



---

# BANKING SECTOR REVIEW

---

**As of first half of 2022**

**WILL THE ECONOMY RECOVER?**

## The autumn of nomads

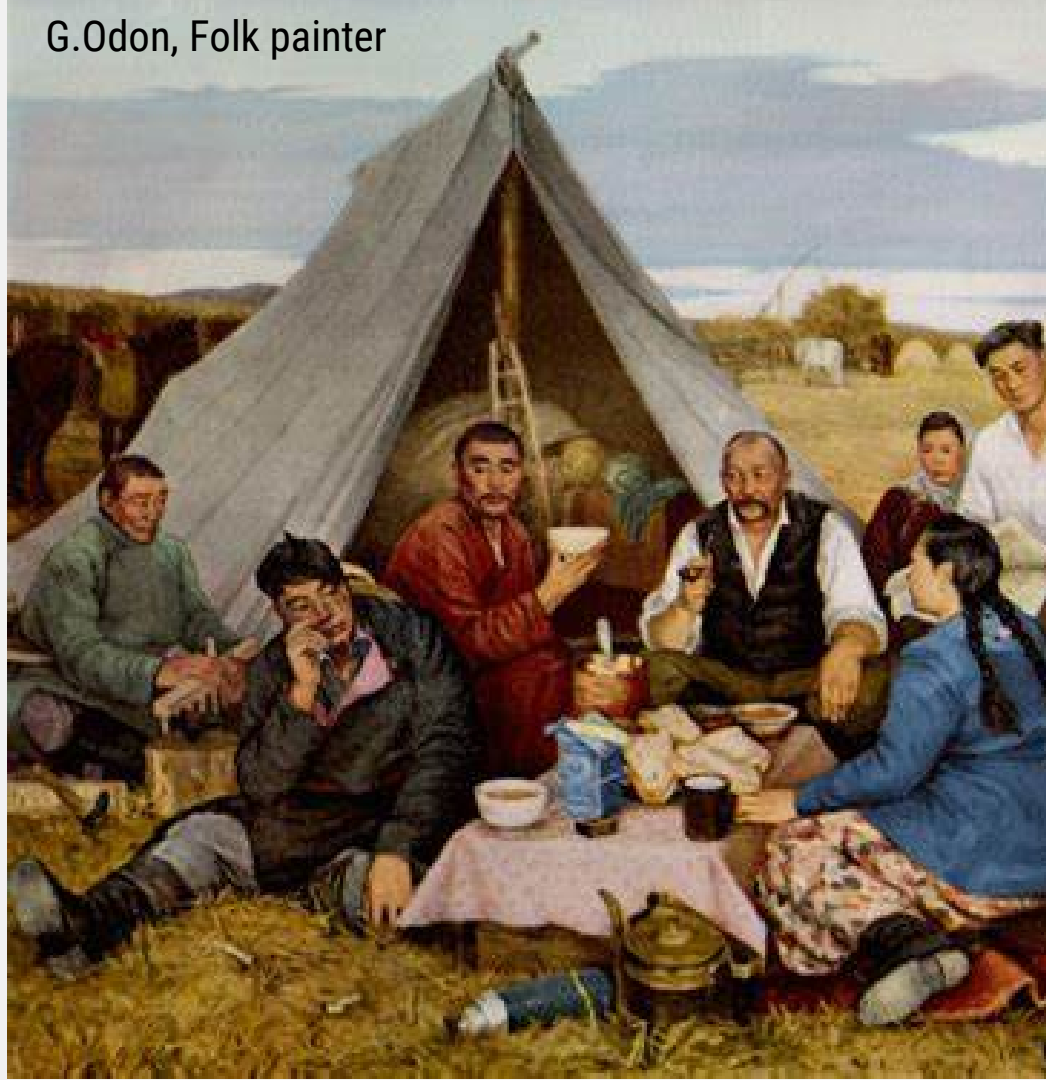
The banking sector indicators were relatively stable and growing. The total assets of the sector were 3% higher than the same time last year. Non-performing loans tend to go down. MNT savings went down due to people's interest to save foreign currencies because of uncertainty overseas.

Commodity prices and inflation have raised because of disruptions in supply chain and logistics due to Russia-Ukraine issue and COVID-19.

Even though there has been slow recovery in mining, construction, and transportation sectors because of inconveniences in logistics, there has been 1.9 percent growth in economy due to relatively faster growth in service and trade sector.

The banking sector indicators continue to grow and remaining the only sector to support the economy. There is an urgent need for mining, construction, and transportation sectors to recover as soon as possible to support the economy to grow at a desired level.

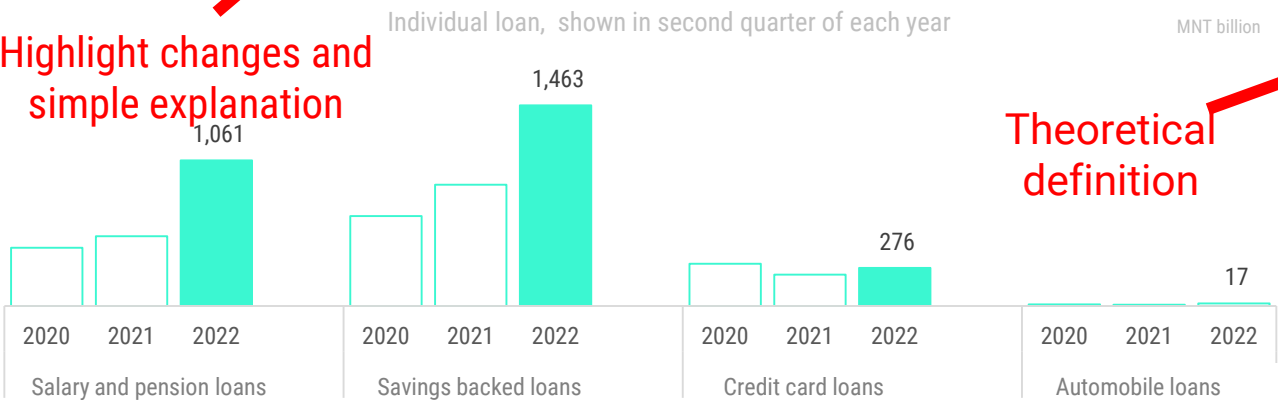
Economic indicators have been a good reminder to get into the autumn preparation sooner than later.



# Salary, pension and saving-backed loans have increased.

Banks provided mainly consumer loans to customers. Business loans excluding the trade sector have decreased.

