



BANKING SECTOR REVIEW

1st quarter of 2022

DROUGHT SUMMER IS COMING

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The banking sector was relatively stable and growing. Total assets of the sector increased by 6.5 percent compared to the same period of the previous year. However, the quality of individuals loans was gradually deteriorating. From the middle of this year, the benefits and exemptions provided by the government will end and return to normal situation. If economic activity does not improve and individuals real income do not increase, non-performing loans are likely to pose a significant risk.

The economy shrank by 3.8 percent cause of the lack of real export growth due to the zero-Covid policy of our southern neighbor China. In addition, supply and logistics difficulties related to the Russia-Ukraine issue have affected the prices of Mongolia's main imported goods, causing inflation high.

The only sector that supports the economy at this time is the banking sector. If foreign investment does not increase and the economic sectors remain weak due to the uncertainty, our economy will be in a difficult situation within fall. The Mongolian economy is experiencing the same phenomenon as not having a harvest in fall after the dry summer.



Border restrictions are eased and foreign tourism is gradually increasing. This led to a decrease in MNT deposits.

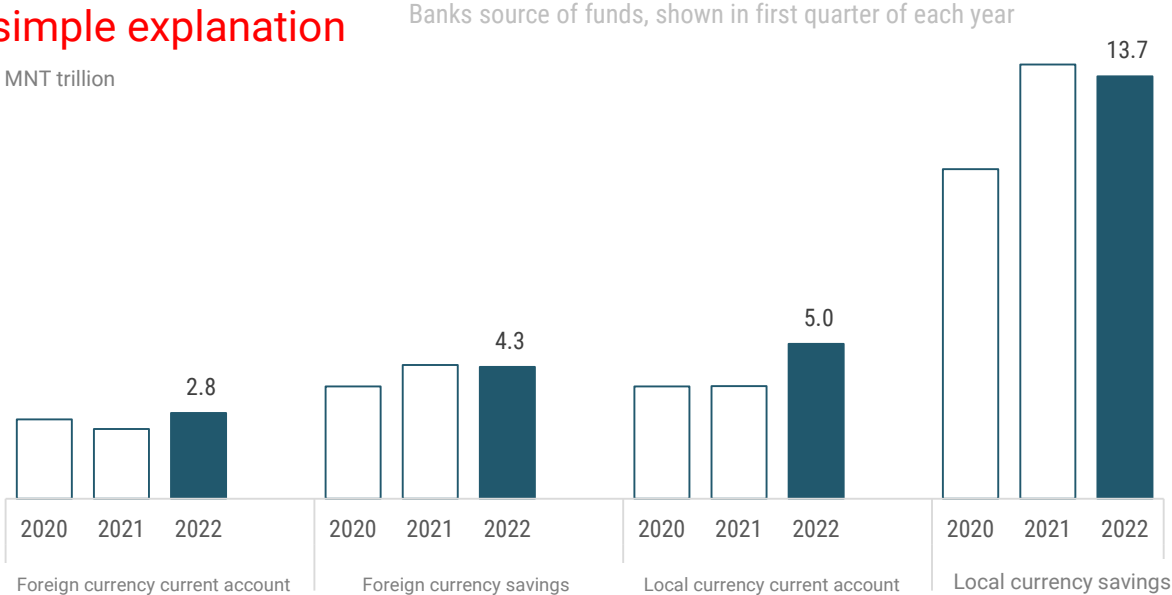
The gradual recovery of economic sectors has led to a 3 percent increase in MNT deposits, led to a 1 percent decrease in foreign currency deposits over the same period last year. Due to economic uncertainty, current accounts of individuals have increased.

Highlight changes and simple explanation

Theoretical definition

Banks source of funds

Note: It refers to bank current accounts and deposits



MNT deposits

-3%

1st quarter of 2022 performance

HIGHLIGHTED CHANGES AND THE FUTURE TRENDS IN THE BANKING SECTOR IN 2022



Banks continue to provide loans to support individuals and businesses from their own resources.



The central bank raised the policy rate by 2.5 percentage points to 9 percent.



The economic recovery has been slow due to abnormal transport and logistics activities.



The financial performance of the five influential banks in the system was relatively good.



The slowdown in the economy has started to affect the quality of loans.



Russia-Ukraine situation is expected to negatively affect oil, fertilizer and food production and increase supply-side inflation

MAIN FINANCIAL INDICATORS FOR THE BANKS

1st quarter of 2022 performance

Bank lending is on the rise, despite rising policy rates.

