



BANKING SECTOR REVIEW

2022 year end overlook

Crepuscular rays

The indicators of the banking sector were relatively stable and growing. The banking sector's total assets increased by 1 percent compared to last year's period. Non-performing loans are expected to increase. Due to the uncertainty of the external environment, citizens have a high interest in saving and keeping foreign currency, which has contributed to the decrease in MNT deposits.

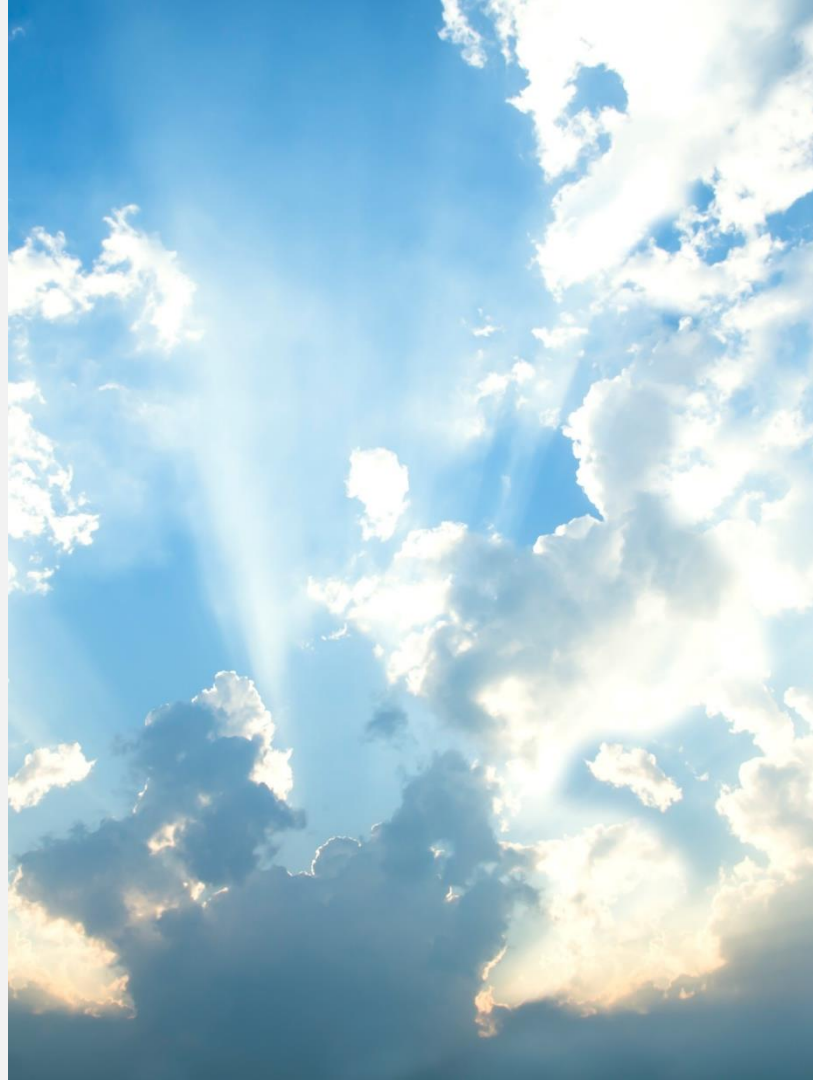
Supply and logistics difficulties due to the Russia-Ukraine issue and the situation of the pandemic affect the prices of the main products of Mongolia and are the main reasons for the high inflation rate.

Also, the slow recovery of the mining and transportation sectors has a negative impact on economic growth, but the relatively fast recovery of the services, trade, construction, and agriculture sectors had a significant impact on the economy growing by 3.7 percent.

Loan growth in the banking sector, which has been the sole supporter of economic sectors during the pandemic, continues. It has been seen that the economy will not be able to grow steadily if the difficulties of transport and logistics are not solved step by step and the recovery of the mining and transport industry is not supported.

The balance of payments deficit not only puts pressure on foreign exchange reserves but also has a high risk of reducing the purchasing power of MNT.

The depreciation of the MNT, the instability of inflation, and the high balance of payments deficit will be an obstacle to the sustainable and accessible growth of the economy in the future. However, Oyu Tolgoi's underground project, railway construction, and China's loosening of its strict policy against Covid-19 have brought "Crepuscular rays" to our country's economy.



The increase in the prices of consumer goods and services increasing the demand for loans.

Banks provided mainly consumer loans such as salary, pension, and deposits-backed loans to customers..

Highlight changes and simple explanation

Individual loans, shown in end of each year

Theoretical definition

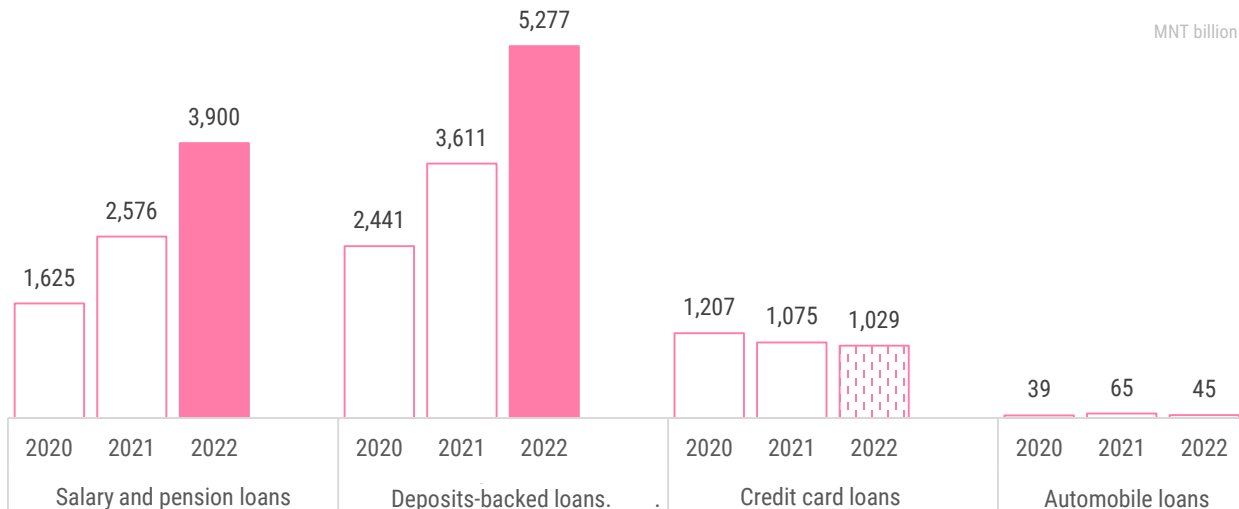
Bank's new loan

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

New consumer loans increased by

40%

4th quarter of 2022 performance



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



The amount of loans provided by banks to citizens has increased. The loan growth is driven by the trade sector loan.



The loan quality of banks is at a normal level.



The gradual recovery of transport and logistics activities has played an important role in the growth of the construction and manufacturing sector.



The financial performance of 5 systemically influential banks has increased.



Two systemically influential banks have successfully issued IPO.



The uncertain situation all around the world due to the pandemic and geopolitics has been the main cause of higher prices of imported goods and services.