Highlight changes and simple explanation



Theoretical definition



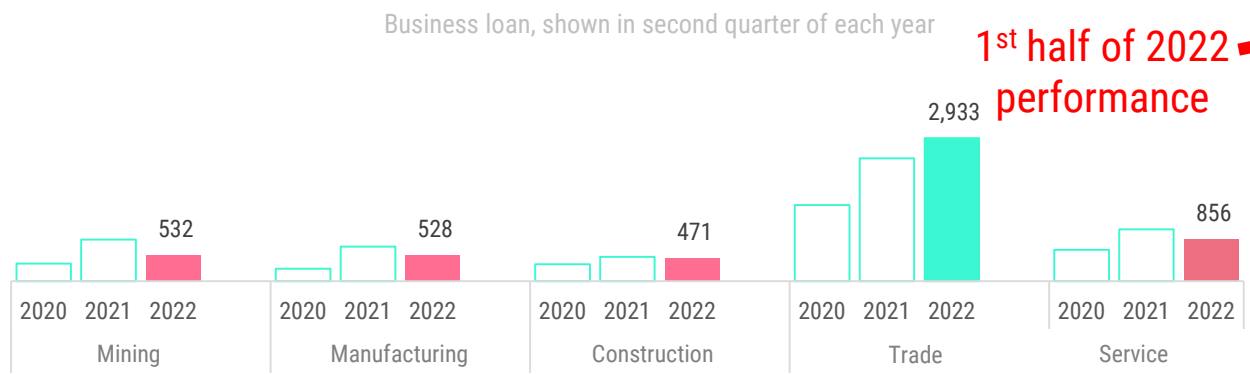
## Bank's new loan

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

New consumer loan increased by

72%

1<sup>st</sup> half of 2022 performance



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

---



The lending to individual has increased. The corporate lending decreased in all sectors except the trade sector.



Non-performing loans tend to go down.



Mining, construction and transportation service was slow due to the logistic problem.



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



Systemically important banks announced its plan to launch IPO next year.



Uncertain situation all around the world due to COVID-19 and geopolitics has been the main cause for higher price in goods and services.

# MAIN FINANCIAL INDICATORS FOR THE BANKS

---

**The performance as of the first half of 2022**

---

## Bank loan portfolio

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

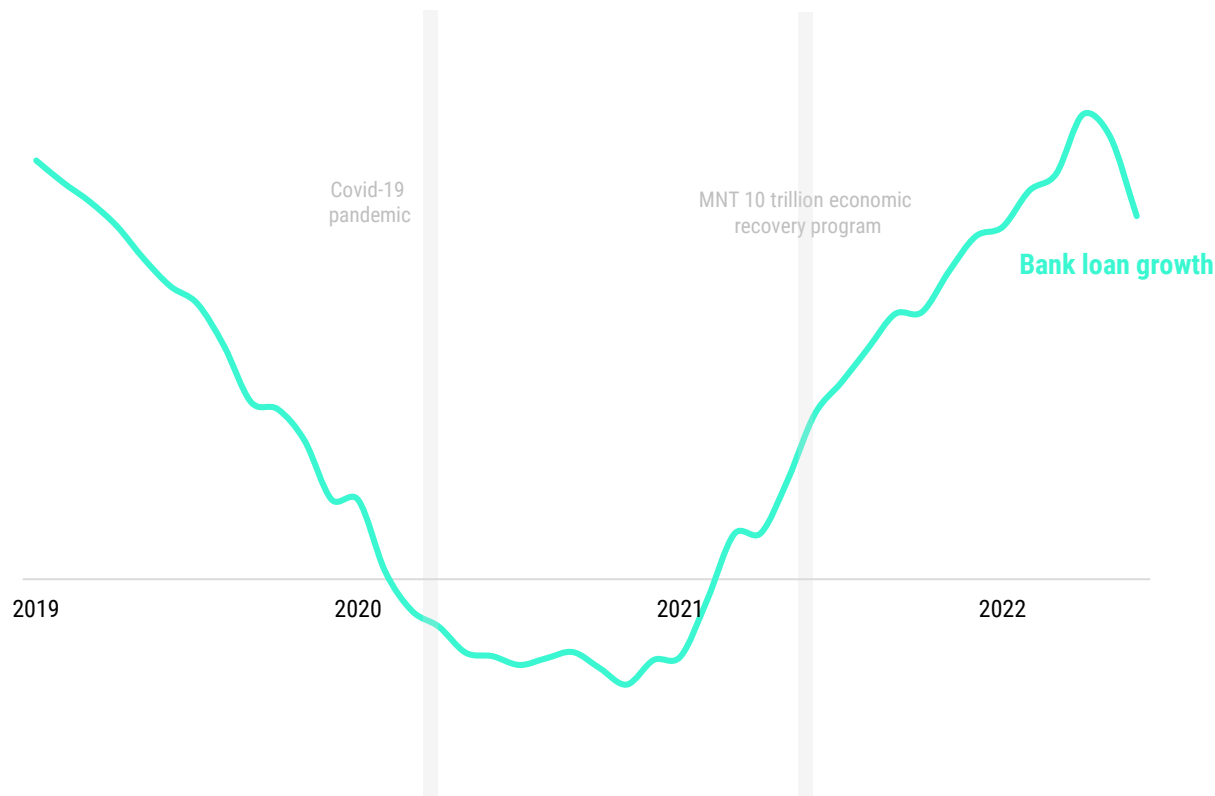
# +23%

Loans increased by an average

Source: Bank of Mongolia  
National Statistics Office of Mongolia

## Bank loans remain to be the main engine to fuel the economy.

The growth in employment support loan under the MNT 10 trillion economic recovery program remains high.

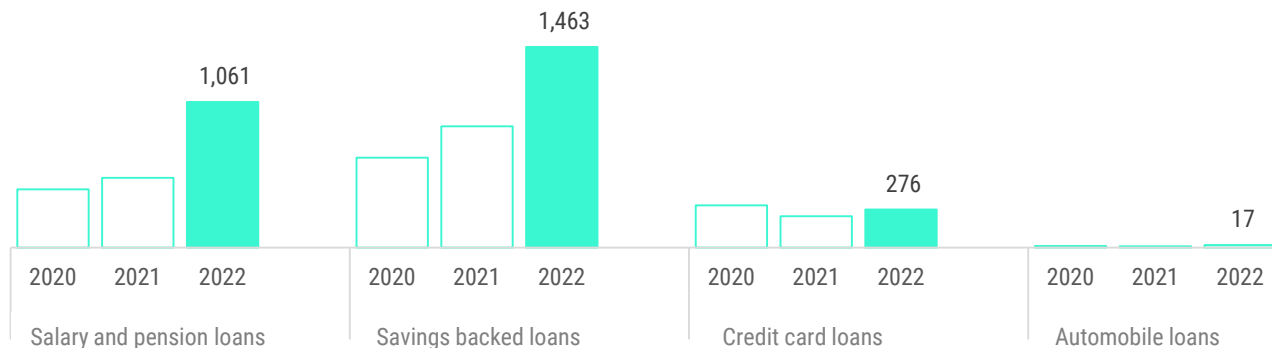


## Salary, pension and saving-backed loans have increased.

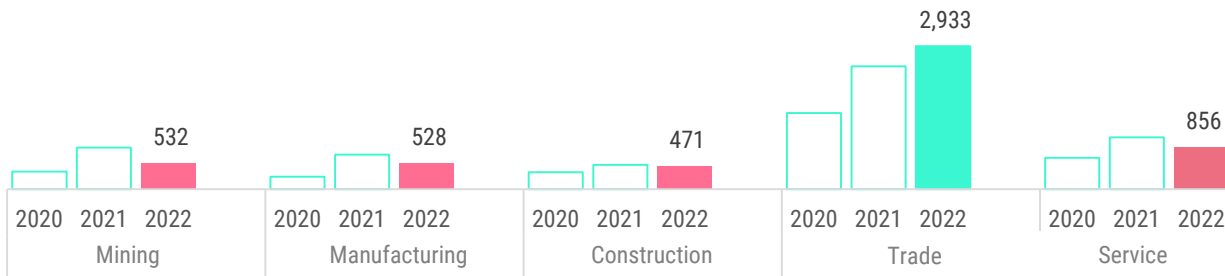
Banks provided mainly consumer loans to customers. Business loans excluding the trade sector have decreased.