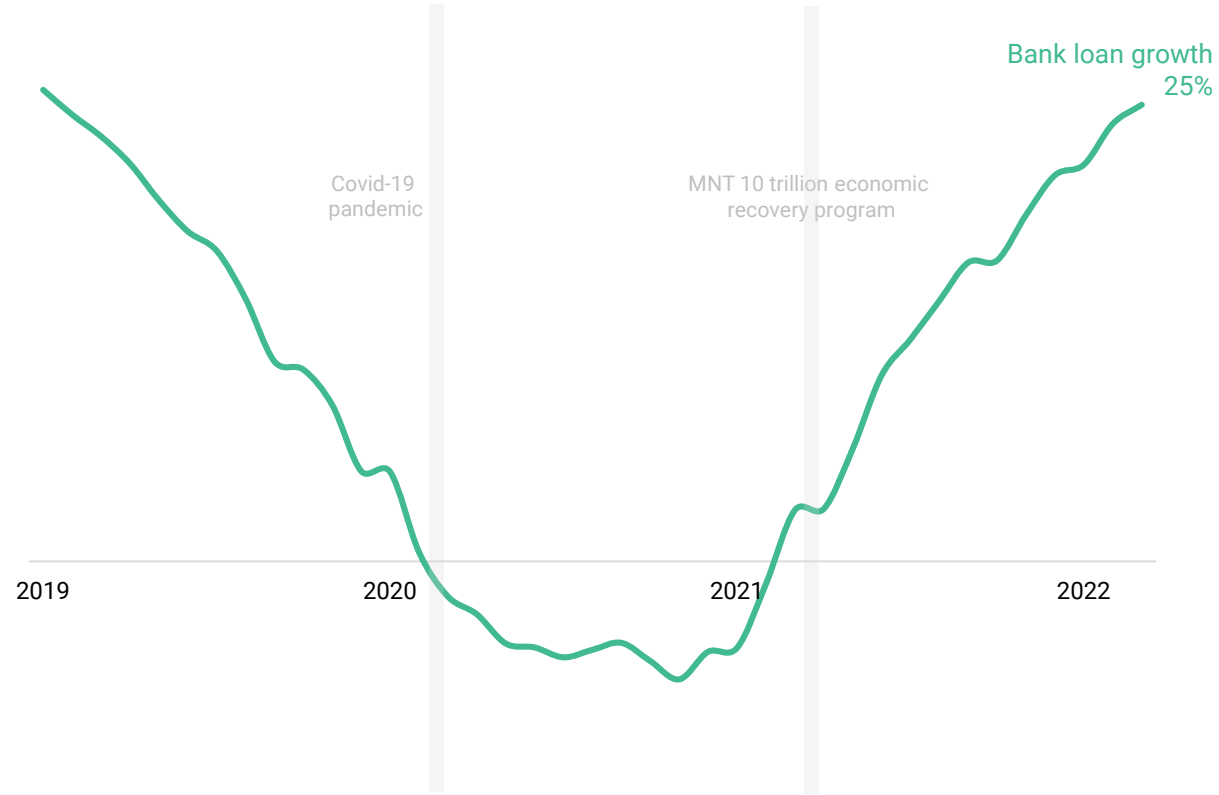
Banks continue to lend to individuals and businesses to support the economy and accelerate the sector's recovery.

Bank loan portfolio

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

Loans increased by an average
of

+25%

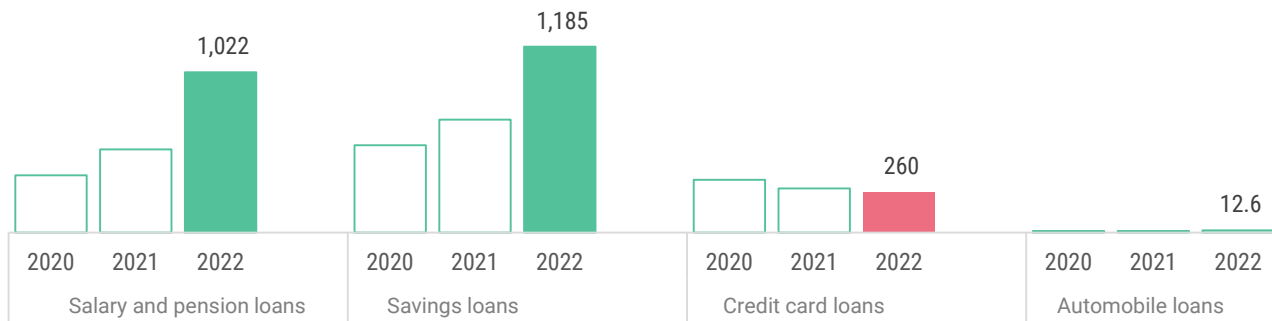


Salary, pension and savings loans have increased.

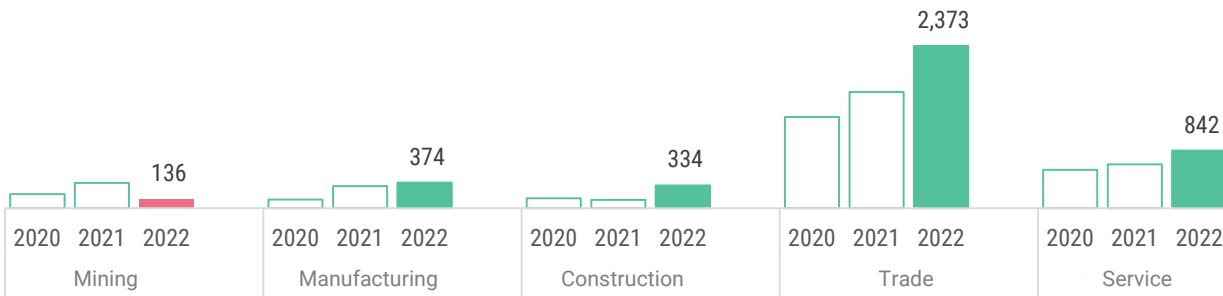
Banks issued twice as many consumer loans to individuals as in the same period last year. Despite the difficult economic situation, banks continue to provide business loans.

Individuals loans, shown in first quarter of each year

MNT billion



Business loans, shown in first quarter of each year



Banks new lending

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

New lending increased by

45%

Bank loan quality

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

1 in 10 loans in the sector is non-performing.

10%

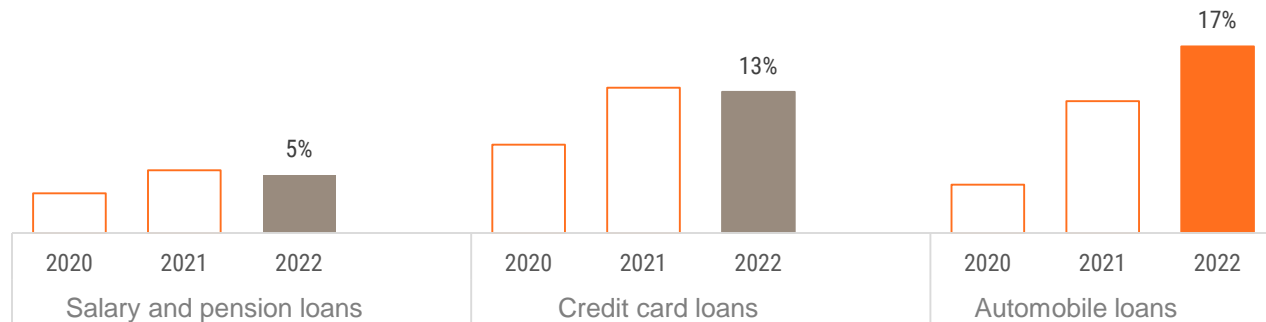
Source: Mongolbank
National Statistics Office of Mongolia

The quality of the consumer loan portfolio is gradually deteriorating.

