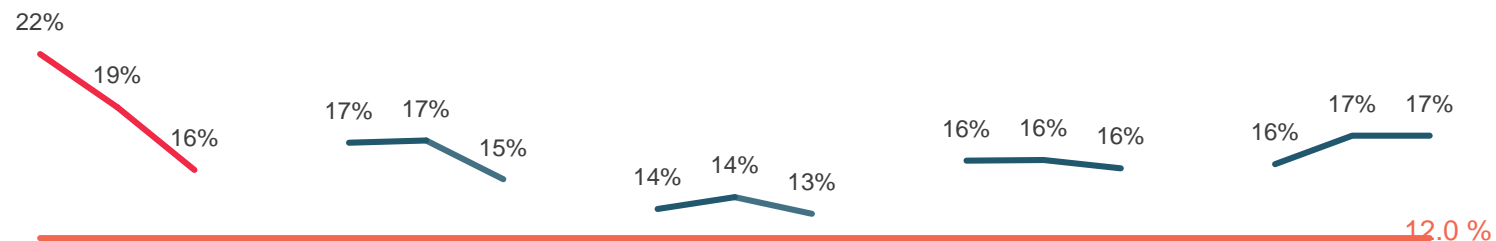
Source: Mongolbank
National Statistics Office of Mongolia

Banks are able to meet Capital adequacy requirements.

Under the MNT 10 trillion economic recovery plan, banks lending to SME's has reduced their ROE.

Khan Bank's large amount of lending to the economic stimulus program has reduced the bank's capital adequacy.

Capital adequacy of banks



2019 2020 2021

Khan Bank

2019 2020 2021

TDB

2019 2020 2021

Golomt Bank

2019 2020 2021

State Bank

2019 2020 2021

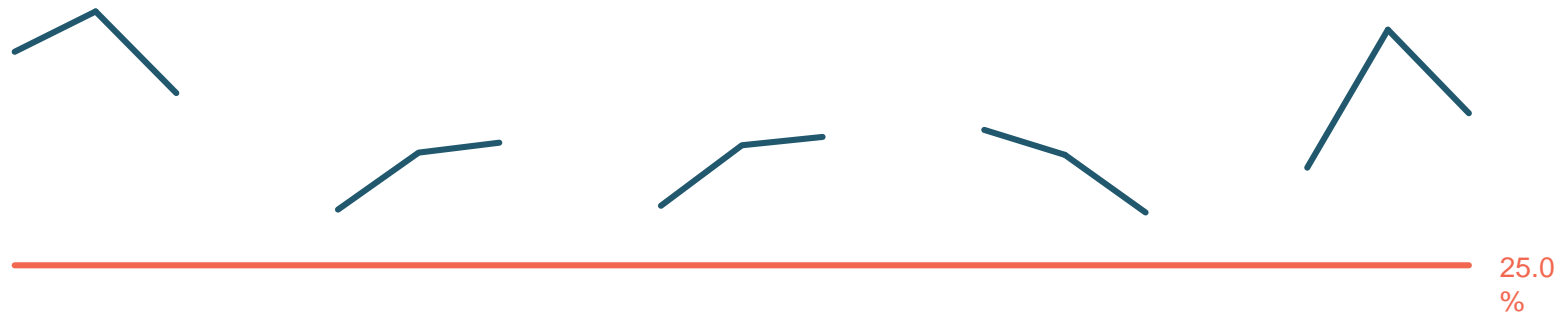
XacBank

Source: Statement of banks

The 5 main banks are meeting liquidity requirements ratio.

Loans have not increased, except for employment support program loans, due to the pandemic. As a result, the capital adequacy ratio of banks remain high.

Liquidity ratio



2019	2020	2021
Khan Bank		
TDB		
Golomt Bank		
State Bank		
XacBank		

Source: Unaudited statement of banks

Liquidity ratio

Note: Ratio that measures the ability to pay short-term payments on time.

The average liquidity ratio of the 5 main banks.

41%

Source: Mongolbank
National Statistics Office of Mongolia

ARE BANKS READY FOR IPO?

Performance of 2021 year end

BOGD BANK

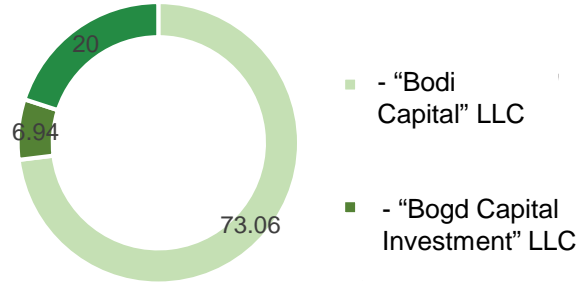
2014 Founded in	500 thousands Customers
1% Market share	MNT 327 billion Total capital
8 ATM	11 Branches
MNT 95.7 billion Deposits	MNT 10.3 billion Net profit

Source: Official website of the bank

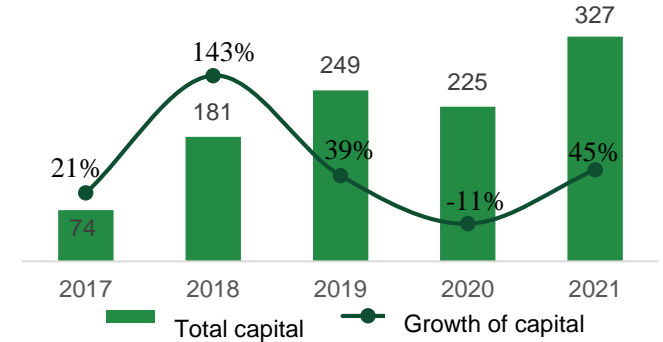
Bogd Bank successfully traded its shares to the public.