MAIN FINANCIAL INDICATORS FOR THE BANKS

Performance of 2022 year-end overlook

The increase in the policy interest rate affected to the slowdown in loan growth in the banking sector.

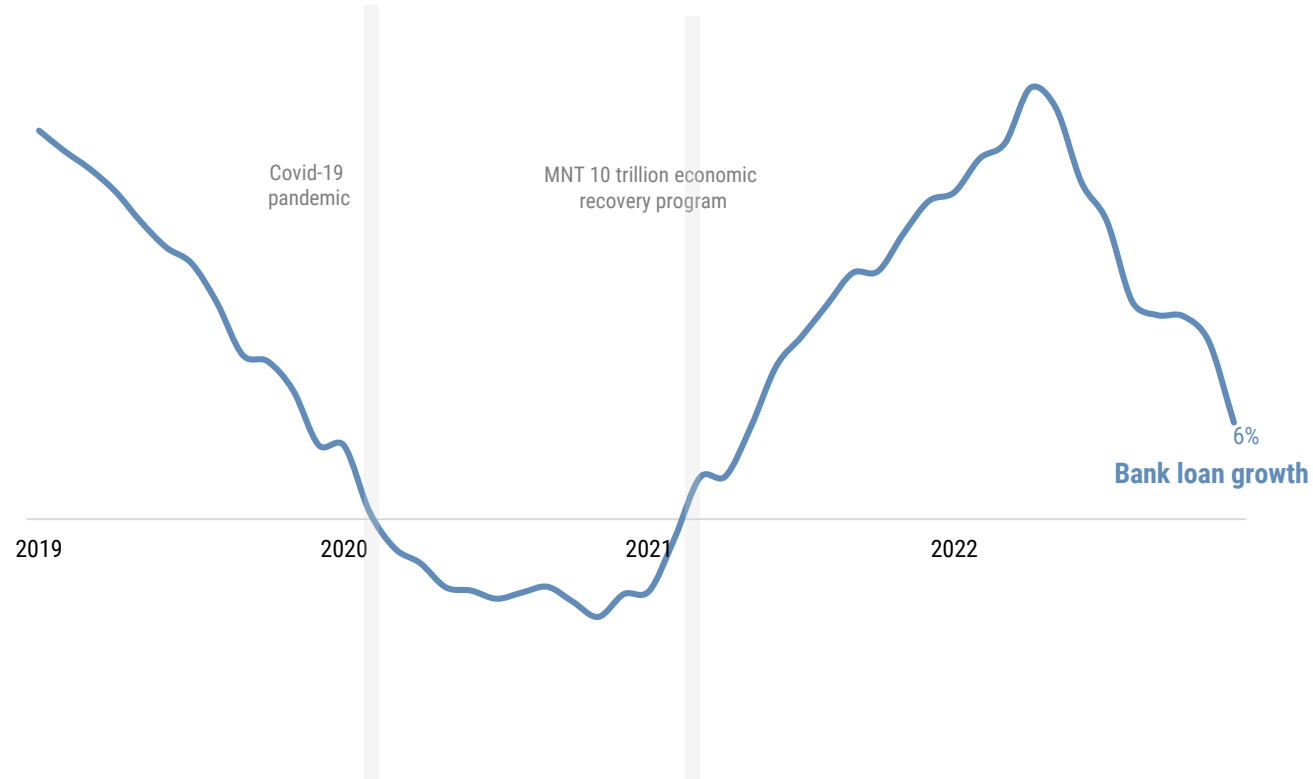
Although loan growth in the banking sector has slowed, it remains the main engine supporting the economy.

Bank loan portfolio

Note: Outstanding loan balance increases with newly issued loans and decreases with repayment.

Loan balances increased by

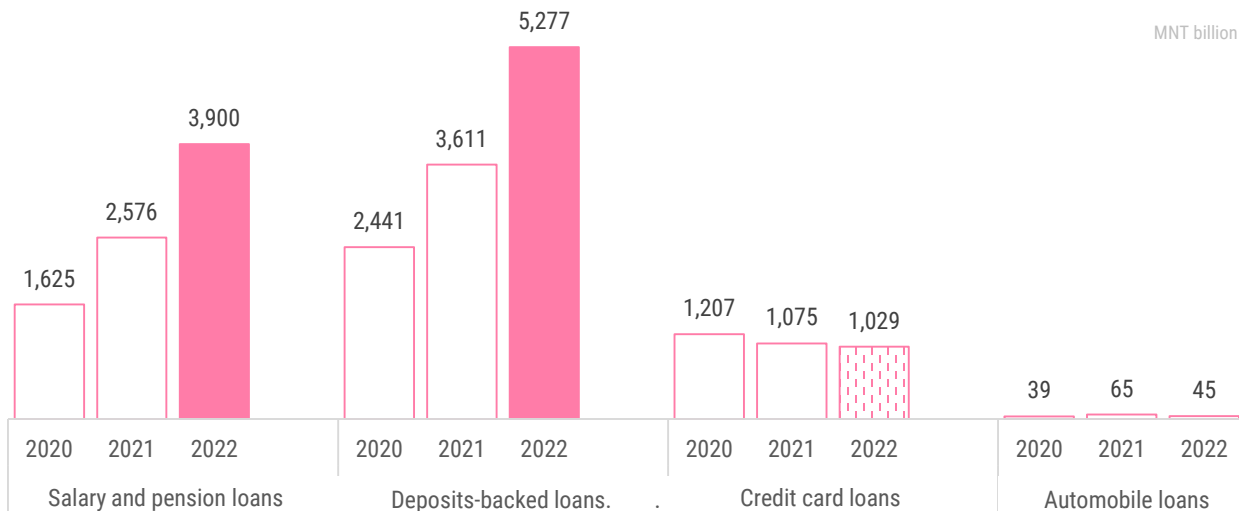
+6%



The increase in the prices of consumer goods and services increasing the demand for loans.

Banks provided mainly consumer loans such as salary, pension, and deposits-backed loans to customers.

Individual loans, shown in end of each year



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 loans increased by

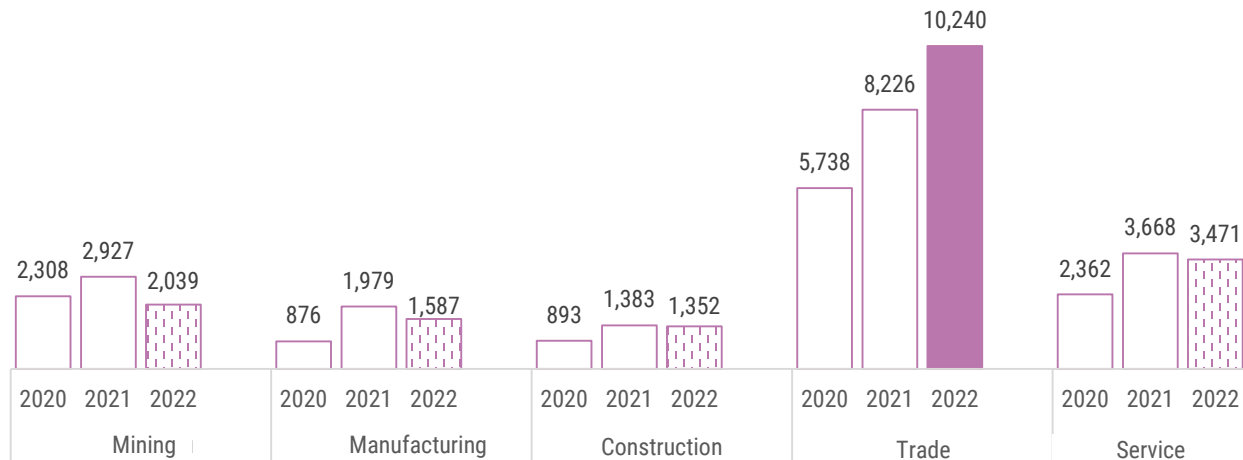
40%

Corporate loans decreased in all sectors except the trade sector.

