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# BANKING SECTOR REVIEW

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1<sup>ST</sup> QUARTER OF 2023

IT TAKES TWO TO TANGO

# It takes two to tango

The indicators of the banking sector were relatively stable and growing. The banking sector's total assets increased by 13 percent compared to last year's period. Despite the accelerating recovery of economic sectors, non-performing loans to businesses remain high.

The easing of anti-pandemic policies in the southern neighbor and the improvement of the border customs situation significantly impacted the economic expansion by 7.9 percent, accelerating the recovery of the mining and transportation sectors. Also, supply and logistics problems are gradually disappearing and the price level of consumer goods in our country is decreasing, the impact of the increase in the price of goods on the world market is still high.

In our country, the banking sector is the only sector that supports the economic sectors. If we do not continue to attract foreign investment and increase the competitiveness of other sectors, then the economic structure of the mining-related sector recovers when the economy recovers, and the economic structure that falls with it will bring more risks.



# 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, the current accounts of individuals have increased.

Highlighted changes and simple explanation

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



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 FUTURE TRENDS IN THE BANKING SECTOR IN FIRST QUARTER OF 2023

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Banks are providing loans to support food and agricultural production with their own resources.



The credit quality of banks is at a normal level.



IPO of 5 systemically influential banks was successfully completed. And their financial performance is relatively good.



The gradual elimination of transport logistics difficulties has accelerated the recovery of economic sectors.



The price increase of goods worldwide is the main reason for the increase in the price of the main products of our country.



Inflation is slowing down, exchange rates are stabilizing, and economic uncertainty is decreasing.

# MAIN FINANCIAL INDICATORS FOR THE BANKS

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**1<sup>st</sup> quarter of 2023 performance**

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

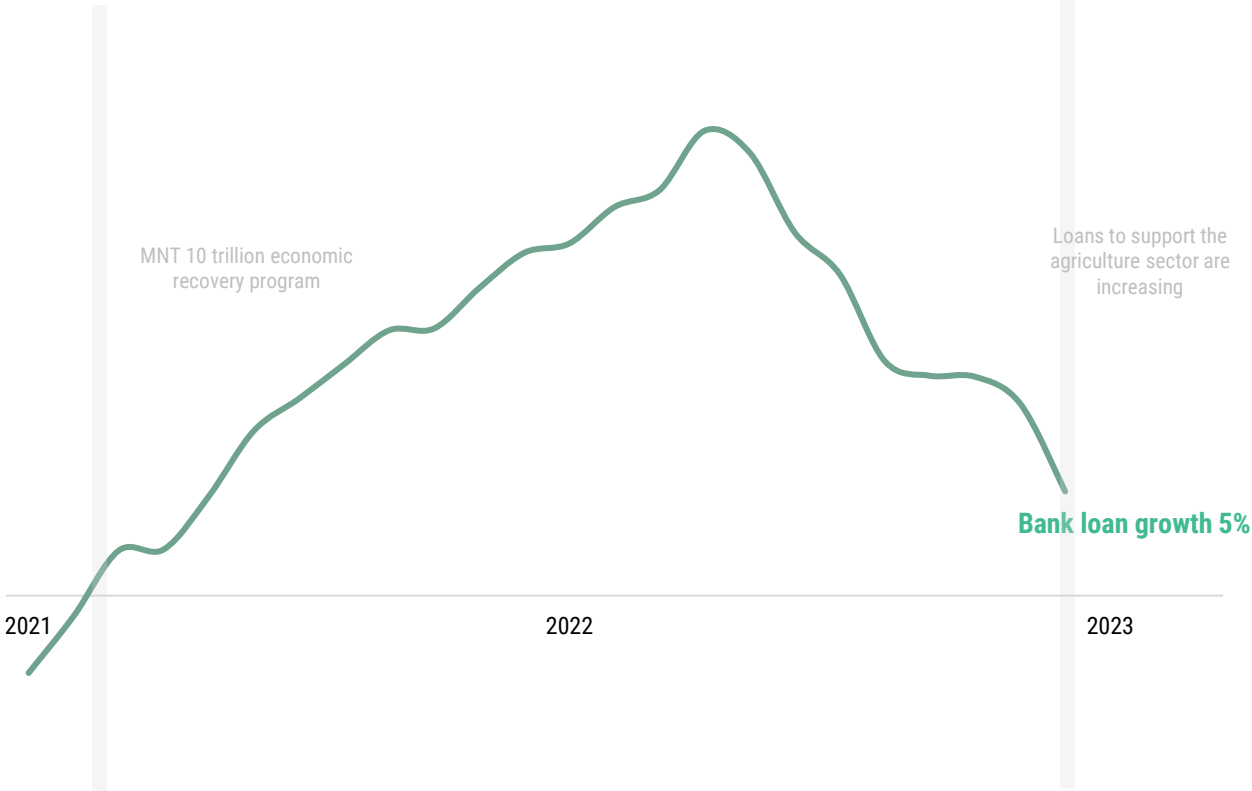
Banks continue to lend to individuals and businesses to support the economy and accelerate the sector's recovery.