Bogd Bank successfully raised MNT 31.75 billion by offering 20 percent of its shares, or 12.5 million shares, to the public for MNT 2,540 each.

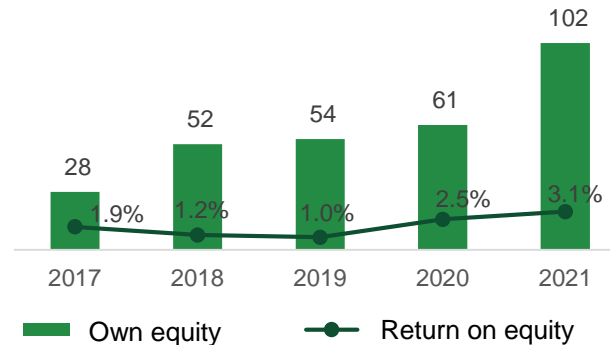
Shareholders



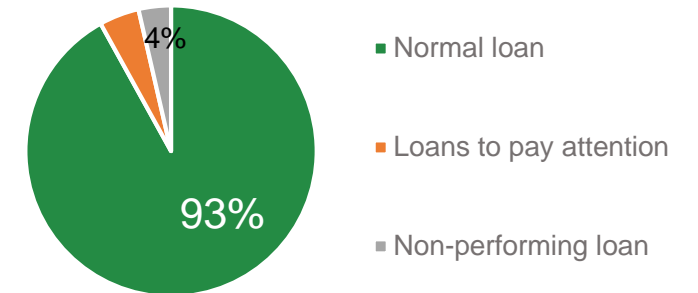
Growth of total capital | MNT billion



Return on equity | MNT billion



Bad credits

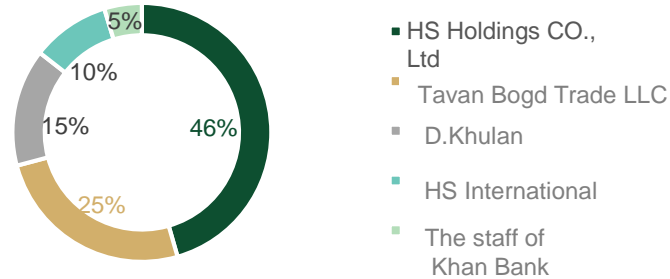


KHAN BANK

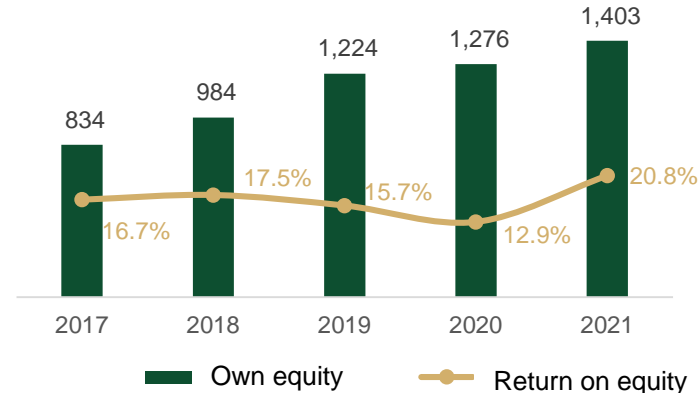
Khan Bank has the largest number of customer base.

Banking and financial services are provided nationwide to more than 70 percent of households and about 50,000 organizations in Mongolia.

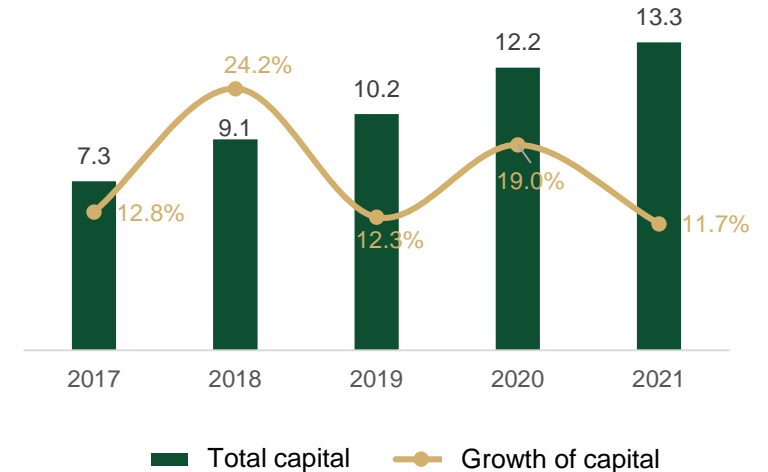
Shareholders



Return on equity | MNT trillion



Growth of total capital | MNT trillion



1991 Founded in	2.6 million Customers
33.2% Market share	MNT 13.6 trillion Total capital
1,275 ATM	547 Branches
MNT 7.0 trillion Deposits	MNT 292 billion Net profit

Source: Official website of the bank

TRADE AND DEVELOPMENT BANK

1990 Founded in	500 thousands Customers
23.4% Market share	MNT 9.6 trillion Total capital

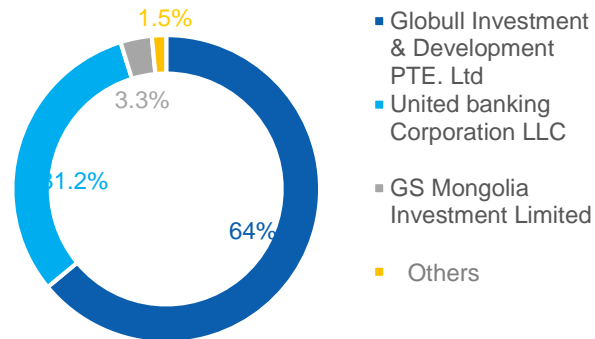
283 ATM	91 Branches
MNT 3.9 trillion Deposits	MNT 90 billion Net profit