Loans to economic sectors have decreased due to economic uncertainty and transport logistics difficulties.

Corporate loans, shown in end of each year

MNT billion



Bank's new loan

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

Corporate loans increased by

3%

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

9.2%

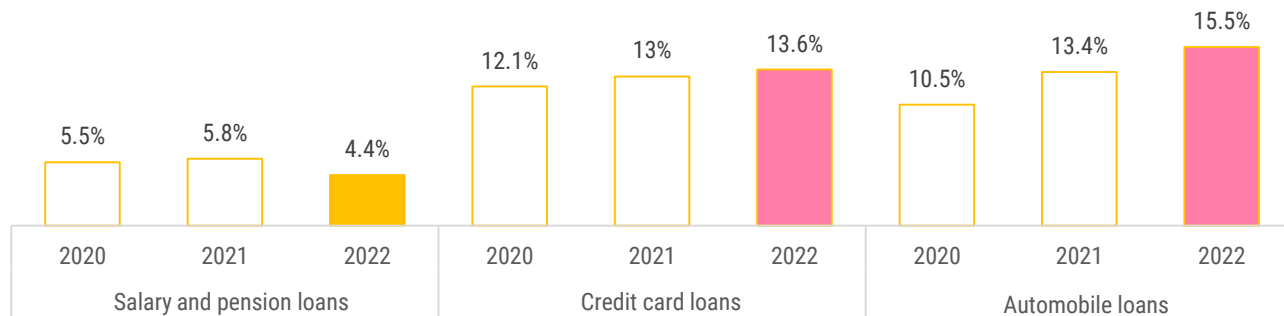
Source: Mongolbank
National Statistics Office of Mongolia

The quality of the loan portfolio is at a normal level.

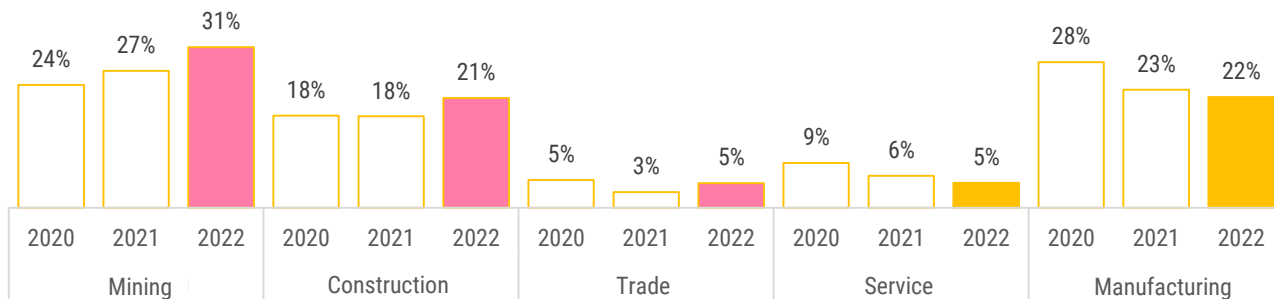
Non-performing loans of consumer loans are at a normal level, but non-performing loans of credit cards and automobile is expected to increase.

The slow recovery of key sectors continues to weigh on the quality of the business loan.

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



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



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

Deposit interest rate

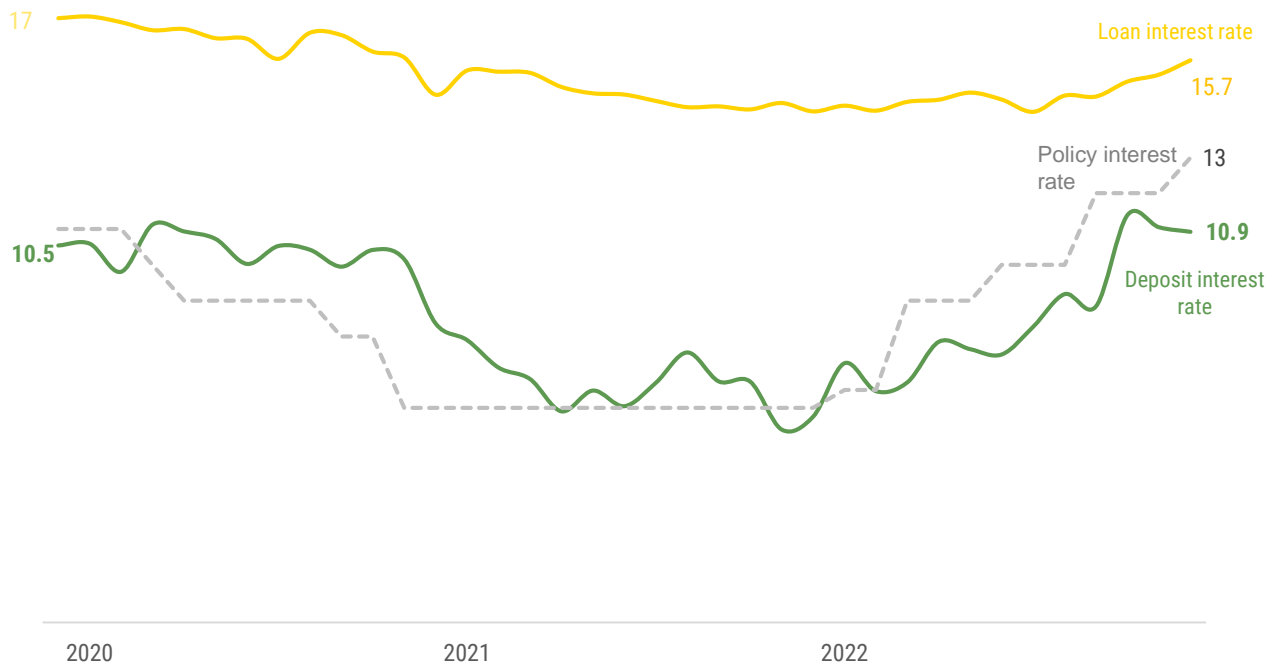
10.9%

Source: Mongolbank

Interest rates on deposits tend to increase.

Due to the uncertainty arising in the external and internal economic conditions, the central bank has increased the policy rate, which creates expectations for a gradual increase in the deposit rate.