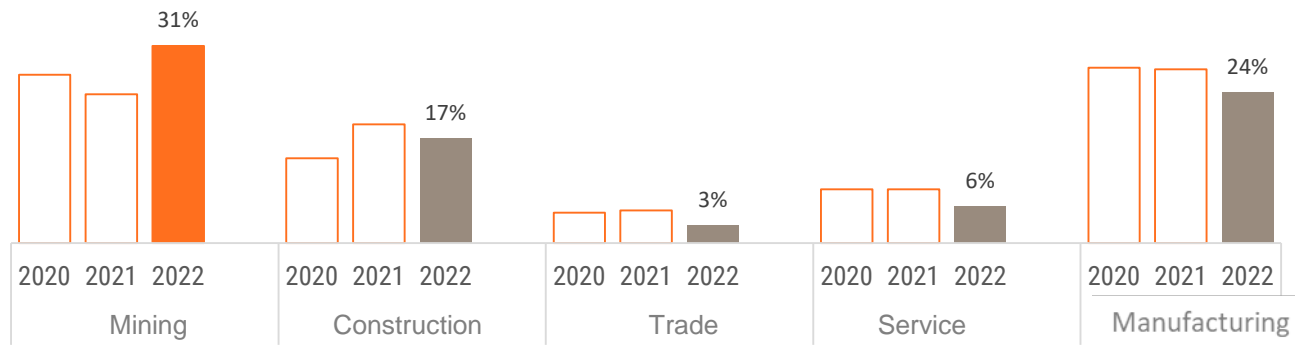
The cessation of government subsidies to individuals and businesses and the gradual decline in real incomes are having a negative impact on non-performing loans.

The removal of quarantine and service time restrictions during the pandemic has supported the recovery of economic sectors and created the conditions for normal business operations.

Non-performing individuals loans ratio, shown in first quarter of each year



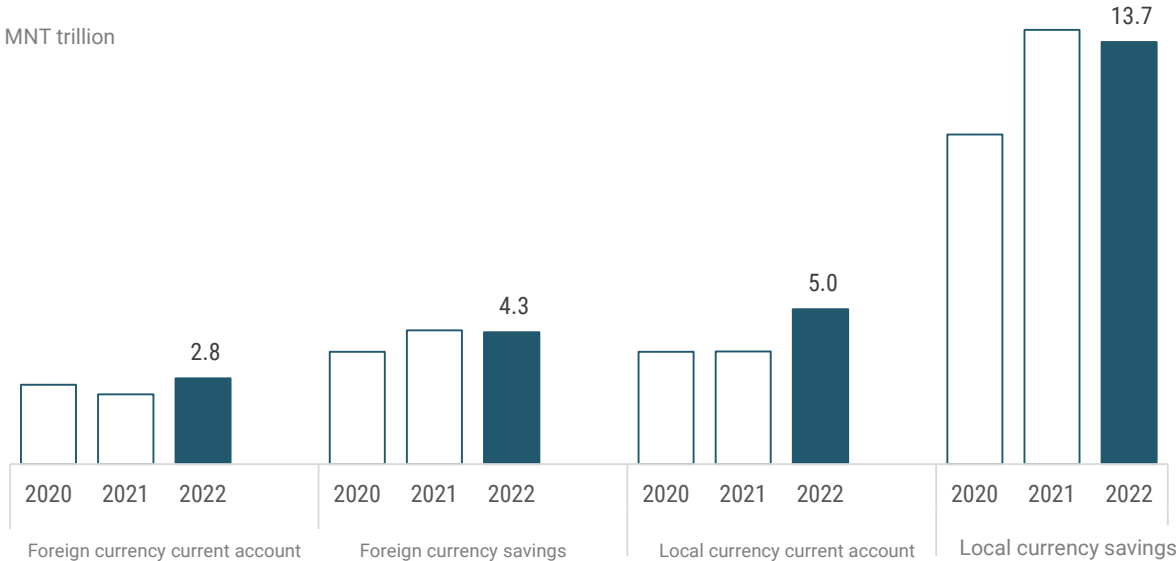
Non-performing corporate loans ratio, shown in first quarter of each year



Border restrictions are eased and foreign tourism is gradually increasing. This led to a decrease in MNT deposits.

The gradual recovery of economic sectors has led to a 3 percent increase in MNT deposits, led to a 1 percent decrease in foreign currency deposits over the same period last year. Due to economic uncertainty, current accounts of individuals have increased.

Banks source of funds, shown in first quarter of each year



Banks source of funds

Note: It refers to bank current accounts and deposits

MNT deposits
-3%

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.