Source: Official website of the bank

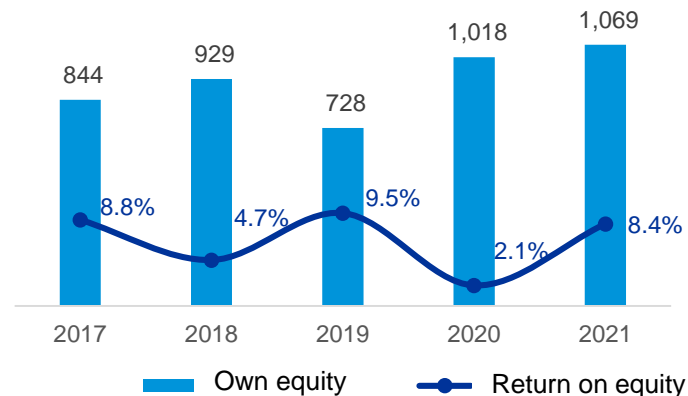
The Trade and Development Bank is the first commercial bank in Mongolia.

It provides business loans in cooperation with major foreign banks and financial institutions, and alone handles 78% of Mongolia's foreign payments.

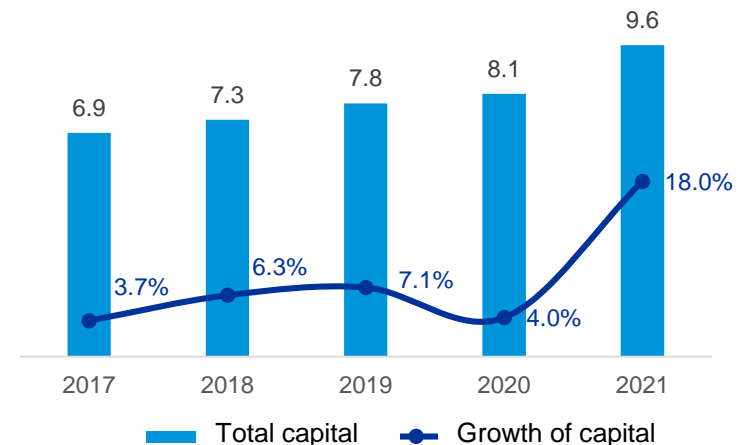
Shareholders



Return on equity | MNT trillion



Growth of total capital | MNT trillion



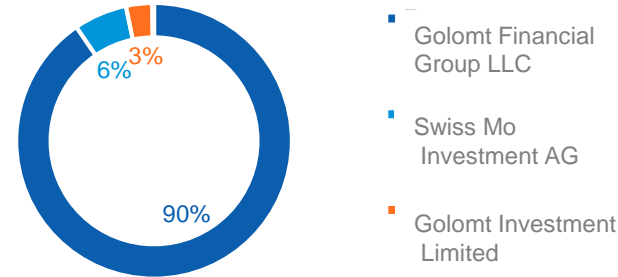
GOLOMT BANK

1995 Founded in	800 thousands Customers
19.3% Market share	MNT 7.9 trillion Total capital
176 ATM	101 Branches
MNT 3.6 trillion Deposits	MNT 22 billion Net profit

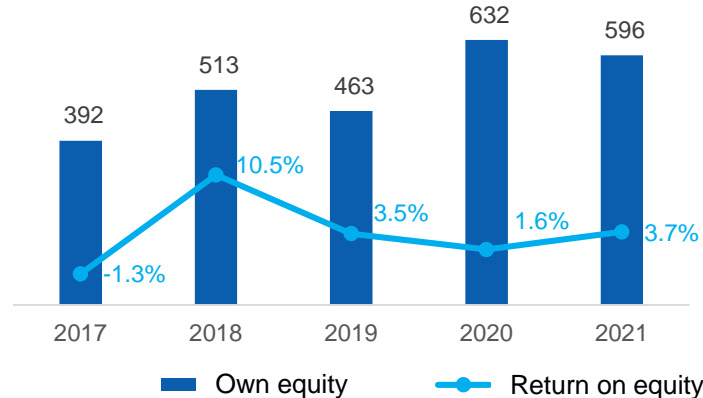
Source: Official website of the bank

A bank that is successfully implementing e-transition in our country.
It operates 36 percent of domestic credit cards, 54 percent of gold transactions and 73 percent of foreign guarantees.