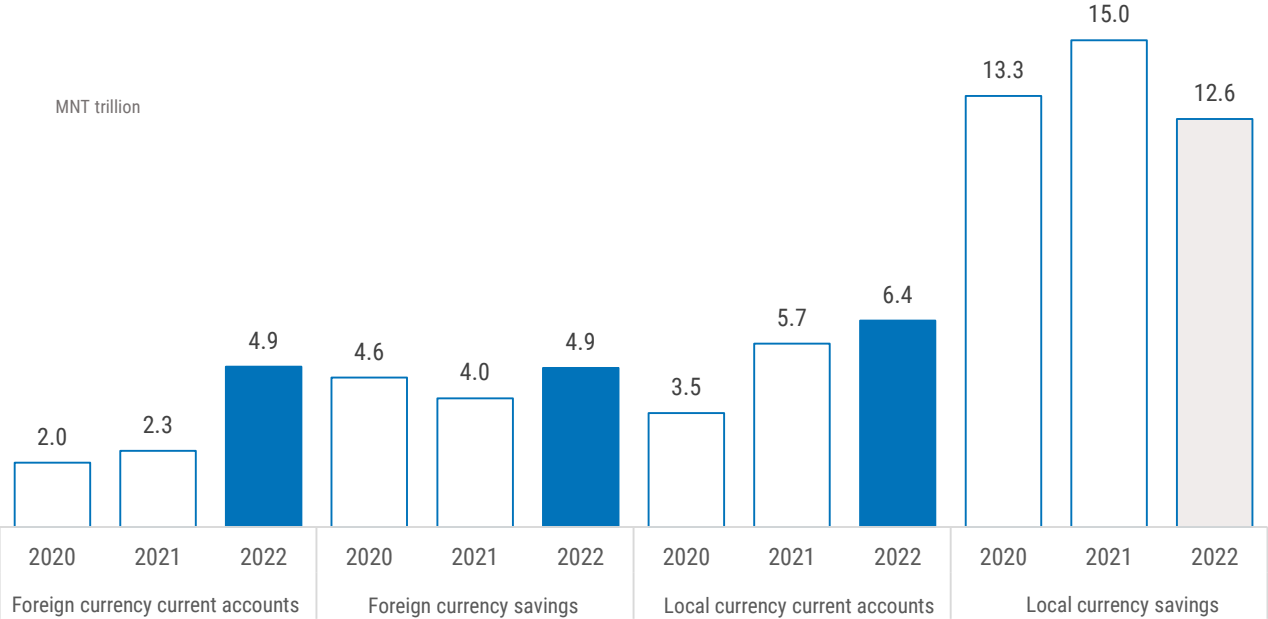
Shown as a percentage



Due to the uncertainty of the external environment and the increase in consumer prices, MNT deposits have decreased.

Due to the uncertainty of the external environment, people are more interested in saving foreign currency.
Due to inflation, the real return on MNT deposits has decreased, which has affected MNT deposits

Banks source of funds, shown in the end of each year



Banks source funds

Note: It refers to bank current accounts and deposits

Foreign currency current accounts increased

2

times

Dollarization of the banking system

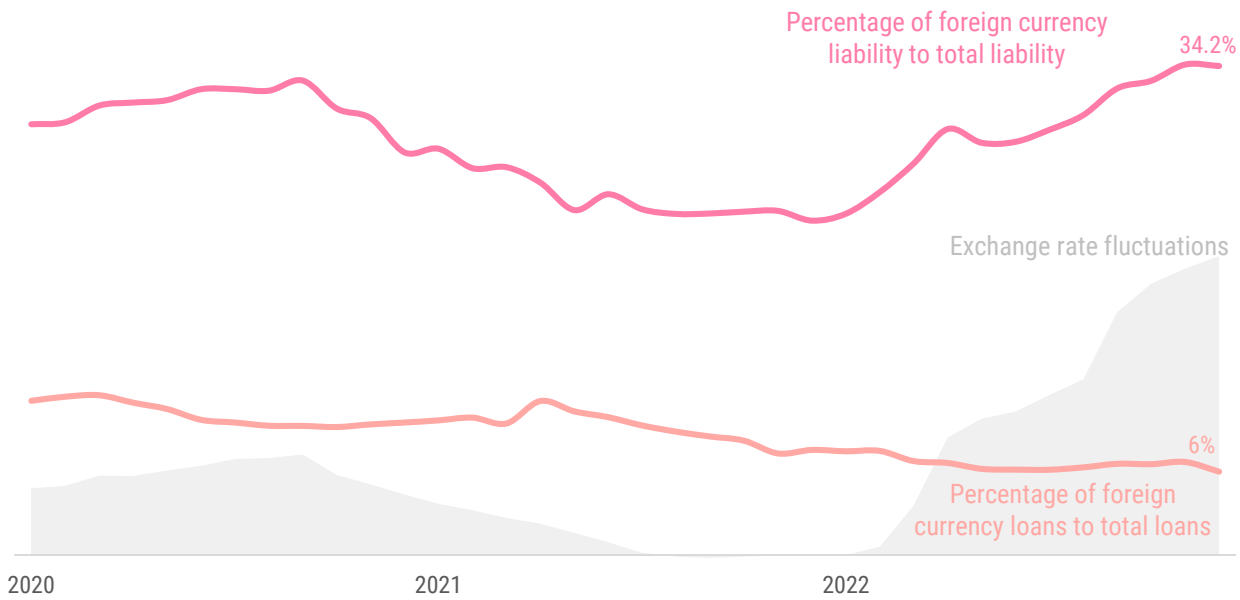
Note: It determines the percentage of deposits and loans that forms foreign currency liability and credits.

Dollarization of banks source of funds

34%

Гадаад орчны тодорхой бус байдал, хэрэглээний үнийн өсөлтөөс шалтгаалан иргэдийн төгрөгийн хадгаламж буурчээ.

Гадаад орчны тодорхой бус байдлаас үүдэлтэй валют хадгалах, нөөцлөх сонирхол иргэдэд их байна. Иргэд хадгалахаас илүүтэйгээр хэрэглэх сонирхол өндөр байна. Төгрөгийн хадгаламжийн бодит өгөөж инфляцаас шалтгаалан буурсан нь иргэдийн төгрөгийн хадгаламж буурахад нөлөөлөө.