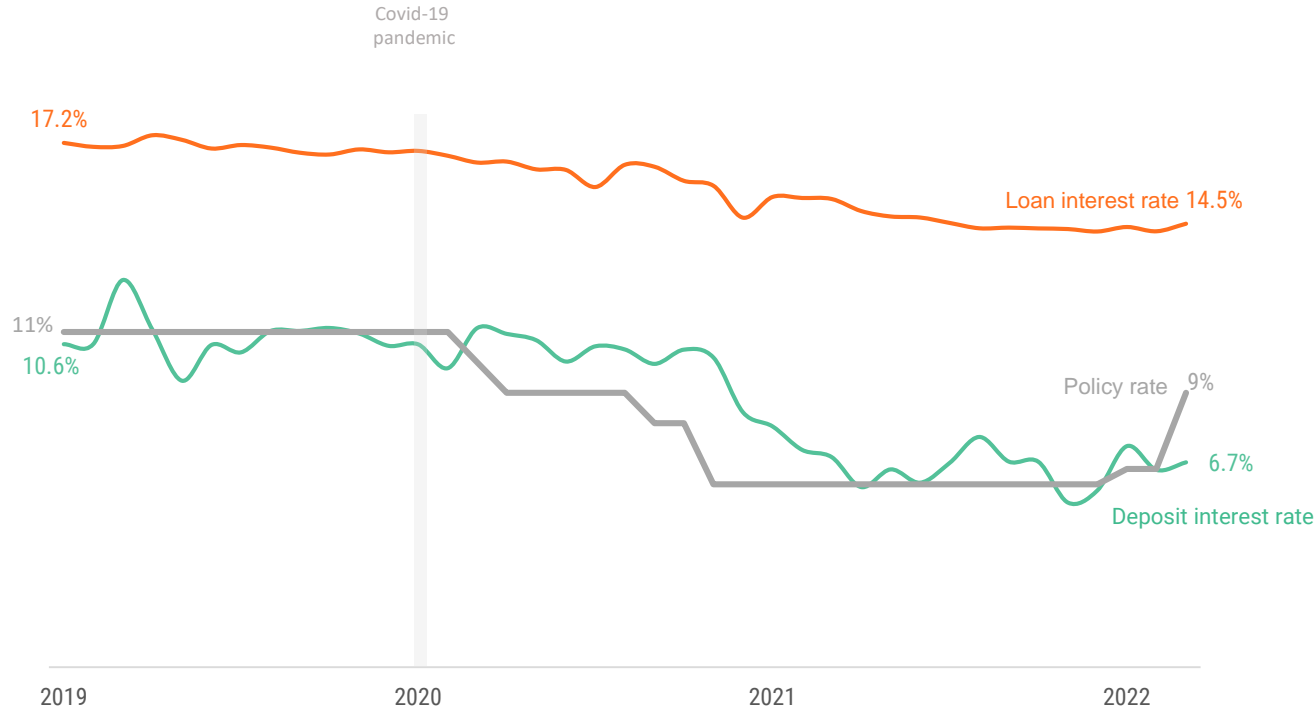
Loan interest rate

14.5%

Source: Mongolbank

Interest rates are expected to rise gradually.

Due to uncertainties in the external and internal economic environment, the Central Bank raised the policy rate by 2.5 percentage points. The policy rate increase is affected the gradual rise in loan interest rates.



MAIN FINANCIAL INDICATORS FOR BANKS

1st quarter of 2022 performance

The total assets of the banking system increased by 2.7 trillion MNT from the same period last year.

The assets of Khan Bank and TDB increased by 0.4 trillion MNT.

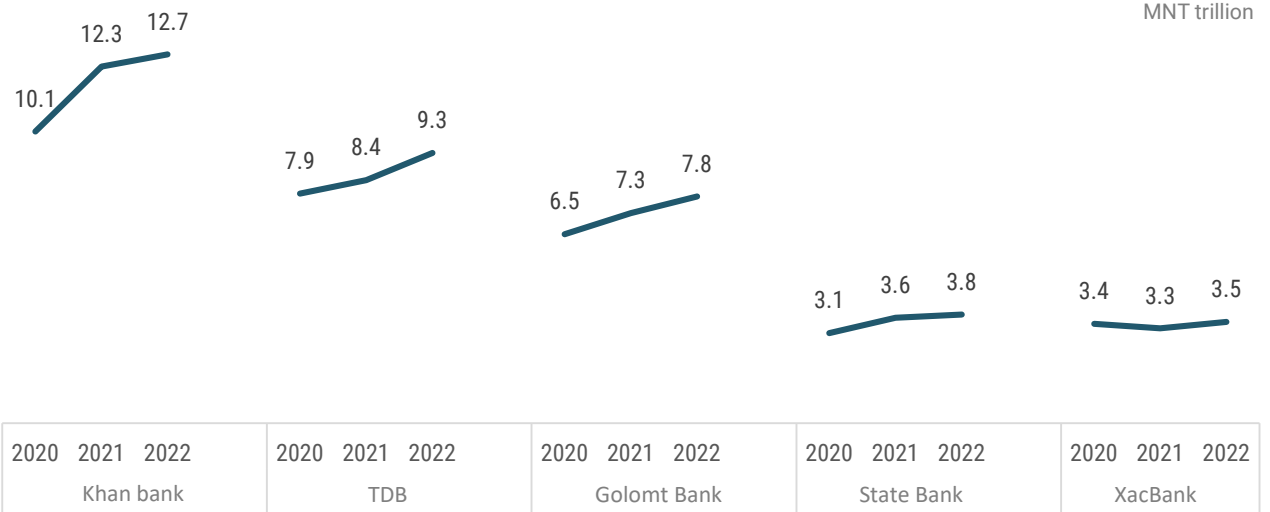
Bank assets

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

Assets of 5 major banks increased by

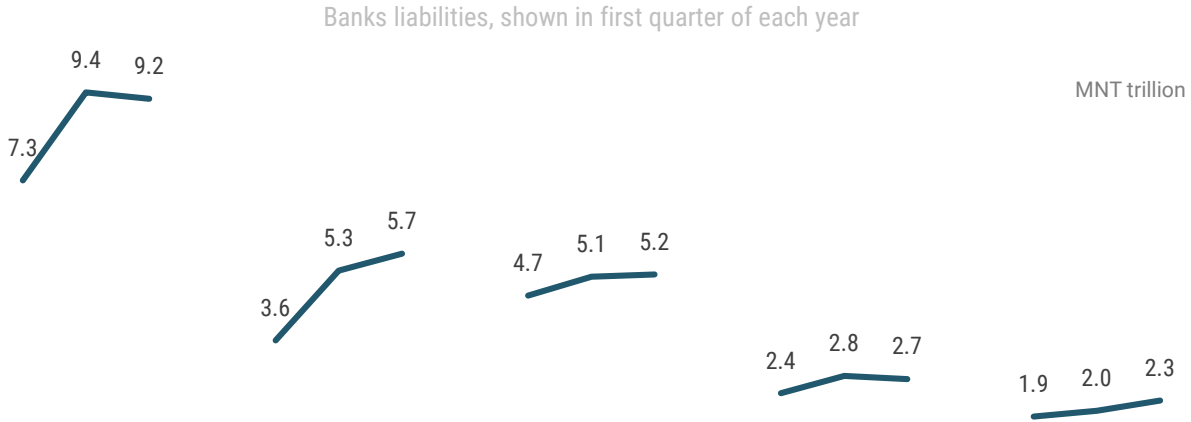
6.5%

Banks total assets, shown in first quarter of each year



The total liabilities of the banking sector increased by 0.5 trillion MNT compared to the same period of the previous year.