## Bank loan portfolio

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

Loans increased by an average of

# +5%



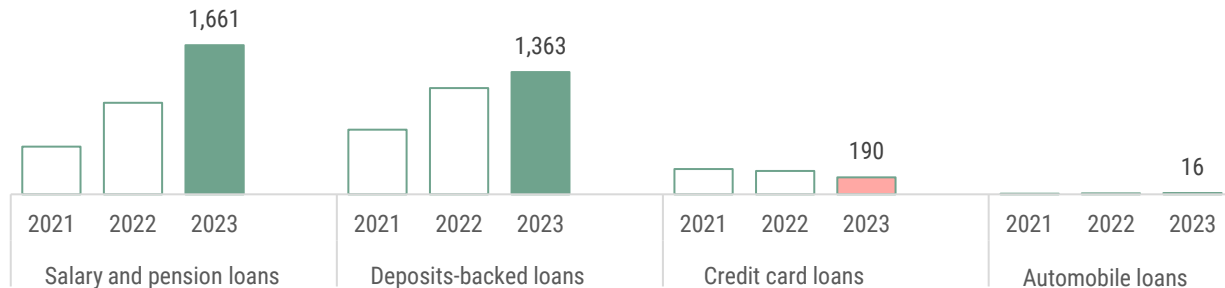
Source: Mongolbank  
National Statistics Office of Mongolia

# Banks provided loans to support the recovery of key economic sectors.

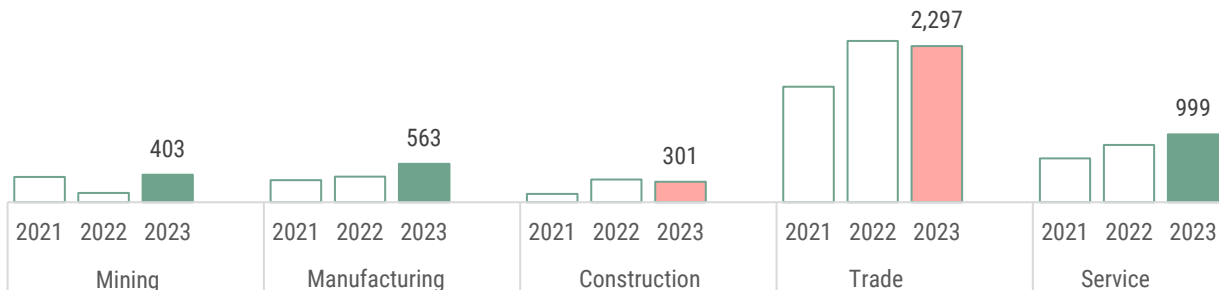
Demand for consumer loans remains high.  
Lending to all sectors of the economy, except trade, has increased.

Individuals loans, shown in 1<sup>st</sup> quarter of each year

MNT billion



Business loans, shown in 1<sup>st</sup> quarter 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 loans increased by

# 15%

## Bank loan quality

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

Industry-wide, one in 10 loans is non-performing.