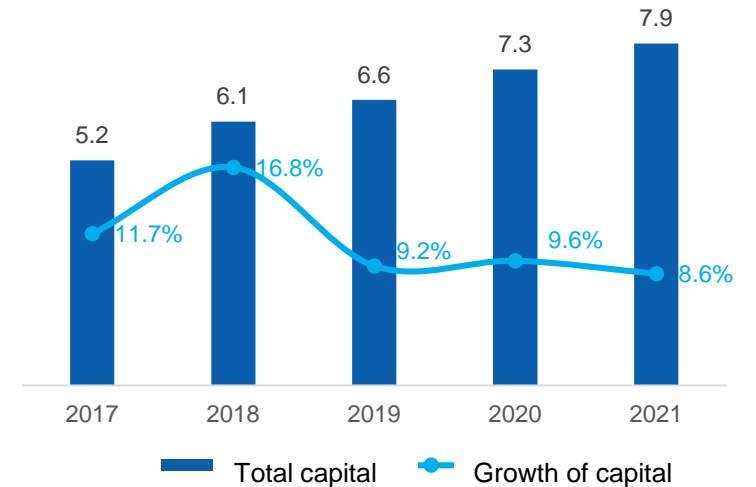
Shareholders



Return on equity | MNT trillion



Growth of total capital | MNT trillion

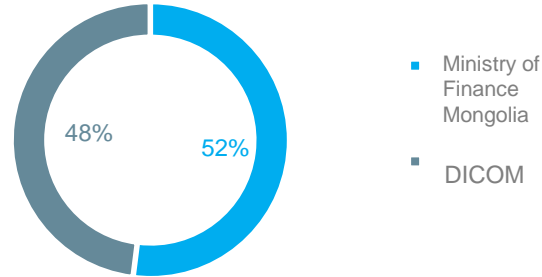


STATE BANK

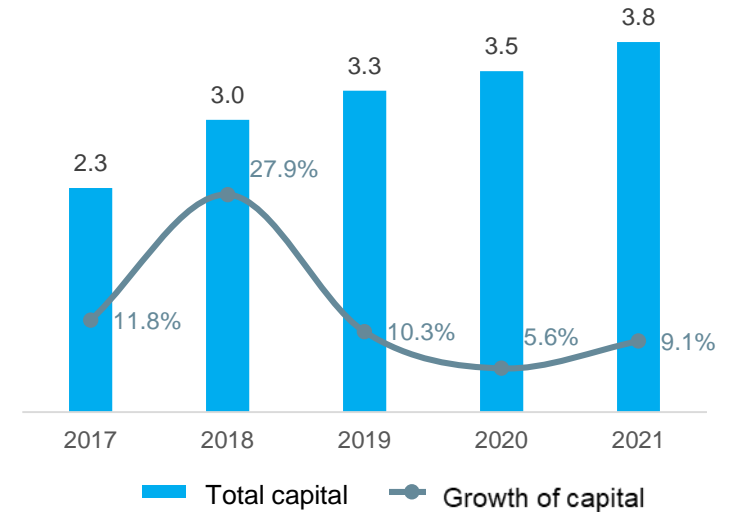
A bank that delivers government services to citizens.

The bank alone accounts for more than 80 percent of pension and social welfare payments.

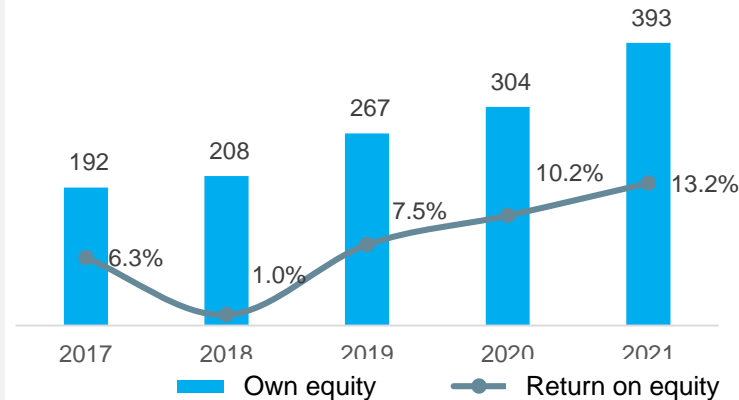
Shareholders



Growth of total capital | MNT trillion



Return on equity | MNT trillion



2009 Founded in	1.9 million Customers
9.3% Market share	MNT 3.8 trillion Total capital
347 ATM	495 Branches
MNT 2.2 trillion Deposits	MNT 52 billion Net profit

Source: Official website of the bank

XAC BANK

2001
Founded in

1 million
Customers

8.5%
Market share

MNT 3.5 trillion
Total capital

360
ATM

78
Branches

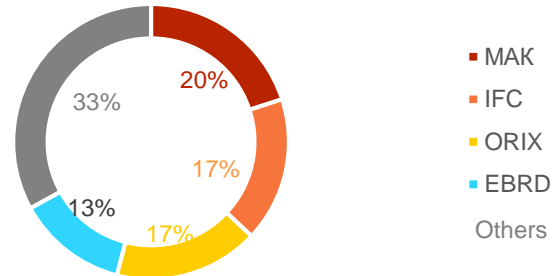
MNT 1.8 trillion
Deposits

MNT 62 billion
Net profit

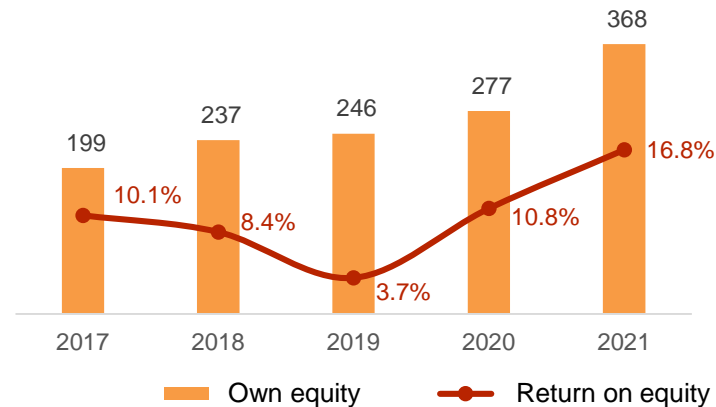
Source: Official website of the bank

A bank that leads in sustainable growth in the banking and financial system.
It is a healthy bank structure in the banking and financial sector of Mongolia, which is not dominated by one organization or individual.