Individual loan, shown in second quarter of each year

MNT billion



Business loan, shown in second quarter of each year



## Banks new loan

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

New consumer loan  
increased by

# 72%

## 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%

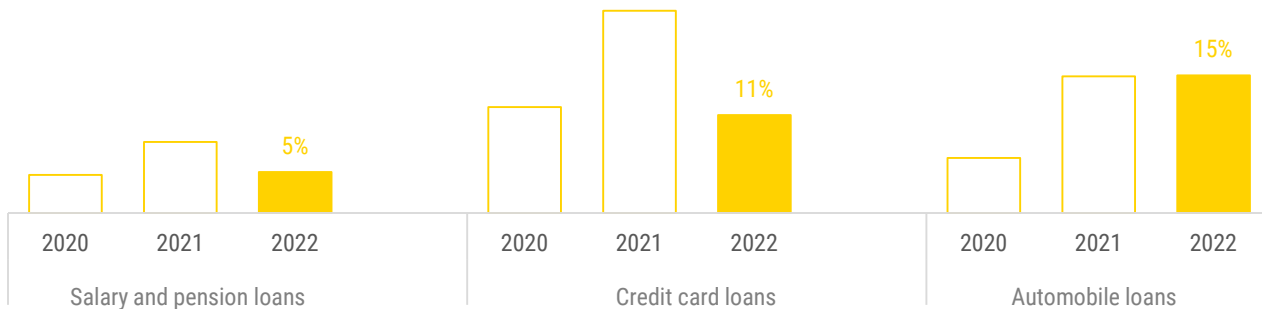
Source: Bank of Mongolia  
National Statistics Office of Mongolia

## The quality of the loan portfolio is getting better.

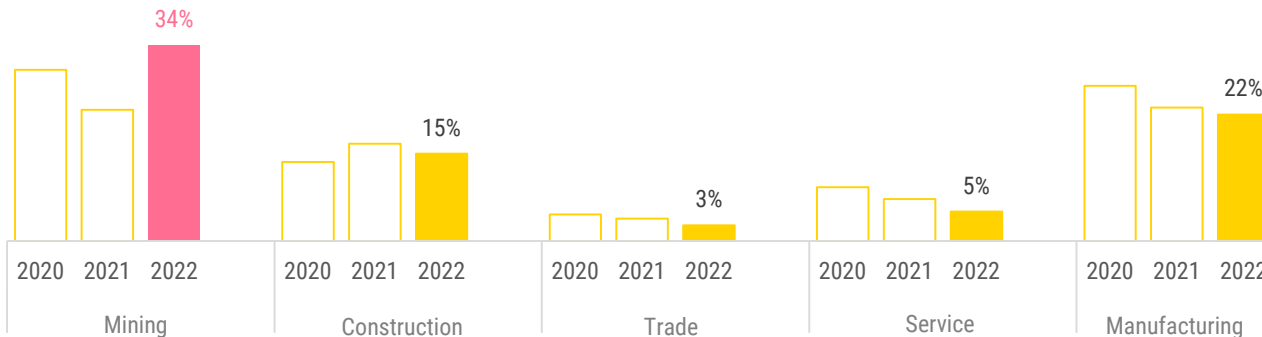
The rate of non-performing individual loans has back to its pre-pandemic level as the quarantine ended and people started to get back to a normal life routine.

The slow recovery in mining sector due to transportation and logistics disruptions has caused 3 in 10 loans in the sector to be non-performing.

Non-performing individual loans ratio, shown in second quarter of each year



Non-performing corporate loans ratio, show in second quarter of each year

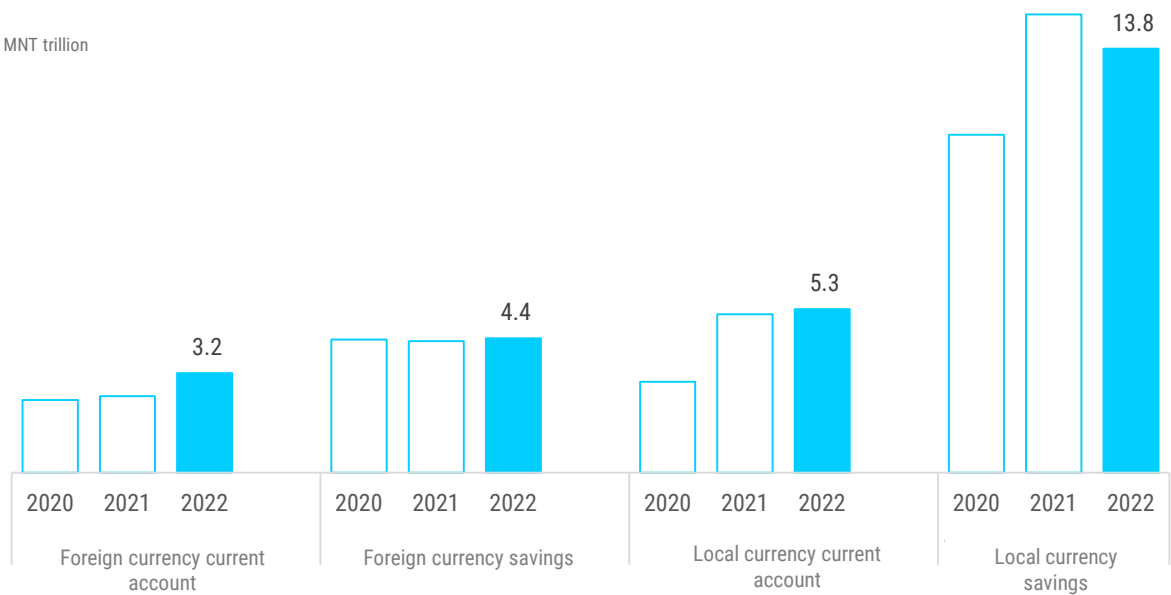




# Due to the uncertainty of overseas, people are more interested in saving foreign currency.

There has been a high interest among individuals to save in foreign currencies because of uncertainties overseas. The real return of MNT savings has decreased because of inflation which caused the MNT savings to go down.