Khan Bank's liability decreased by 0.2 trillion MNT. While, the liability of TDB, Golomt Bank and XacBank have increased compared to the same period of the previous year.



2020	2021	2022
Khan bank		
TDB		
Golomt Bank		
State Bank		
XacBank		

Banks liability

Note: Amounts of liabilities from individuals, organization and investors

Banks' liability have increased by

2%

Capital adequacy

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

The average capital adequacy of the 5 main banks.

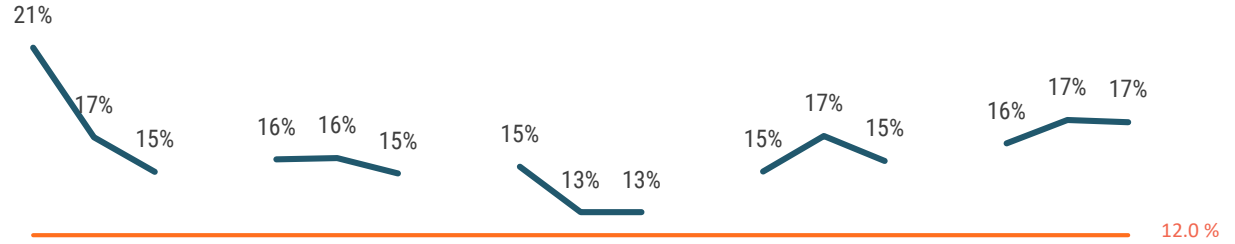
16%

Banks meet capital adequacy requirements.

As part of the economic support program, banks provided loans to SMEs, which affected the reduction of capital adequacy.

Khan Bank issued the largest amount of loans under the economic support program, which affected to the decrease of the bank's capital adequacy.

Banks capital adequacy, shown in first quarter of each year

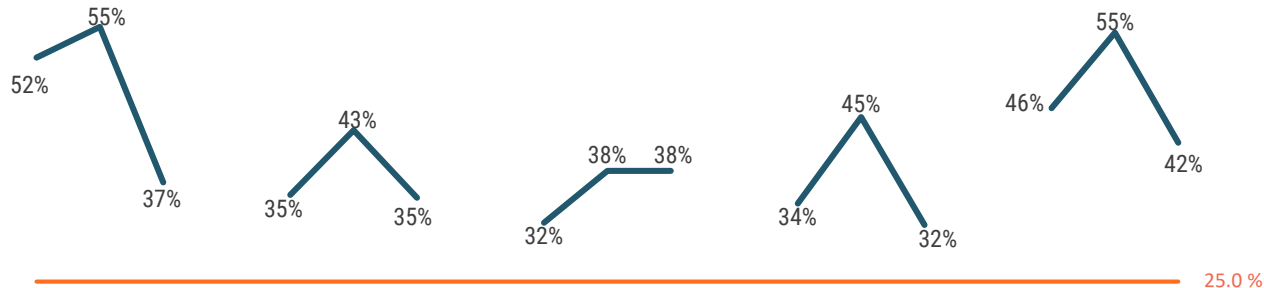


2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
Khan bank			TDB			Golomt Bank			State Bank			XacBank		

The 5 main banks still have high liquidity requirements ratios.

Loans have not increased except for employment support program loans related to the pandemic. As a result, the liquidity ratio of banks remains high.

Banks liquidity ratio, shown in first quarter of each year



2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
Khan bank			TDB			Golomt Bank			State Bank			XacBank		

Liquidity requirements ratio

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

The average liquidity requirements ratios of the 5 main banks

41%

MACRO ECONOMIC ENVIRONMENT

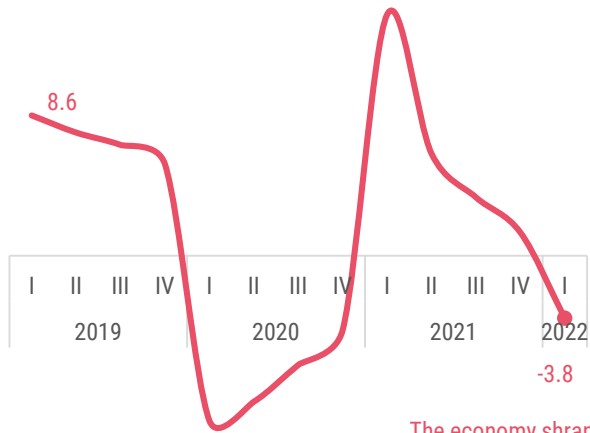
Situation in 1st quarter of 2022 : Economic growth was -3.8 percent. Compared to the same period of the previous year, the decrease in the export of raw materials contributed to the slowing down of economic growth. In addition, due to the situation in Russia-Ukraine, the increase in the price of imported goods and products and problems with transportation and logistics have affected the economic growth to be lower than expected.

Scenario: If the border and customs conditions continue to be difficult, and the Russia-Ukraine situation continues for a long time, there is a high risk that the economic growth of our country will shrink further in the coming seasons. Also, due to the above situation, the inflation is expected to remain at around 10 percent until the end of this year.