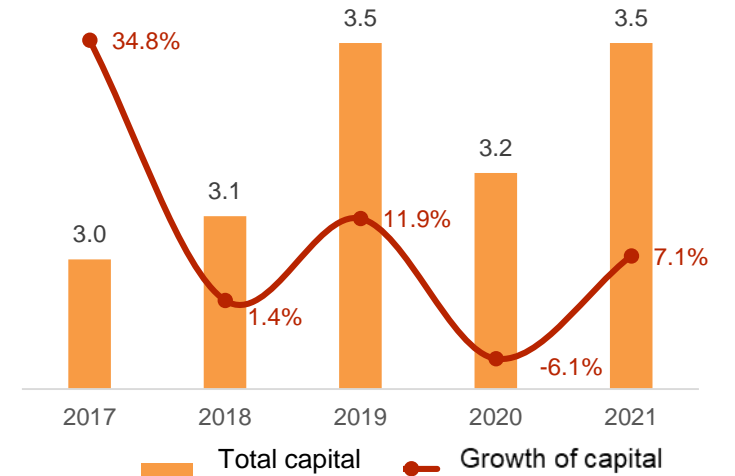
Shareholders



Return on equity | MNT trillion



Growth of total capital | MNT trillion



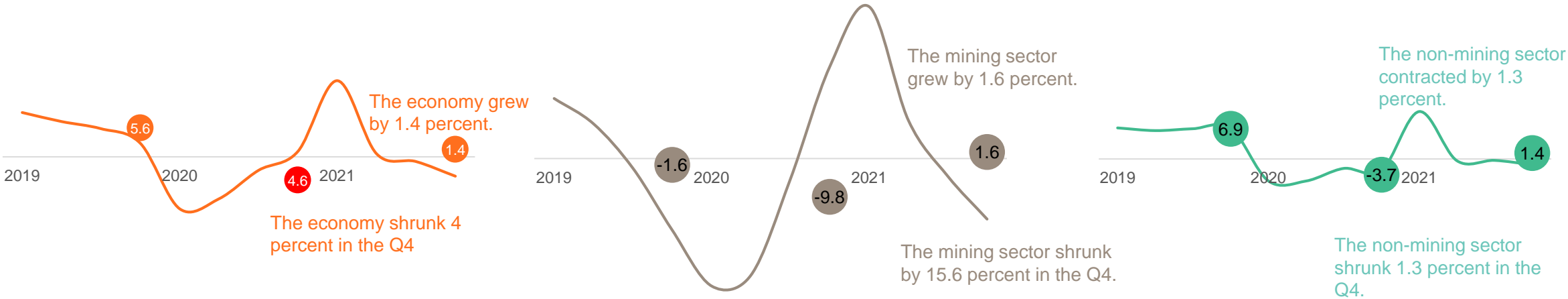
MACROECONOMIC ENVIRONMENT DURING THE PANDEMIC

Situation in 2021: Economic growth was 1.4 percent. Although the mining sector has begun to recover since the beginning of the year, difficulties in the industrial and construction sectors due to border constraints and transportation and logistics difficulties in the southern neighbor have had a significant impact on economic growth. Consumer prices have risen due to rising commodity prices on global markets and transportation and logistics difficulties due to the Covid-19 epidemic.

Scenario: In 2022, the economy is expected to grow by about 4-5 percent. Factors holding back growth include the domestic pandemic situation and the stalemate in foreign trade. Continuing import shortages will reduce the supply of consumer goods, which could lead to further inflation. Over the past two years, the real sector has been hit hard by the pandemic. This effect is likely to have a strong impact on the financial sector in the coming years. Therefore, it is important to address the challenges facing the economy at the policy level and make adjustments to reduce potential risks.

In 2021, the economy grew by 1.4 percent.

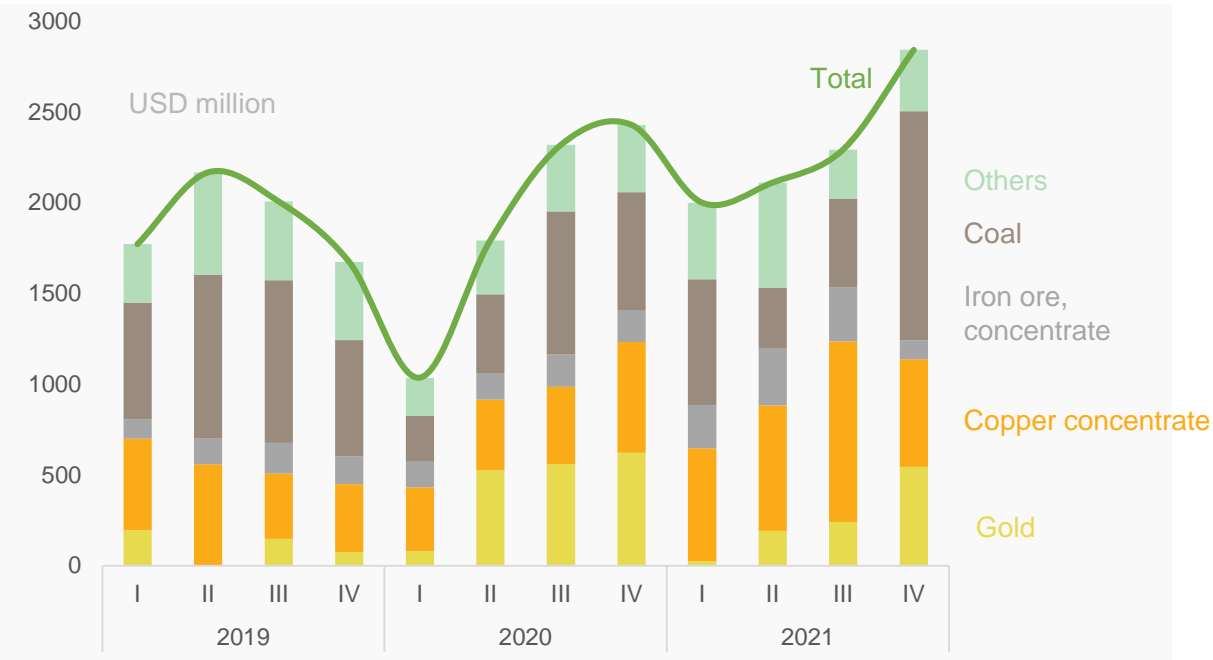
Although the mining sector recovered in the first quarter of 2021, due to the long-term stagnation of exports and imports at the border because of the pandemic situation, other sectors were affected and economic growth slowed down. Net exports were reduced due to declining exports because of border conditions and rising prices and costs of imported goods.