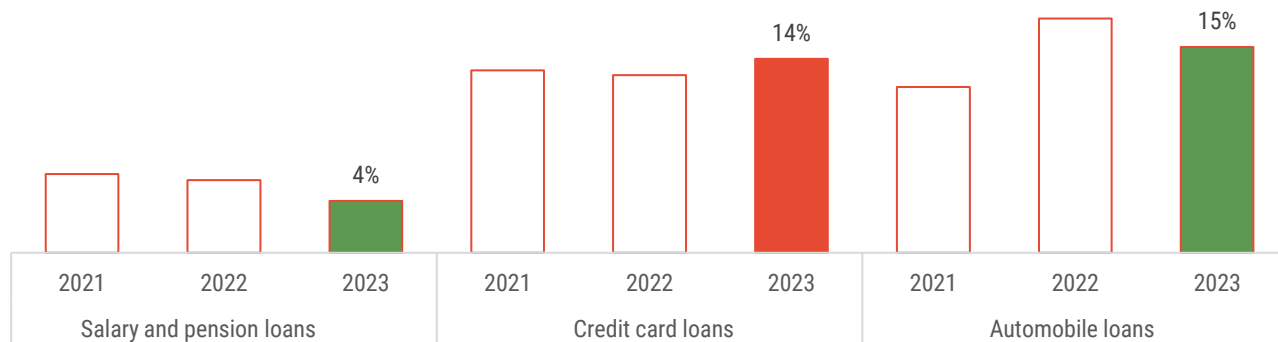
# 9.6%

Source: Mongolbank  
National Statistics Office of Mongolia

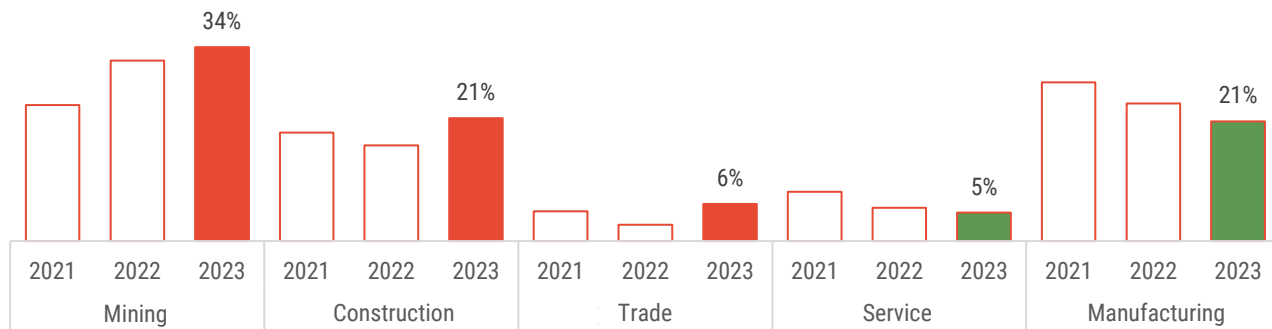
## The quality of the loan portfolio is at a normal level.

Credit card and car loan defaults are higher than other consumer loans.  
Despite the rapid recovery of the mining sector, credit defaults in the sector remain high.

Non-performing individuals loans ratio, shown in 1<sup>st</sup> quarter of each year



Non-performing business loans ratio, shown in 1<sup>st</sup> quarter of each year