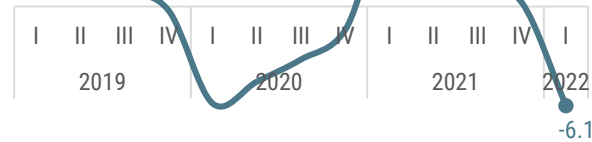
In the 1st quarter of 2022, the economy shrank by 3.8 percent.

Due to the restrictions on transportation and logistics caused by the anti-pandemic policy of the southern neighbor, the decrease in the export volume of the mining sector mainly affected the economic contraction.

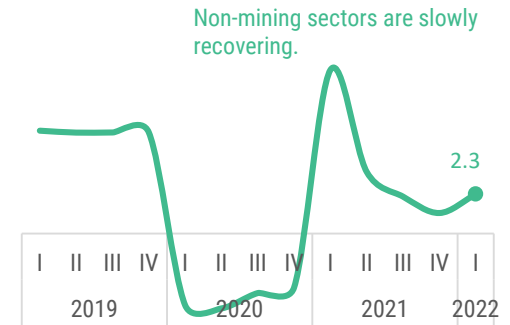
Due to the situation in Russia and Ukraine, the problem of transportation of manufactured goods and products is slowing down the recovery of economic sectors.



The economy shrank by 3.8 percent in the first quarter.



Due to the anti-pandemic policy of the southern neighbor, the mining industry is in decline.

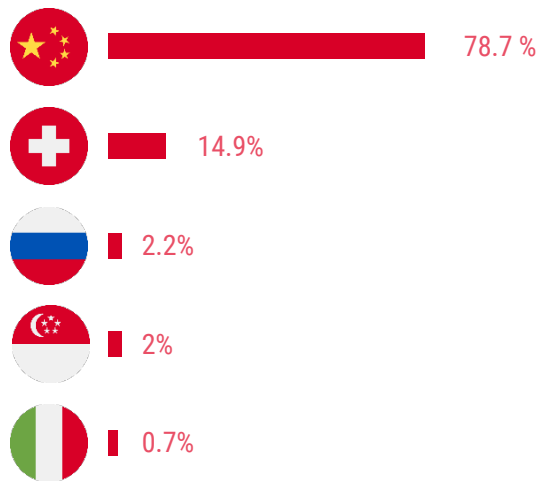


Non-mining sectors are slowly recovering.

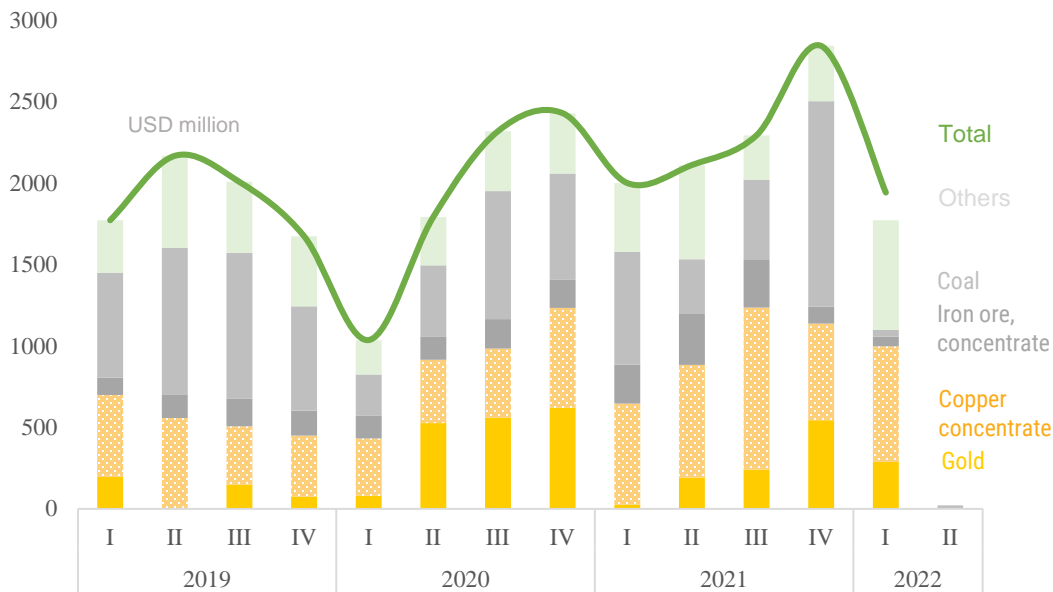
As a result of the zero-Covid policy of the southern neighbor, Mongolia's exports decreased by 3 percent from the same period last year.

- 78.7 percent of total exports are directed to China.
- Compared to the same period last year, coal exports decreased 16 times, and iron ore exports decreased 4 times.

Export structure, by country



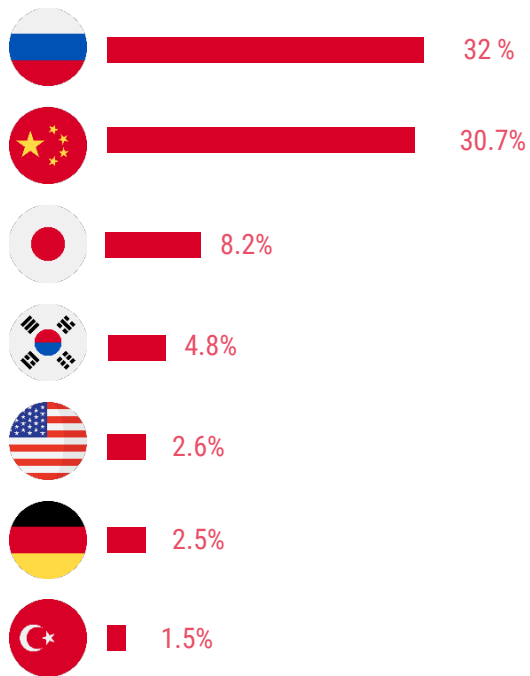
The main export products, shown by season