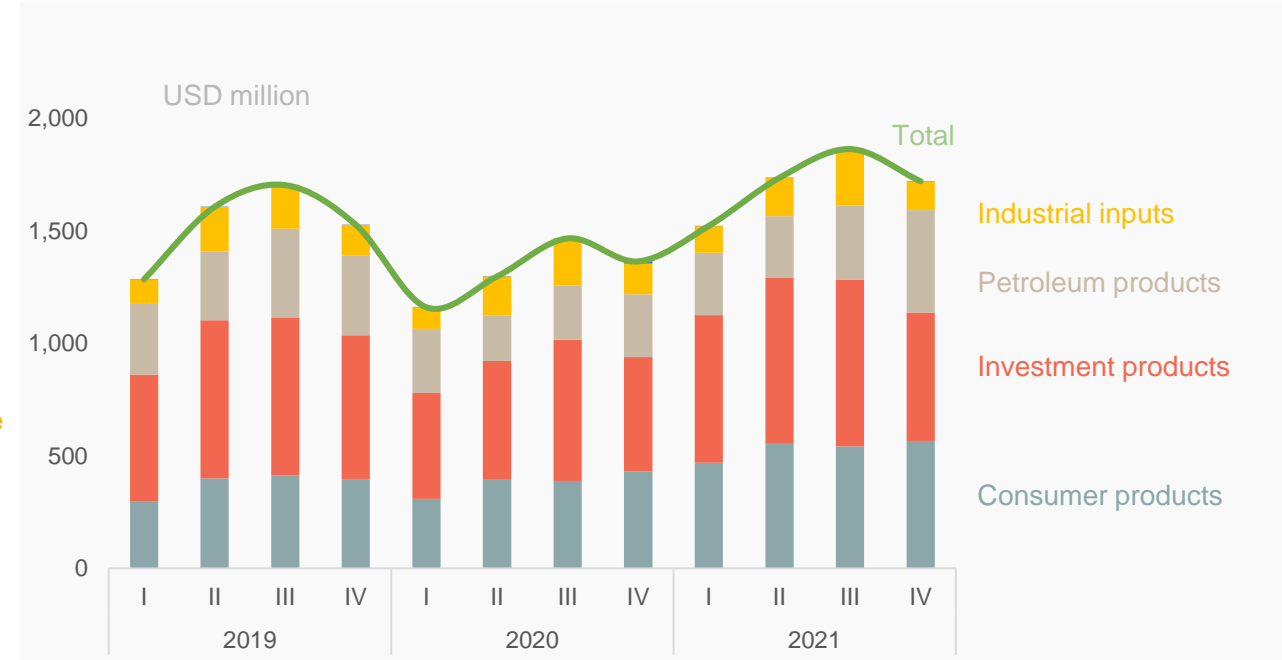
Transportation is halted, but trade has not slowed due to rising prices.

- Although exports have not increased, coal revenues have more than doubled from a previous year due to rising commodity prices.
- Although real imports have not increased, oil and food imports have increased due to rising prices in the global markets.

The main export products, by type of products



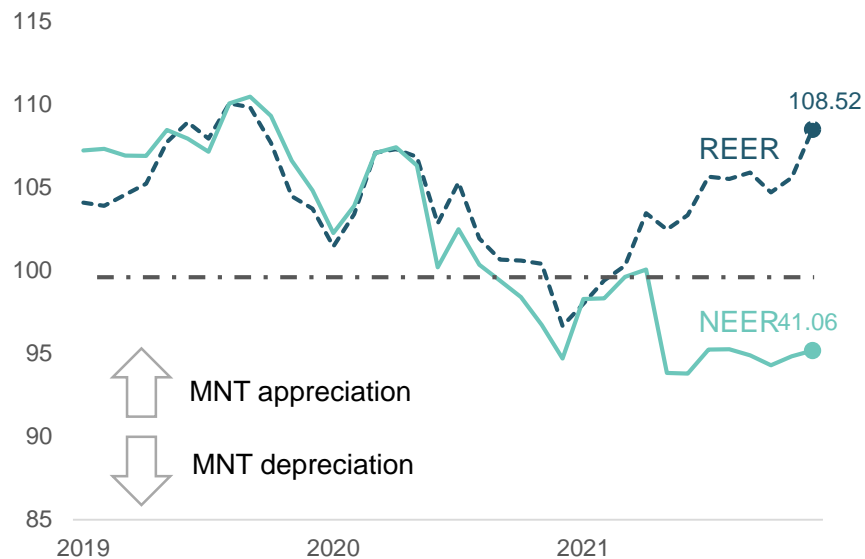
The main import products, by type of products