# 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.

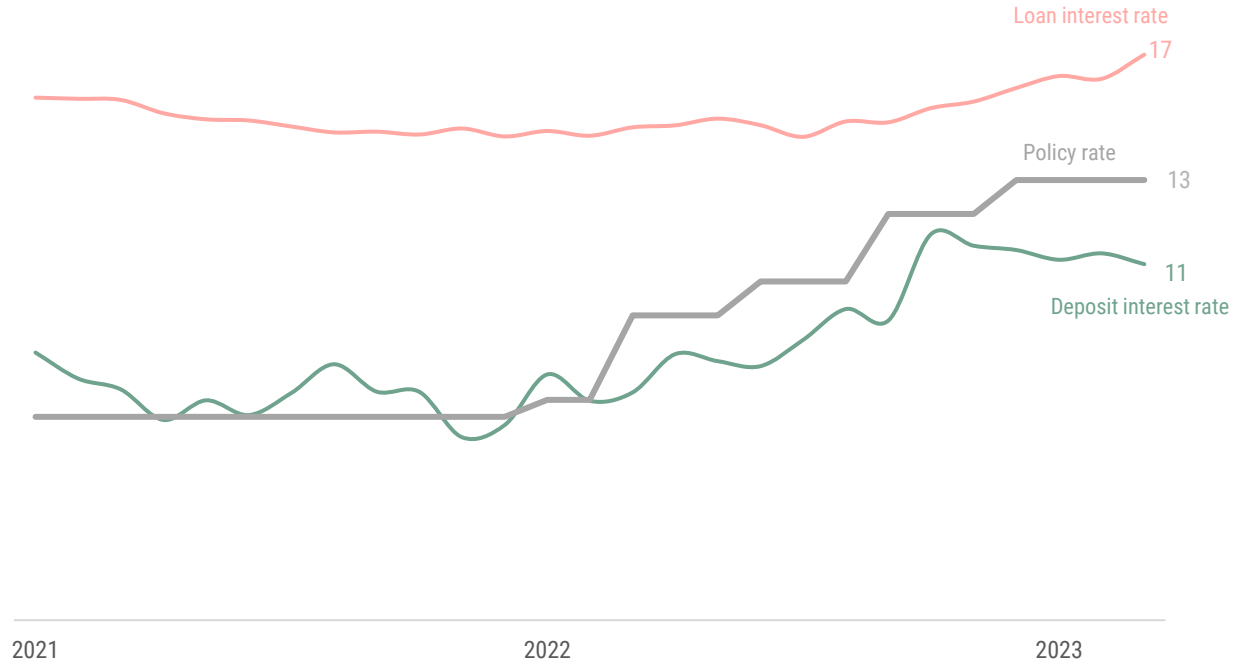
Loan interest rate

17%

Source: Mongolbank

## Interest rates continue to rise.

The main reason for the gradual increase in interest rates was the Central Bank's increase in interest rates due to the uncertainty in the external and internal economic conditions.



# Due to the uncertainty of the external environment and the increase in consumer prices, MNT savings continue to decrease.

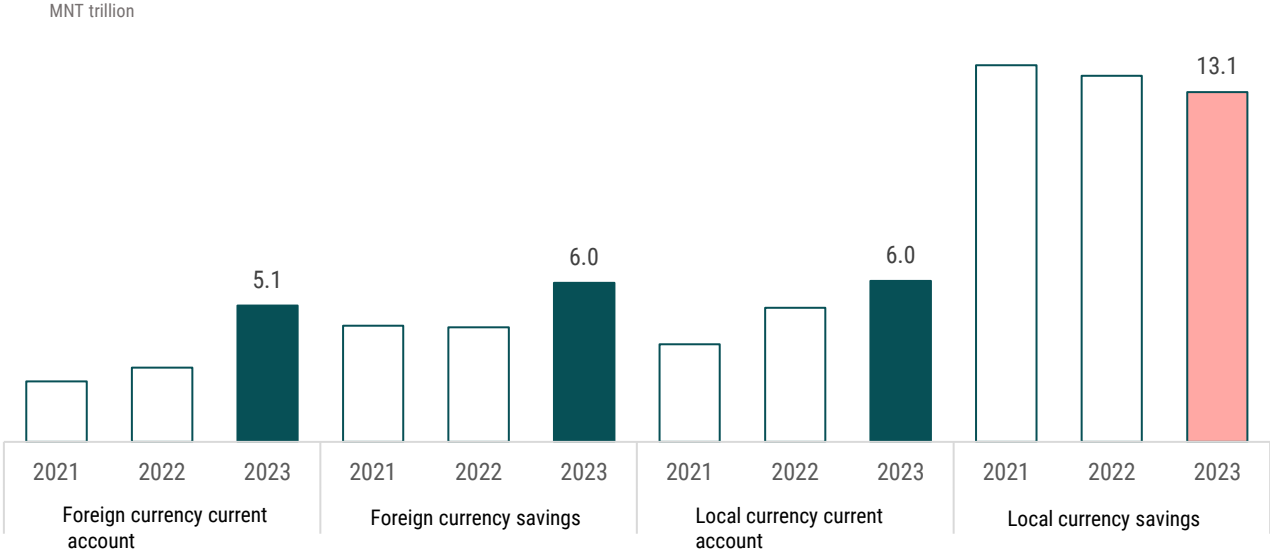
Compared to the same period of the previous year, foreign currency deposits decreased by 84%, and foreign currency transactions increased by 39%.