Bank source of funds, shown in second quarter of each year



## Banks liability

*Note: It refers to bank current accounts and deposits*

Foreign currency current account increased by

30%

## Bank's 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

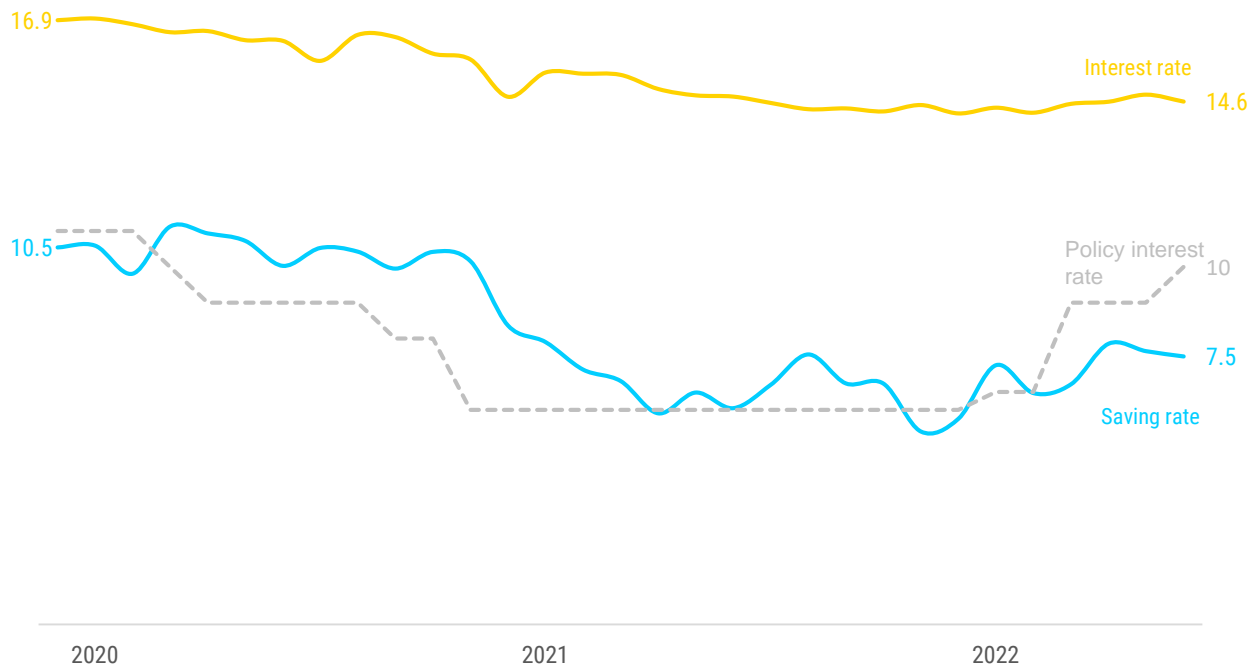
# 14.6%

Source: Bank of Mongolia

## Loan interest rate is stable.

Saving rates are expected to increase gradually.

The Central Bank's higher policy interest rate due to international and domestic economic uncertainties has caused the interest rate expectation to up.



# MAIN FINANCIAL INDICATORS FOR BANKS

---

**As of first half of 2022**

---

## Bank's assets

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

Assets of systemically  
important banks increased by

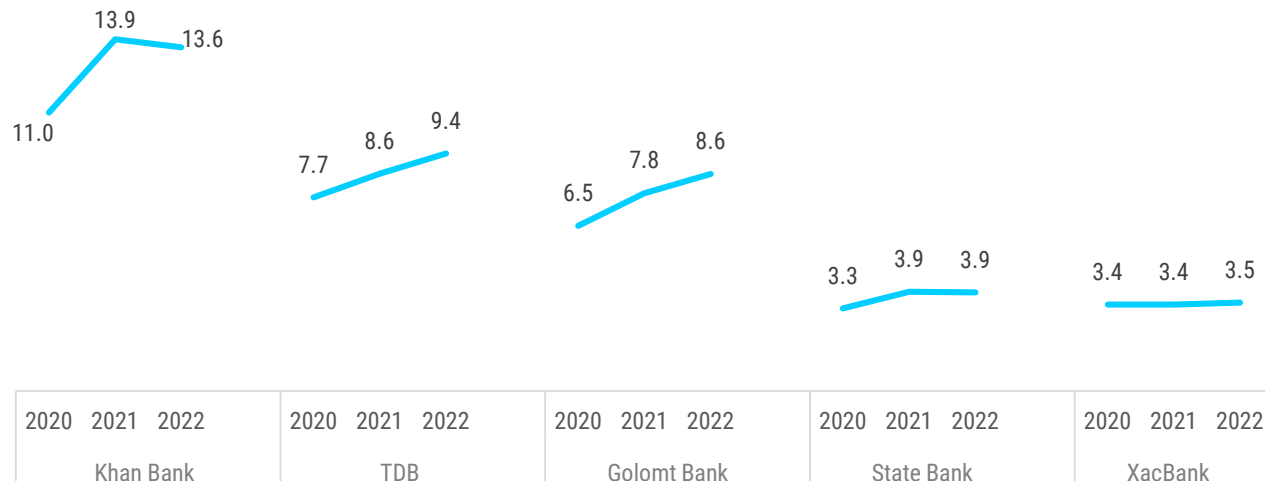
3%

## Total assets in the banking sector increased by MNT 1.3 trillion compared to the same period of the previous year.

Golomt bank's assets increased by 10%, and TDB's assets increased by 9%. However, Khan bank's assets decreased by 0.2 %.

Banks total assets, shown in second quarter of each year

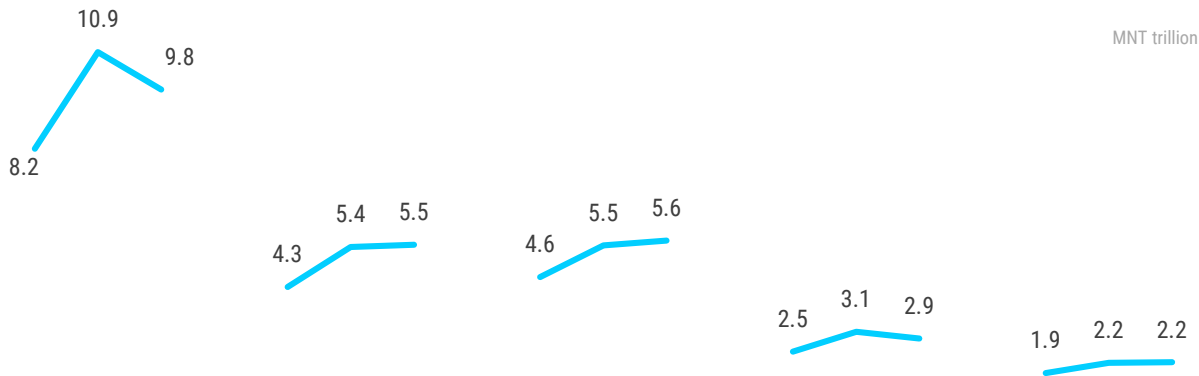
MNT trillion



# The total liabilities of banking sector decreased by MNT 1 trillion compared to how it was the same period of the previous year.