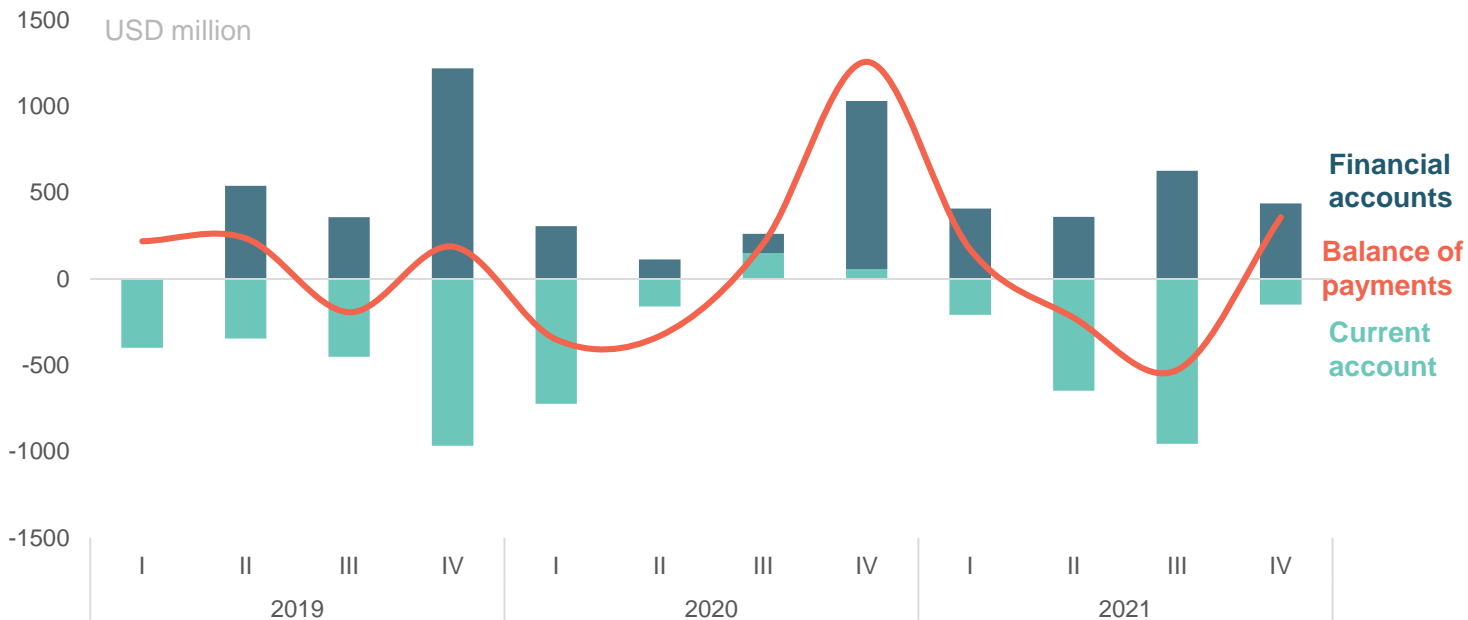
The stable nominal exchange rate of the tugrug contributed to the balance of payments surplus.

- The surplus of the balance of payments strengthens the real exchange rate of the tugrug and creates expectations that the tugrug will appreciate in the future.
- Although the balance of payments showed a surplus of \$ 358 million, foreign exchange outflows are likely to increase in the future due to rising prices for imported goods.