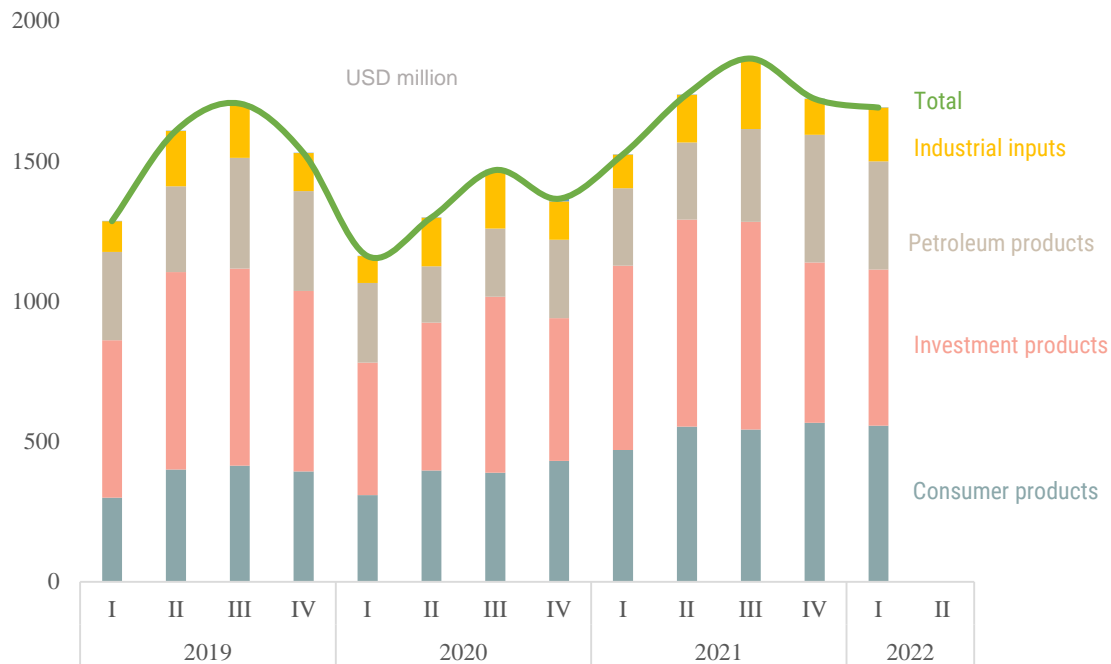
Import volume increased by 11 percent compared to the same period last year.

- The demand for imported goods and products is increasing as the domestic pandemic policy of our country gradually weakens.
- 32 percent of imported goods and products are imported from Russia and 30.7 percent from China. 52.6 percent of the total import products enter Mongolia through Russia and 47.4 percent through China.

Import structure, by country

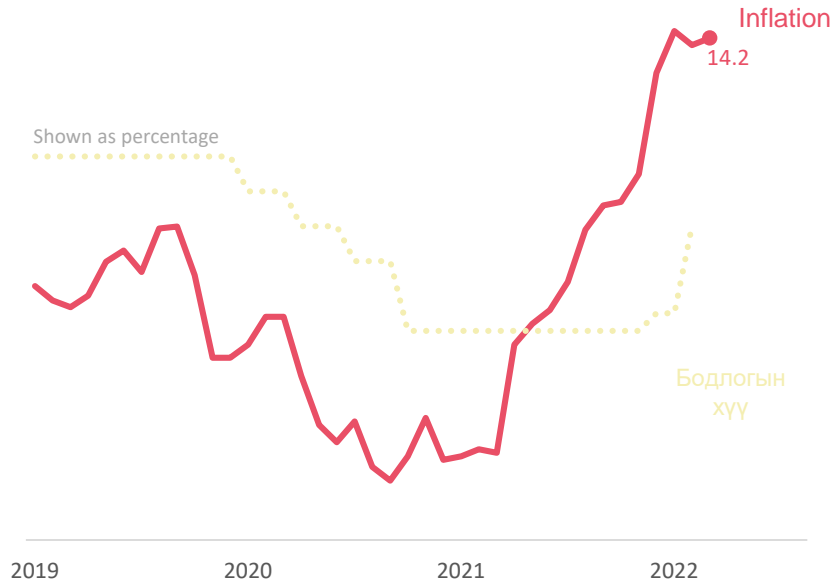


The main import products, shown by season



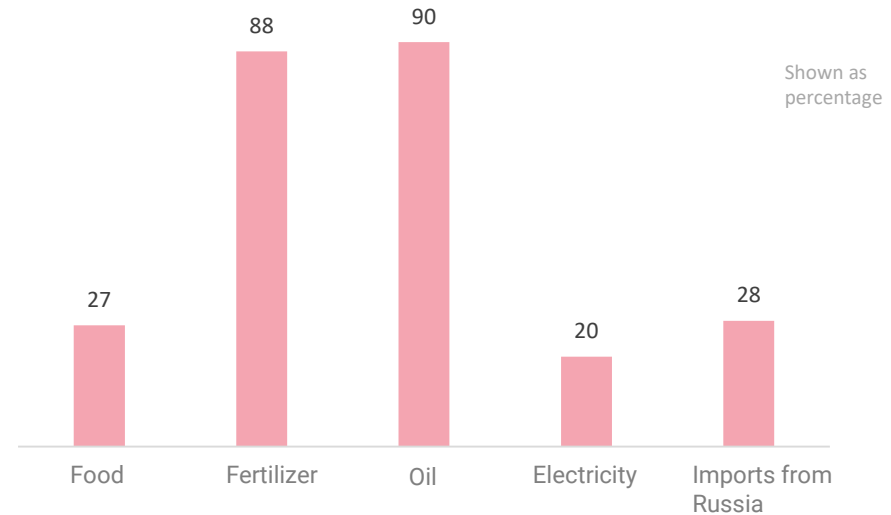
Inflation remains high due to the Russia-Ukraine conflict and the pandemic situation.