Whereas Khan bank liability decreased by MNT 0.9 trillion, State bank liability decreased by MNT 0.2 trillion. While, the liability of TDB and Golomt bank have increased compared to the same period of the previous year.

Banks liability, shown in second quarter of each year



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

## Banks liability

. Note: Amounts of liabilities from individuals, organization and investors

Bank’s liability has decreased by

-4%

## Return on equity

*Note: It provides information on how the bank is using its assets efficiently. In other words, it is an indicator that shows how the company turns assets into profit.*

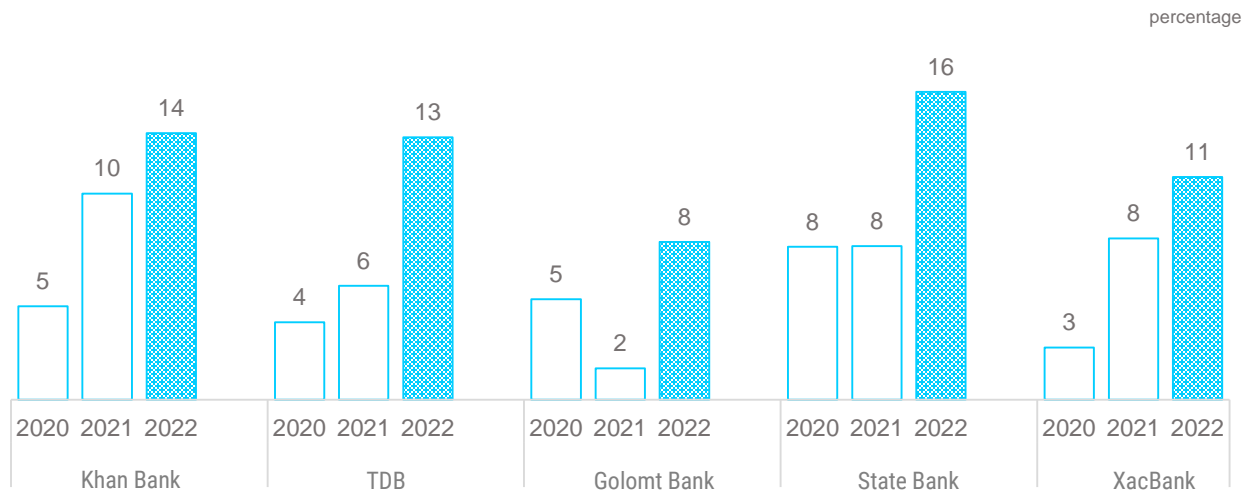
### Return on equity

12.5%

## The return on equity has exceeded the return of savings for banks.

The systemically important banks have increased their equity by MNT 4.4 trillion, which is a 21% increase since the same period of the previous year.

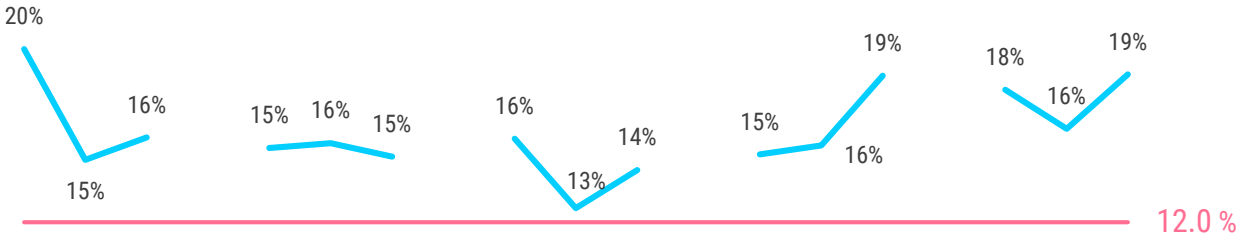
ROE of banks, shown in second quarter of each year



# Banks' capital adequacy has increased.

Banks have enough capital adequacy to support the economy and the main sector's recovery.

Banks capital adequacy, show in second 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		

## 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 main 5 banks

17%

# Liquidity requirements ratio

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

The average liquidity requirements ratios of systemically important banks

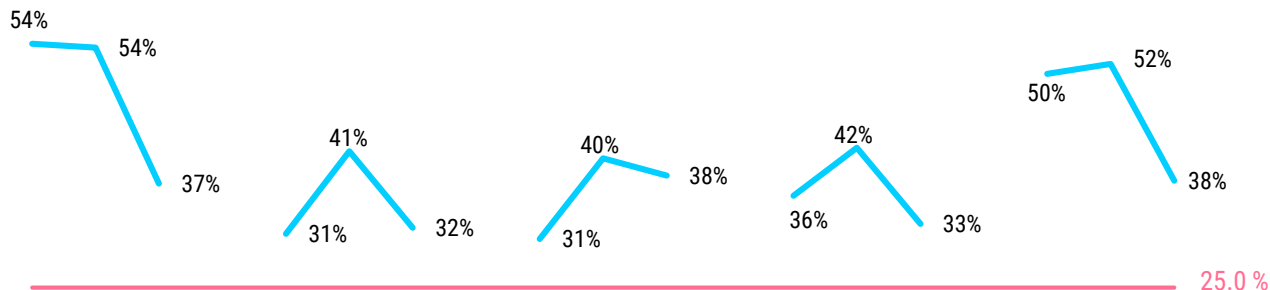
36%

Source: Unaudited reports of banks

## The 5 main banks still have high liquidity requirements ratio.

The amount of loan that were given to individuals has increased since the same period of previous year. Even though banks liquidity requirements ratio has decreased, the liquidity remains enough high.

Banks liquidity requirements ratio, shown in second 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		



## Origination fee for bank loans seems to be various depending on the type of loans.

The origination fee is paid by the customers after the loans are issued. The average origination fee for consumer loans is 0.75 percent.