MAIN FINANCIAL INDICATORS FOR THE BANKS

Performance of 2021 year end overlook

Bank's assets

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

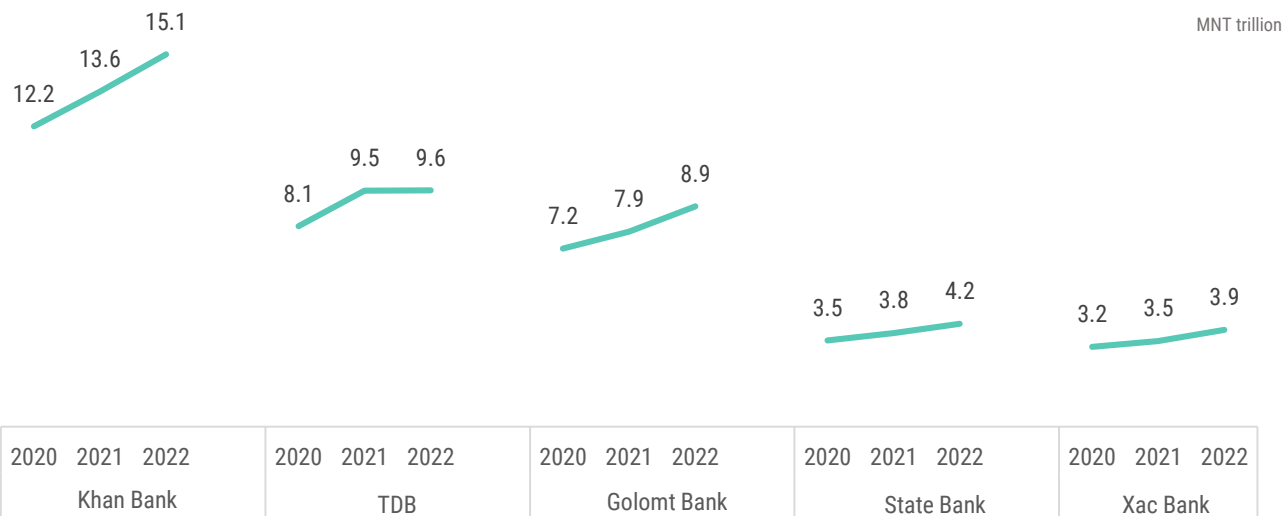
Assets of systemically important banks increased by

9%

The total assets of the banking system increased by MNT 3.4 trillion from the same period last year.

The assets of Golomt and XacBank increased by 13%, and the assets of Khan and State Bank increased by 10%, respectively.

Banks total assets



The total liabilities of the banking sector increased by MNT 1.5 trillion compared to the same period of the previous year.

Whereas Khan Bank's liability increased by MNT 0.7 trillion, and the TDB's liability increased by MNT 0.4 trillion. The liability of Xac, Golomt and State Bank have increased compared to the same period of the previous year.



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

Banks liability

Note: Amounts of liabilities from individuals, organizations and investors

Banks' liability has increased by

6%

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.

Banks' return on equity on average

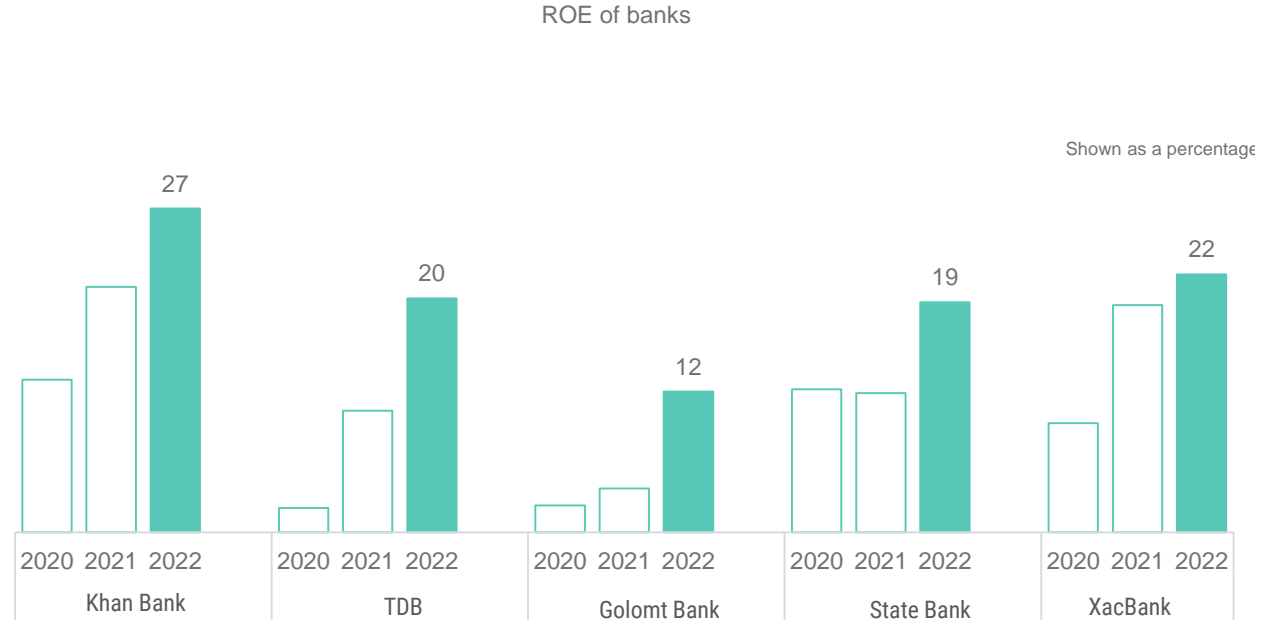
20%

Source: Unaudited reports of banks

Banks' return on equity remains higher than the return on deposits.

The equity capital of systemically important banks reached MNT 4.6 trillion, an increase of 20 percent from the same period last year.

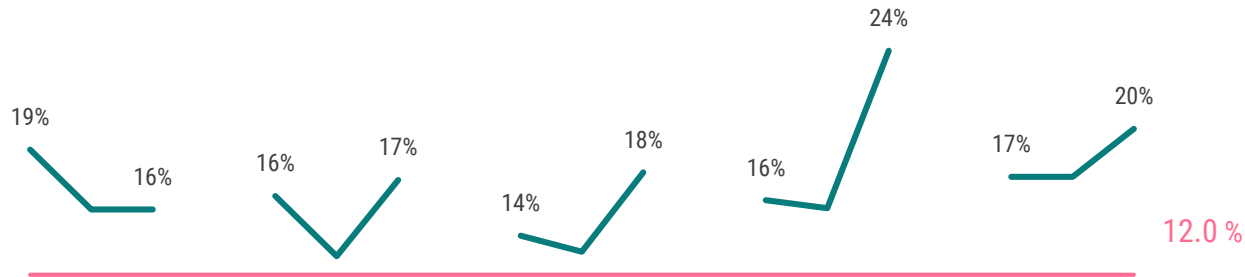
The amount of profit made from own capital is high.



Banks' capital adequacy is high.

Banks have enough capital adequacy to support the economy and the main sector's recovery.
The capital adequacy of the State bank has increased.

Banks' capital adequacy



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

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 banks

19%

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

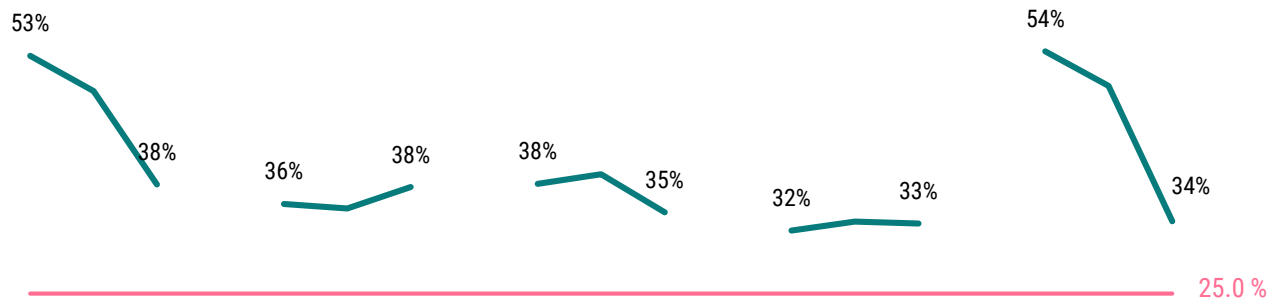
42%

Source: Unaudited reports of banks

The systematically important 5 banks still have a high liquidity requirement ratio.