Nominal and real effective exchange rates of MNT



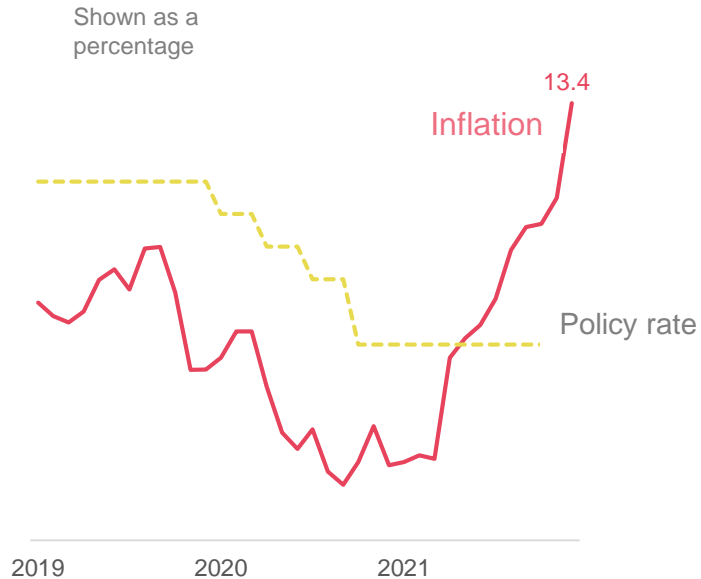
Balance of payments



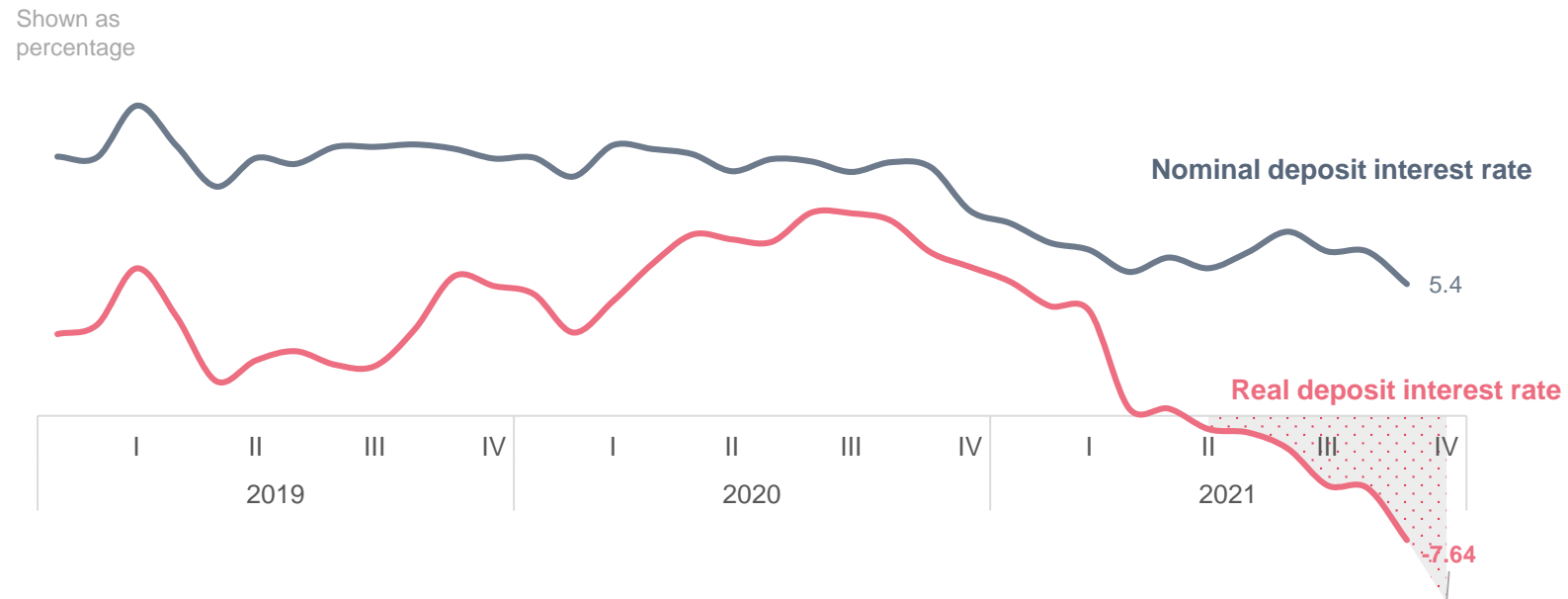
Inflation rose and deposit rates fell.

- Inflation is high due to the steady rise in food and fuel prices, and disruption of transportation and logistics due to the pandemic. In the future, if transport and logistics do not return in normal levels, inflation will continue to rise.
- The policy rate increased by 0.5 points at the end of the year.
- The real interest rate on time deposits reached -5.1 percent due to supply-side inflation.

Policy rate, inflation

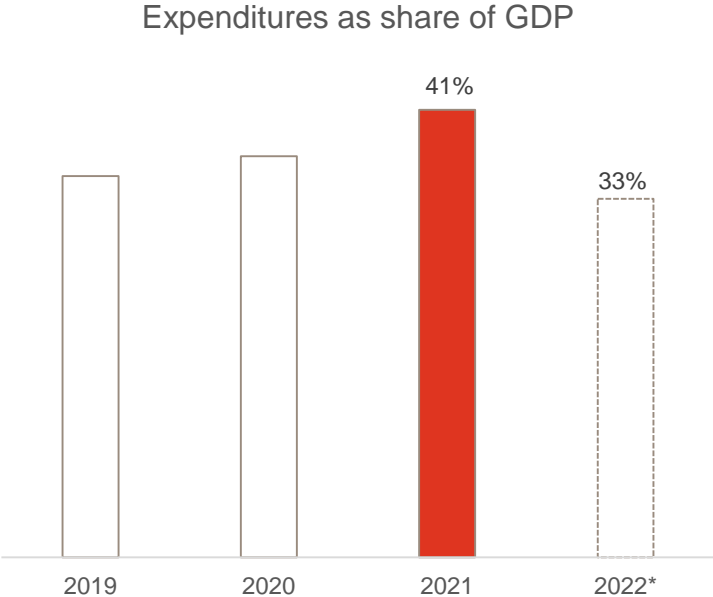
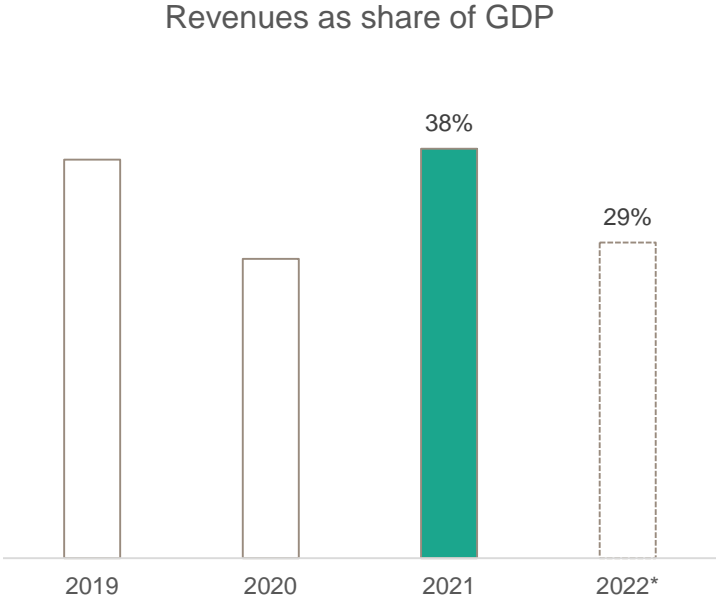


Real and nominal interest rate on deposits



In 2021, the main budget deficit decreased from the same period of the previous year.

The main budget balance has been in deficit for the last three years due to the government's policy measures to reduce the economic impact of the Covid-19 epidemic and to protect the health of the population. If the pandemic situation does not improve in the near future, the main budget deficit is expected to continue for a long time.



2022* budget forecast