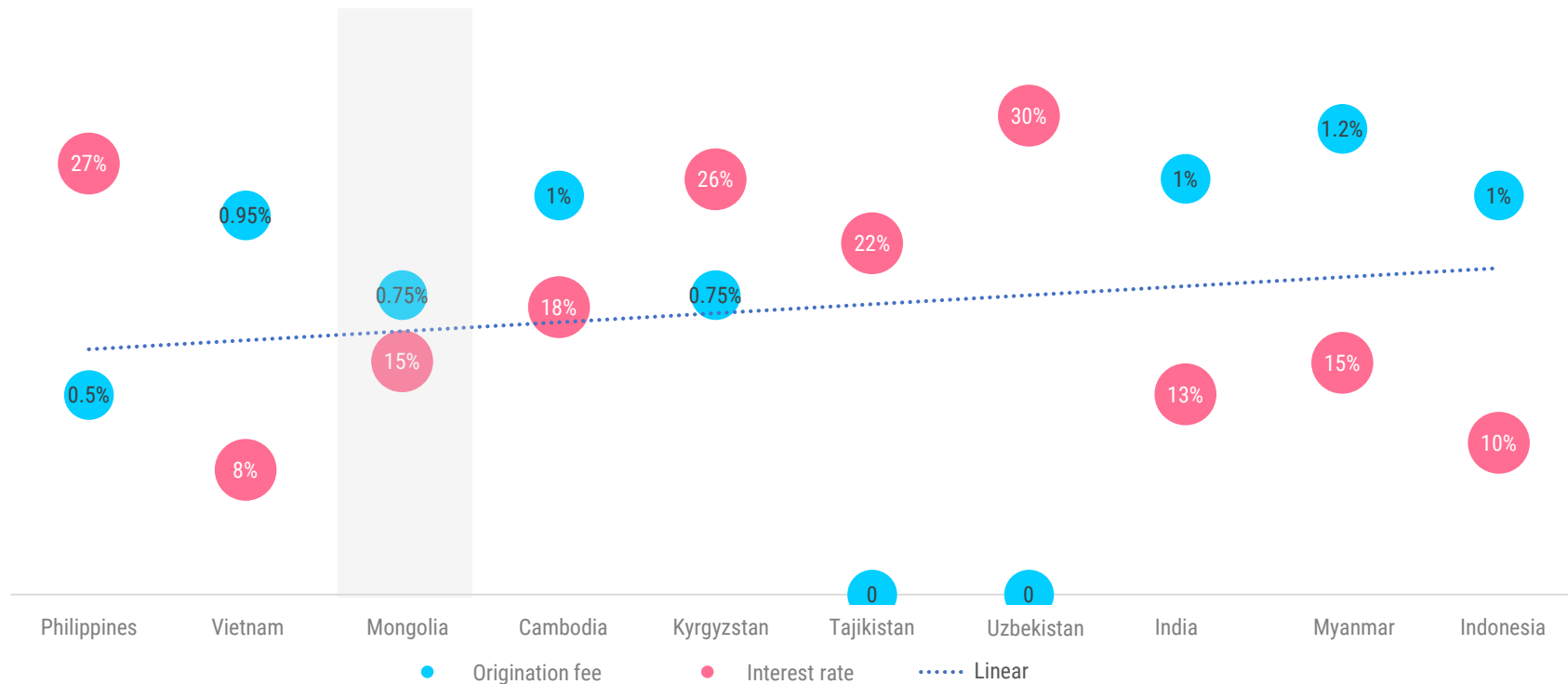
Commercial banks in Mongolia	Consumer loan	Mortgage loans	Business loan
Khan bank	1%	1%	1%
TDB	0.5%	0.8%	0.5%
Golomt bank	0.5%	1%	1%
State bank	1%	1%	1%
Xacbank	1%	1%	1%
Capitron bank	0.5%	1%	0.5%
Chinggis khaan bank	1%	0.75%	0.5%
Transbank	1%	1%	1%
Arig bank	0.5%	1%	1%
Bogd bank	1%	1%	1%
Nlbank	0.5%	0.5%	0.5%

## The rate of origination fee is around 1% for most countries.

The origination fee differs depending on the credit scores of loan applicants.

The loan interest rate in Tajikistan and Uzbekistan, where the origination fee is 0, seems to be relatively higher than other countries.

There is no laws and regulations to govern origination fee and its amount among the surveyed countries.



# MACROECONOMIC ENVIRONMENT

---

**As of first half of 2022:** The economic growth was 1.9 percent. Because of the disruptions and the restriction in transportation and mining have caused the economy to grow at a slower rate. On the other hand, growth in service and trade sector has supported the economy grow at a positive rate. Less COVID-19 restrictions have caused higher domestic demand and higher export.

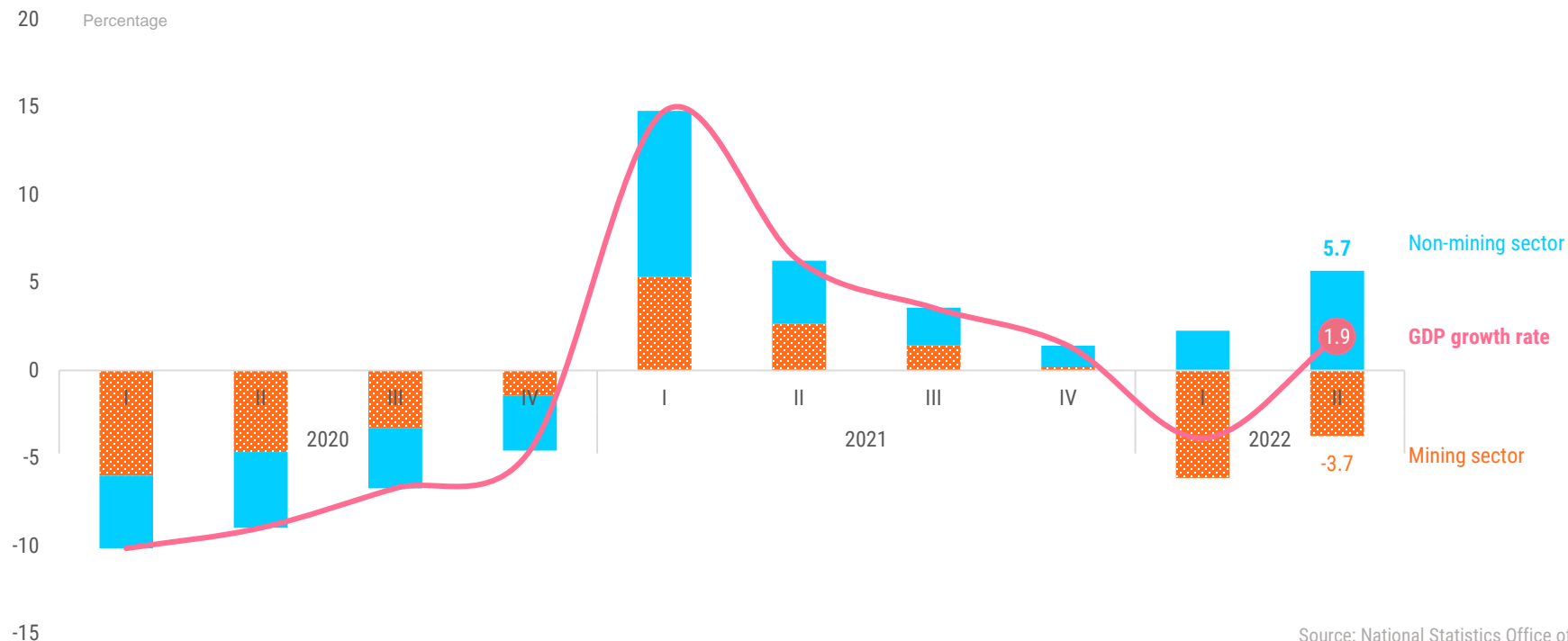
**Scenario:** The economic growth seems to be at a high risk to shrink in the coming seasons if Russia-Ukraine situation continues for a long time and the border and customs conditions continue to be difficult. Higher inflation rate caused by supply issues expected to be continue.