The amount of loans given to individuals has increased compared to the same period of the previous year. Although the liquidity ratio of Khan Bank and XacBank has decreased compared to last year, liquidity remains high.

Bank liquidity requirements ratio



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

MACROECONOMIC ENVIRONMENT

Situation in 2022: Economic growth was 4.8 percent. The recovery of the service and trade sectors is relatively fast, while the difficulties that arose in the manufacturing and construction sectors are gradually disappearing, which has had a positive effect on economic growth. Improvements in transport logistics and customs conditions are expected to support the recovery of the mining sector.

Scenario: If the border and customs situations continue to be normal and the Zero-Covid policy in the southern neighbor is eased, the growth of the mining sector will intensify, and the economic situation will improve. However, if the Russia-Ukraine situation continues for a long time, there is a risk that it will affect the prices of Mongolia's main goods and products, and have negative consequences for the purchasing power of citizens and the economic situation. High levels of supply-driven inflation are expected to remain in nearest future.

In 2022, the economy grew by 4.8 percent.

The rapid recovery of the service sector, including wholesale and retail trade, has had a significant impact on economic growth.

The gradual recovery of the agriculture, manufacturing, and construction sectors has supported economic growth.

The slow recovery of the mining sector has a negative impact on economic growth.

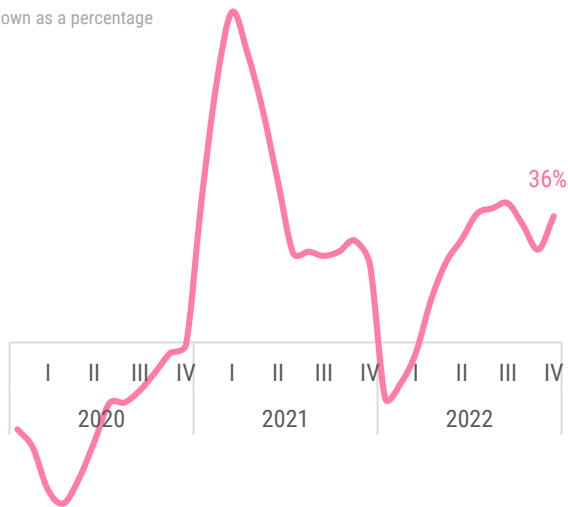


Foreign trade balance increased by 60 percent from the same period last year.

Coal exports increased by 1 times compared to the same period of the previous year, which had a significant impact on the trade balance. Although the actual volume of imported goods has not increased, the volume of imports is expected to increase further due to the increase in prices in the foreign market.

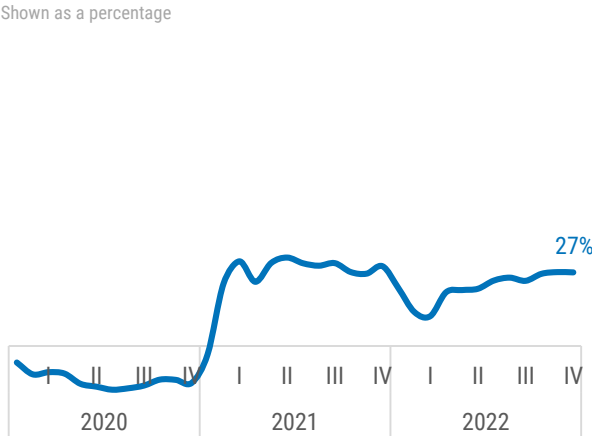
The gradual ease in border customs restrictions and transport and logistics difficulties have a positive impact on exports.

Shown as a percentage



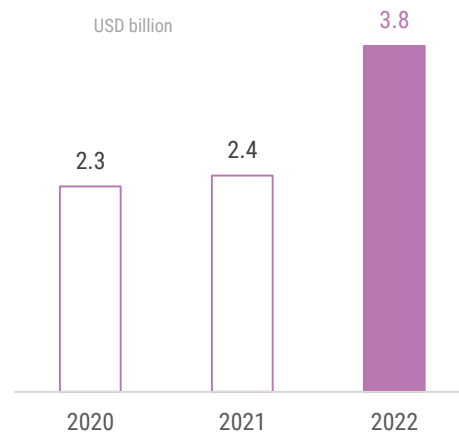
The amount of goods imported for investment purposes has increased.

Shown as a percentage



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

USD billion

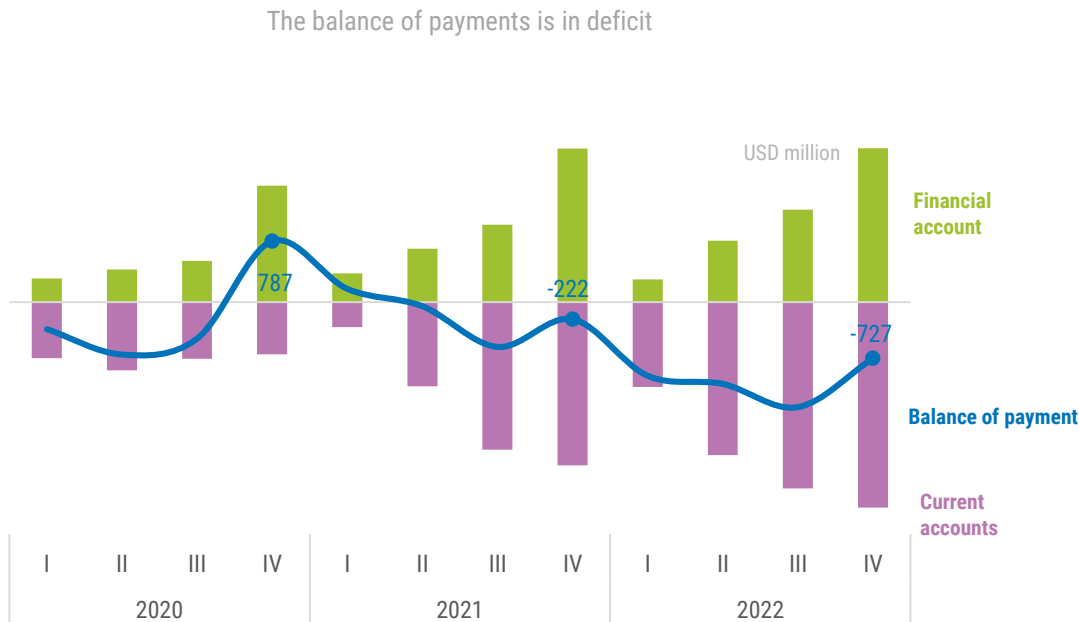
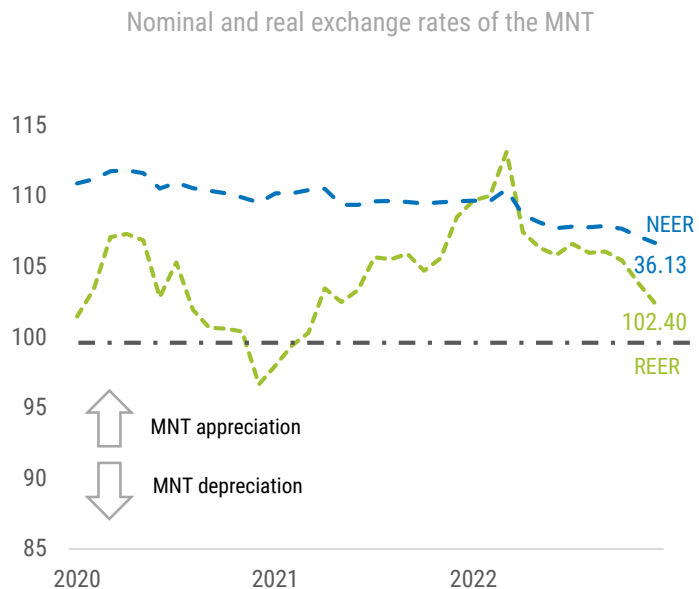