- Due to the situation in Russia-Ukraine, there was a failure in the supply of oil and electricity, and the price of raw materials on the world market increased. In this way, the cost of production and consumption increases, which directly affects the economy and inflation of our country. In other words, in the last 2 years, the level of inflation in Mongolia was high due to the supply channel that was stuck at the southern border and customs. In addition, since the beginning of the year, the price of oil and other goods and products related to the Russia-Ukraine situation has increased on the world market, putting pressure on inflation again.



Source: National Statistics Office of Mongolia

Imports from Russia (Average between 2019-2021)

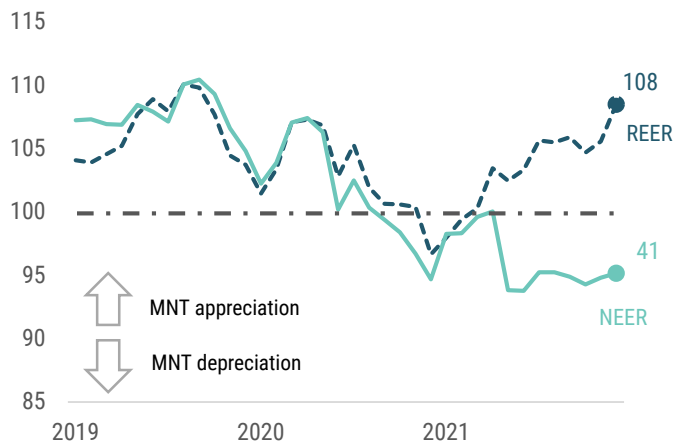


Source: Mongolian Customs General Administration

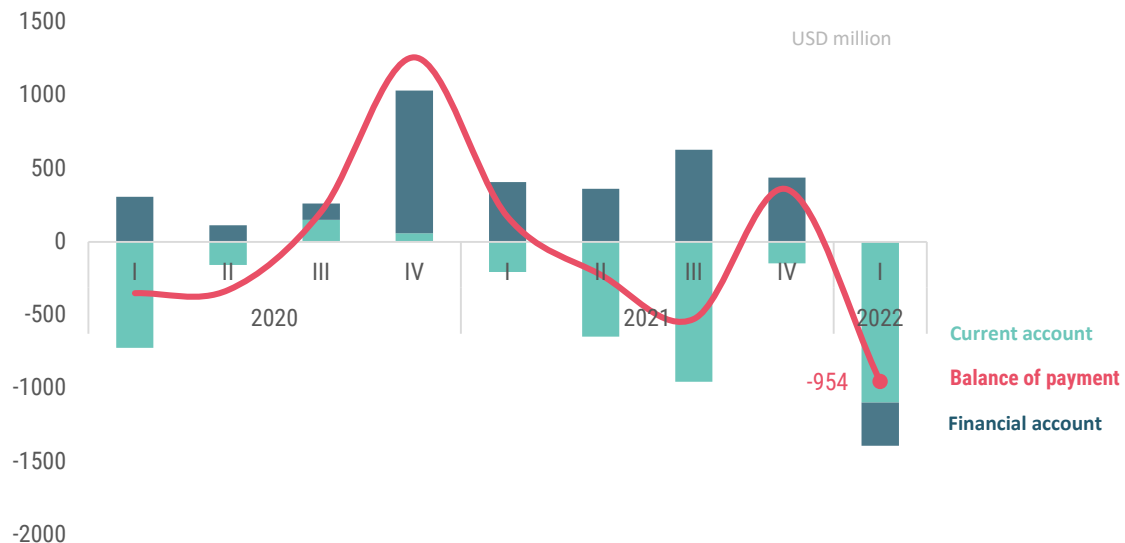
The strengthening of the nominal exchange rate of the MNT has affected the balance of payments deficit.

- The real exchange rate of the national currency has strengthened, making our country's goods and products more expensive compared to other countries.
- The balance of payments showed a deficit of 953 million US dollars. Also, the outflow of foreign currency will increase due to the increase in the prices of imported goods and products.

Nominal and real effective exchange rate of MNT



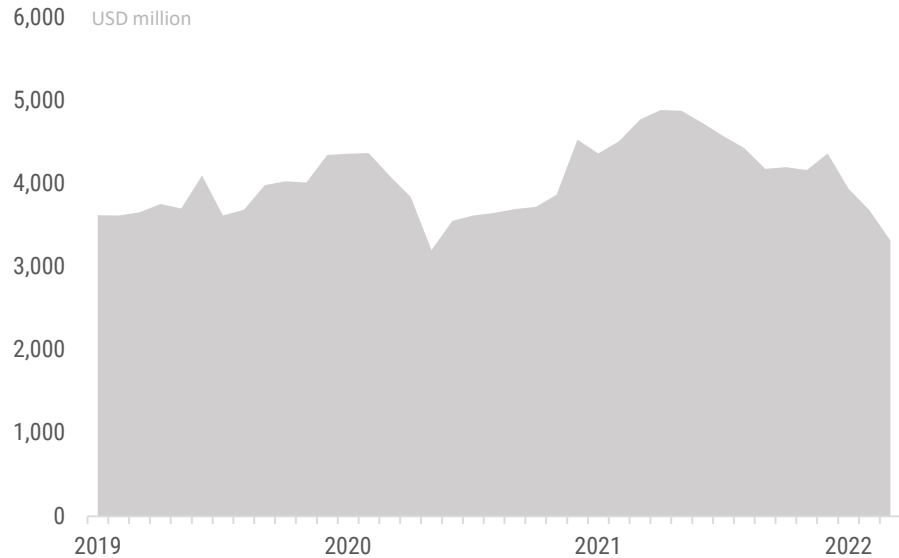
Balance of payments



Increasing uncertainty in the economy increases the motivation of citizens to buy foreign currency.

- During the pandemic, our country rapidly increased its foreign exchange reserves, which made it possible to withstand major external economic shocks.
- The exchange rate, which was relatively stable, began to weaken due to the situation in Russia and Ukraine.

Despite the sharp fluctuations in the exchange rate, foreign exchange reserves are sufficient.



Compared to the same period of the previous year, the exchange of the US dollar increased by 3.5 percent.