## The economy grew by 1.9 percent in the first half of 2022.

The slowdown in the mining sector and slow growth in construction sector have adversely affected the economic recovery.

While the growth in service sector, including trade and Information and communications technology sector has had an important impact on the gradual recovery of the economy.

The ease of anti-pandemic policy is boosting domestic demand in the economy and positively impacting economic growth.



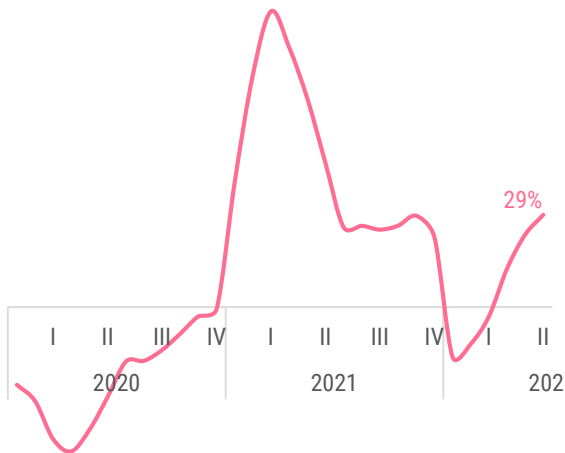
# Foreign trade balance has increased by 64% compared to same period of the previous year.

Exports of coal and copper have increased despite restrictions on borders, and reached at a level that is equivalent to the pre-epidemic period, which has affected the profitability of foreign trade ratios.

While the actual volume of imported goods remains unchanged, import volumes are expected to continue to rise because of higher prices in foreign markets.

Although border and customs restrictions have a negative impact on export growth, it is expected to increase further.

Percentage

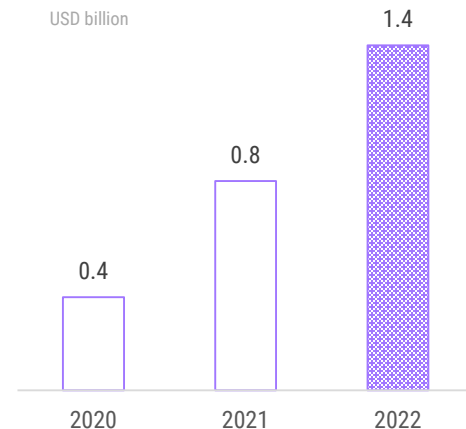


Import flows are stable



The export situation has improved and the trade balance has become positive.

USD billion

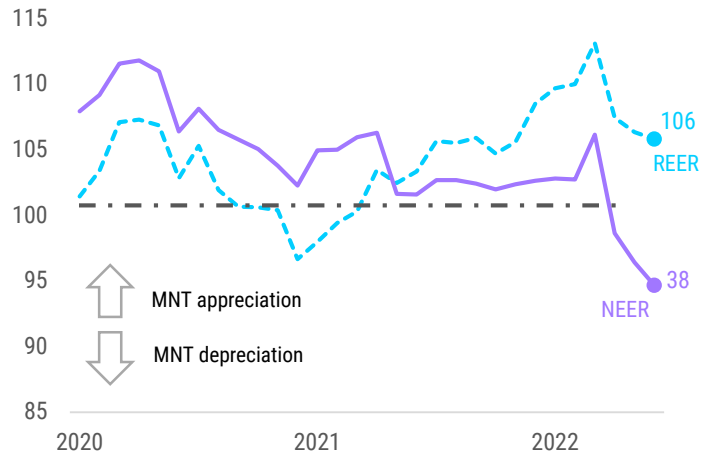


# The nominal exchange rate of MNT has decreased which creates expectation of positive balance of payment.

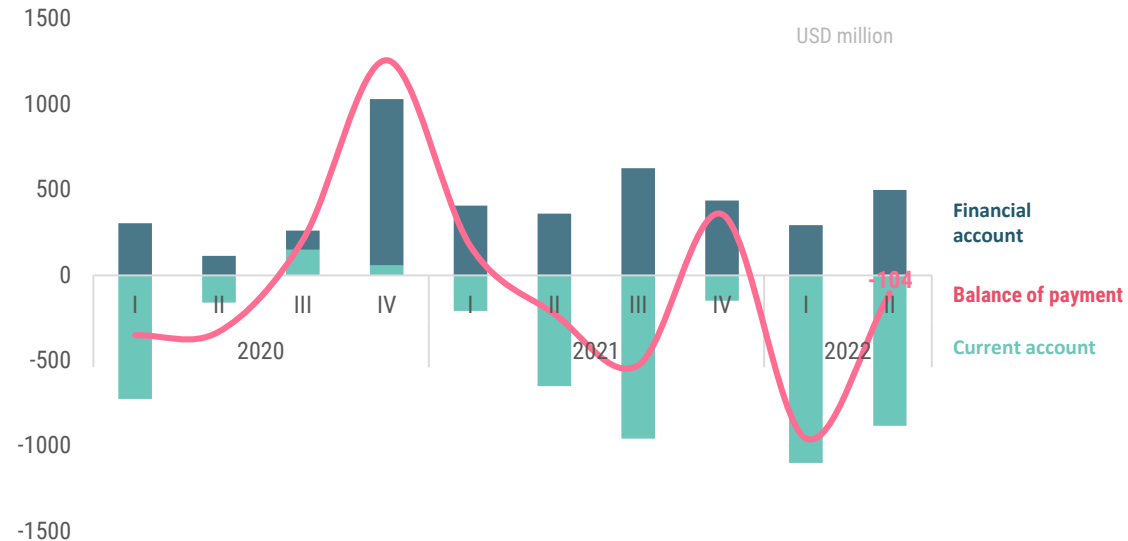
Due to the weakening of the real effective exchange rate, our country's goods are cheaper compared to other countries.

The balance of payments showed a deficit of 104 million US dollars. The intensification of export activity had a significant impact on the reduction of the balance of payments deficit.