A balance of payments deficit of USD 727 million is putting pressure on the exchange rate.

Importing more than exporting affected the balance of payments with a deficit.

The increase in export activity has had a positive effect on the balance of payments.

The real exchange rate of MNT is weakening, and the goods and products of our country are cheaper compared to other countries.



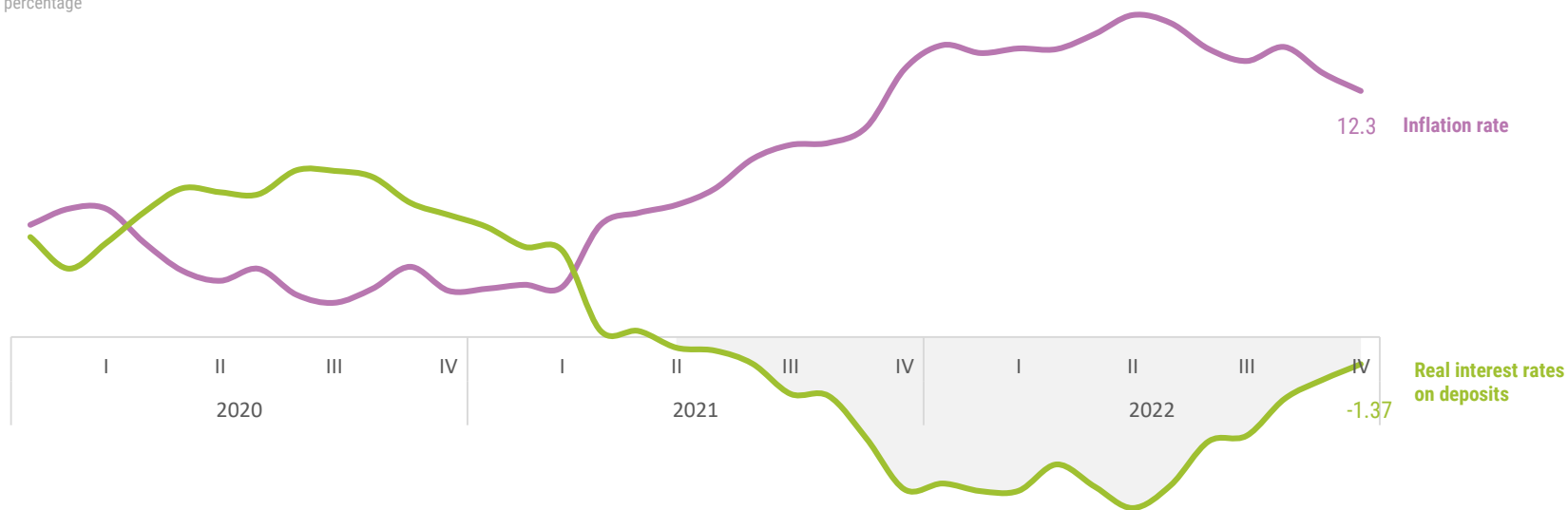
Supply-driven inflation remains high.

Due to the uncertainty of the external environment, the increase in the price of imported fuel, food, and other important production inputs has become the main factor in maintaining a high level of supply-side inflation.

The price of food, beverages, and water increased by 32%, which has a significant impact on the high inflation rate.

Inflation and real interest rates on deposits

Shown as a percentage

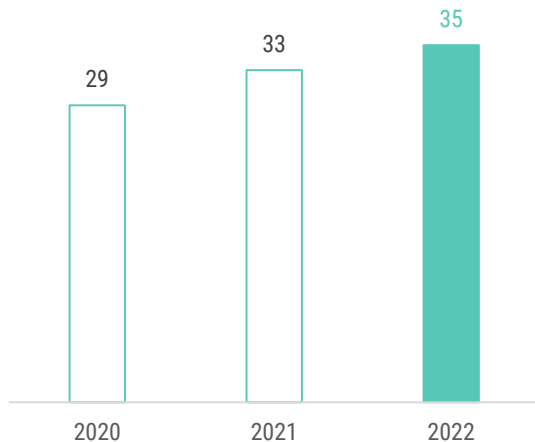


Although the budget balance has a deficit of MNT 979.3 billion, it has decreased by 66 percent compared to the same period of the previous year.

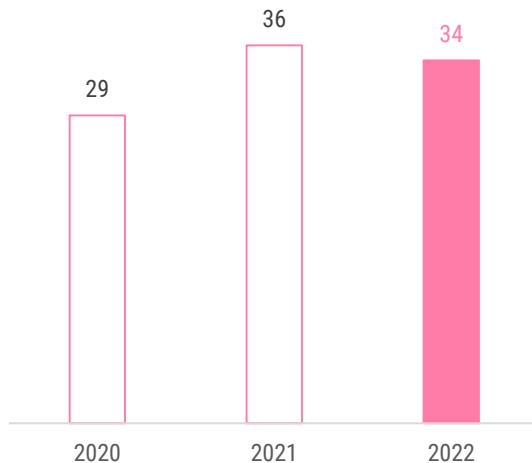
The reduction of the discounts and subsidies provided by the government to the citizens is the reason for the reduction of public expenditure. It is expected that the primary balance will turn out to be profitable and the budget deficit pressure will decrease.

Budget revenue increased by 30% from the same period last year.

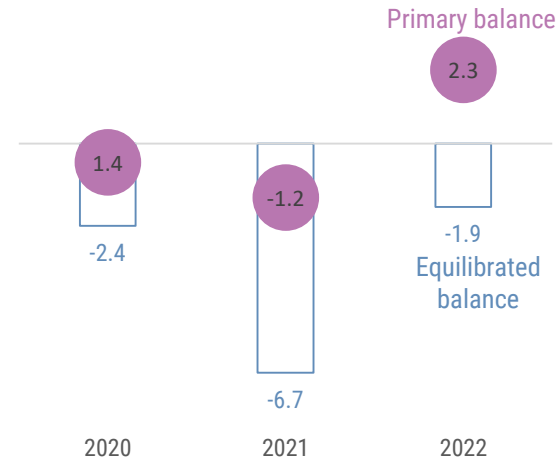
As a percentage of GDP



Total budget expenditure is expected to decrease.



The budget deficit has decreased.



Bank customer satisfaction levels are on par with other developing countries.

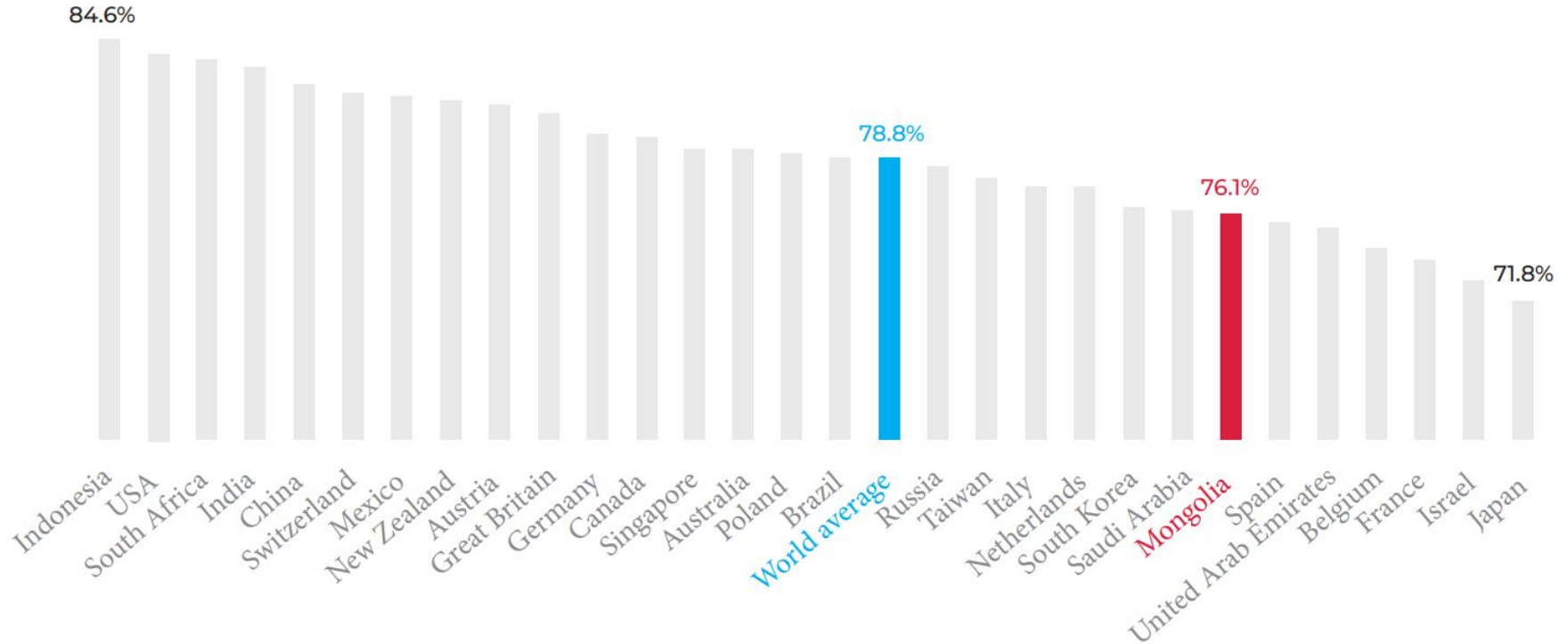
This survey was conducted in order to determine the reputation of the banking sector among customers and the trust of citizens in the bank.

According to the research, there is a high need for regular delivery of knowledge about banking products and services to customers. If you look at the usage of the bank's products and services, ordinary cards, internet and mobile banking are commonly used by customers. However, credit cards and escrow (joint account) services are not widely used.

Among customers, the satisfaction rate of receiving services using the banking application is 83%. However, there were a lot of comments to improve the performance of the application and reduce crashes.

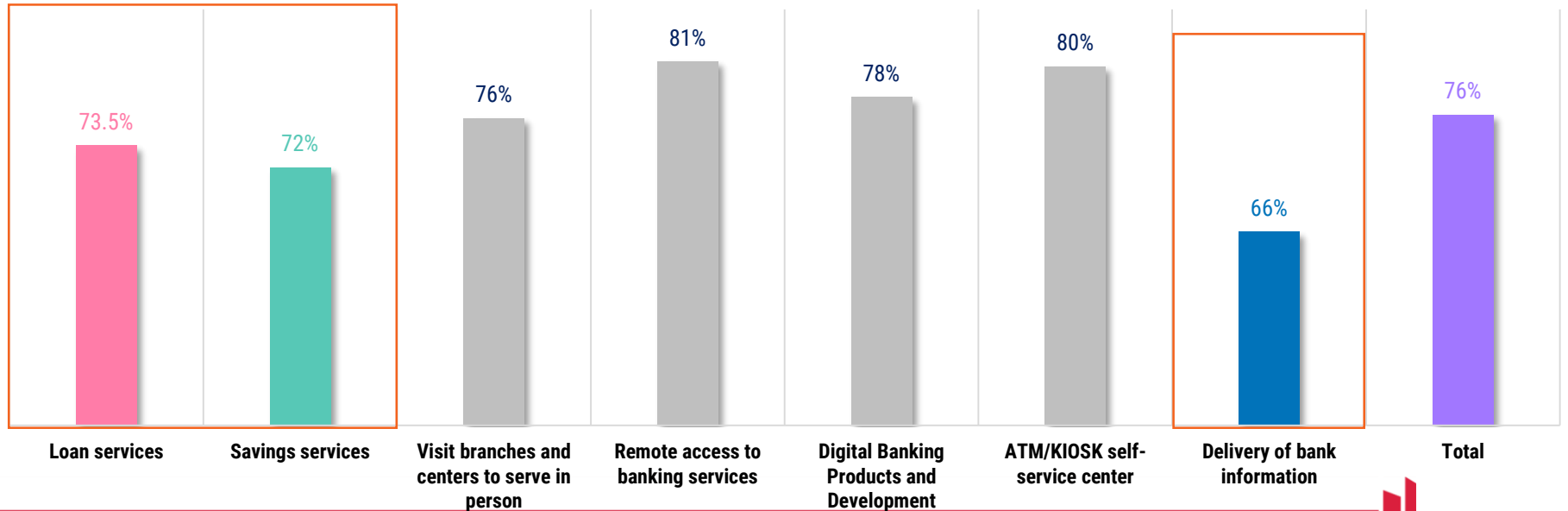
Banks need to increase financial education of customers and improve financial education.

The level of customer satisfaction in the banking sector is high.



Level of satisfaction

[Information Delivery], [Savings services], [Loan services] are below average.



Factors influencing the level of satisfaction

Nº	Sub-indicator	Details	CSAT	GAP
1	Application	Stuck and slow loading of the bank application	68.0%	-20%
2	Savings	Conditions of saving products / term, interest, fees/	63.3%	-20%
3	Loans	Loan product terms / term, interest, fees, flexibility/	61.7%	-20%
4	Information delivery	Information about banks becoming open joint-stock companies	60.8%	-20%