Nominal and real effective exchange rate of MNT



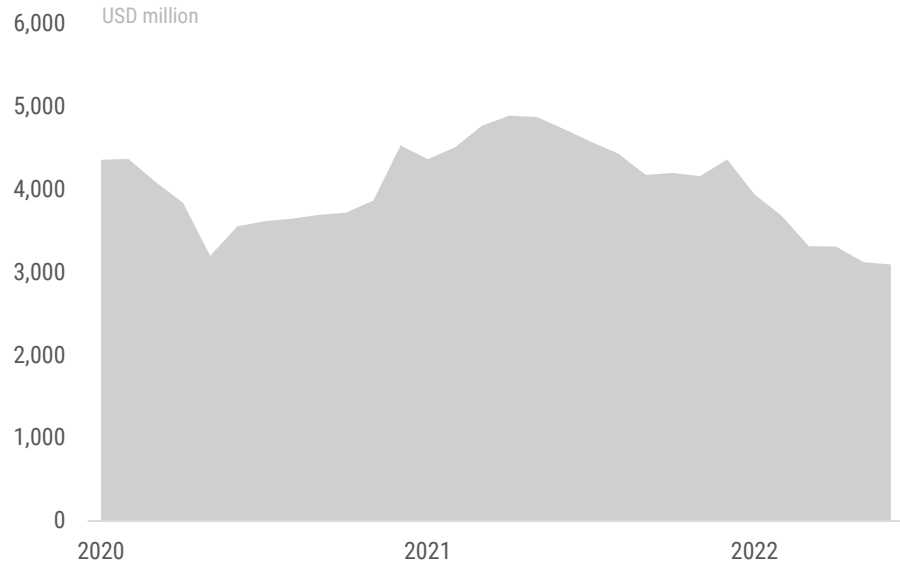
Balance of payment



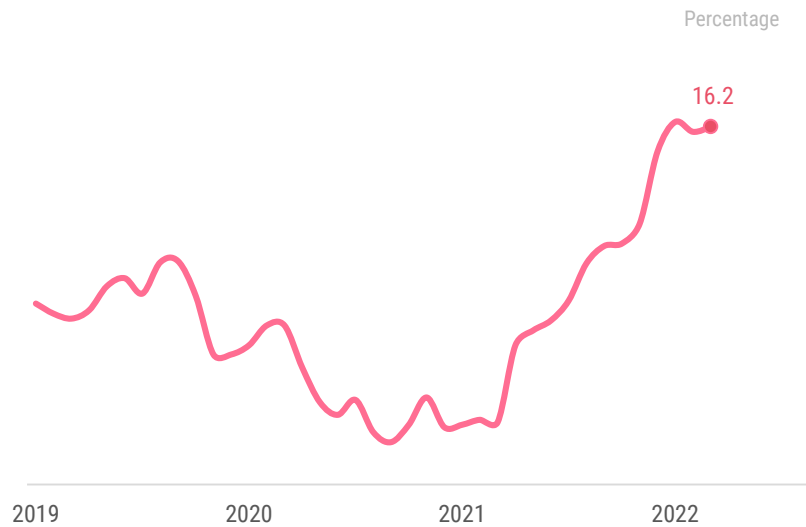
## Uncertainty in the economy has increased individuals' motivation to buy foreign currencies.

The rise in food and transport prices is affecting the rise in the prices of consumer goods.  
The rise in the price of imported goods has put pressure on foreign exchange reserves.

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



Fluctuations in prices of imported goods and services has strong impact on inflation

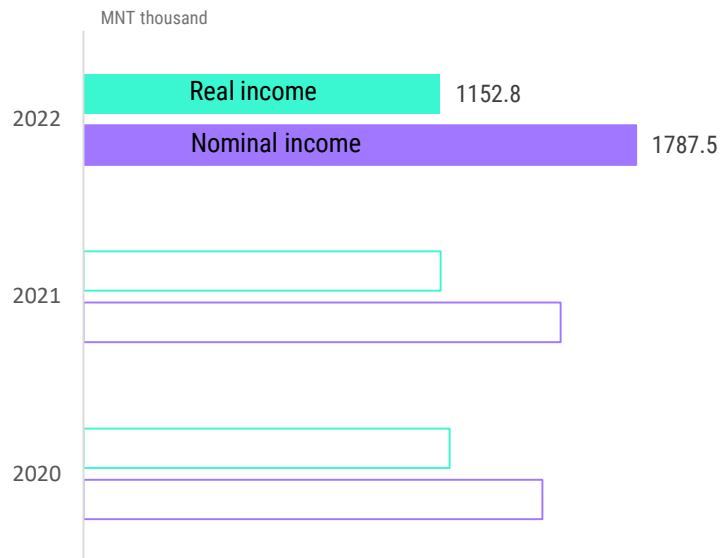


# Household expenses exceeded income by MNT 15,300.

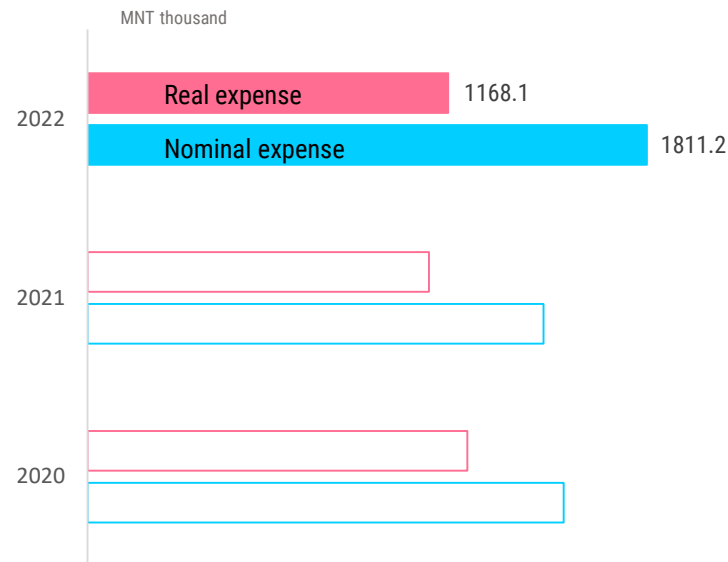
Household income has decreased due to reduction of government subsidies.

The vast majority of household expenditure is being accounted for by the growth in actual non-food goods spending.

Real income of households have decreased by MNT 2,200 compared to same period of previous year.



Real expense of households have increased by MNT 62,900 compared to same period of previous year.



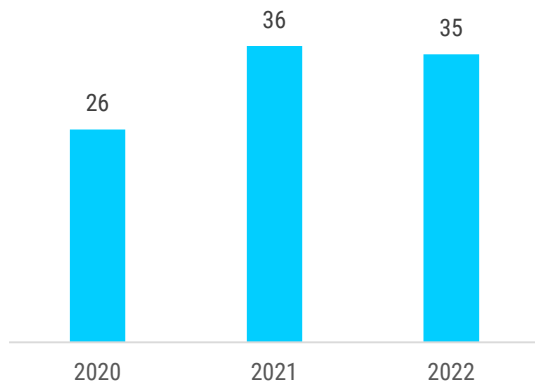


# The budget balance of government is positive compared to same period of the previous year.

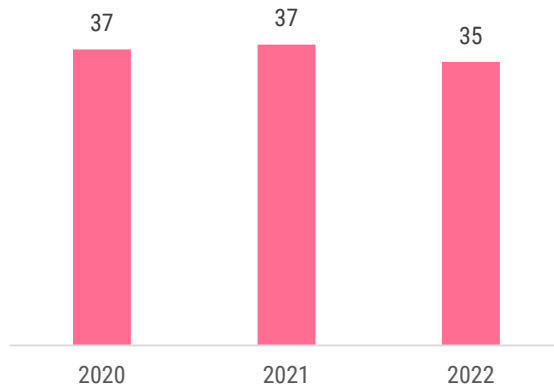
Growth in energy and fuel taxes generated by the government makes up the vast majority of total budget spending. It is expected that budget deficit pressure will decrease as the primary balance turns into a surplus.

General government revenue is stable.

Share of GDP



General government expenditure is expected to decrease.



Budget balance is positive