The fact that the real return on MNT savings is negative due to inflation has affected the decrease in MNT savings.

## Banks source of funds

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

Banks source of funds, shown in 1<sup>st</sup> quarter of each year



Foreign currency current accounts increased by

# 39%

# Dollarization of the banking system

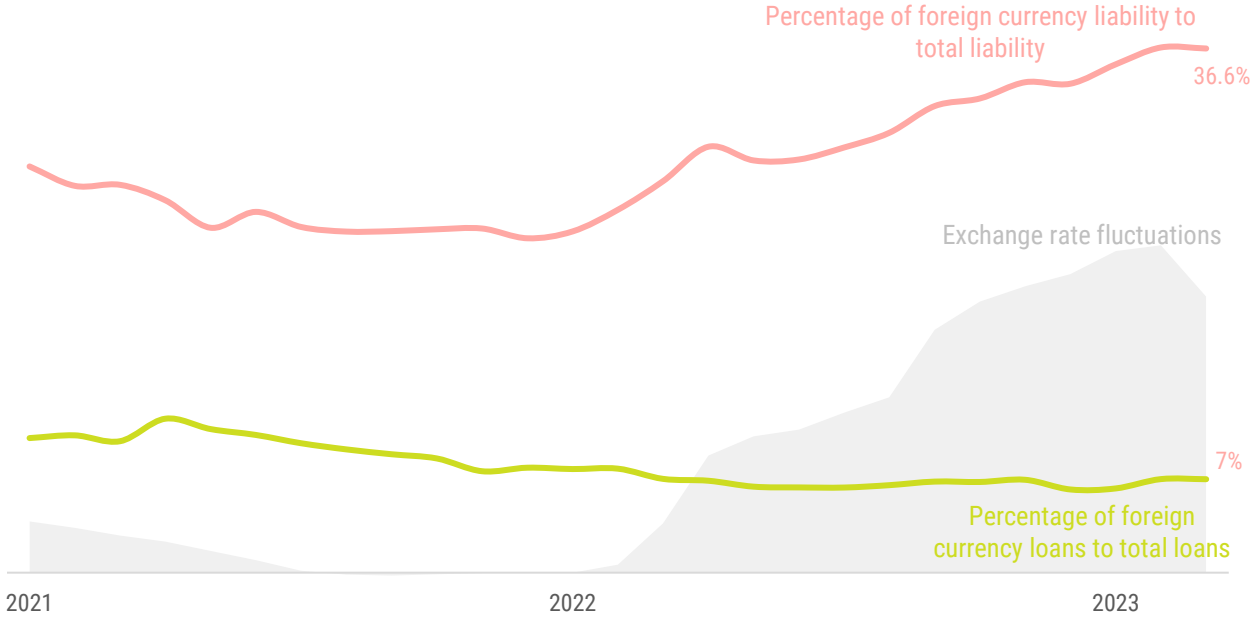
Note: It determines the percentage of deposits and loans that forms foreign currency liability and credits.

Dollarization of banks source of funds

# 37%

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

Due to the uncertainty of the external environment, people are more interested in saving currency. In addition, citizens are more interested in spending than saving.



# MAIN FINANCIAL INDICATORS FOR BANKS

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**1st quarter of 2023 performance**

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# The total assets of the banking system increased by MNT 4.7 trillion from the same period last year.

Banking sector asset growth continues.

Khan Bank's assets increased by 18% and Golomt Bank's assets by 16%, respectively.

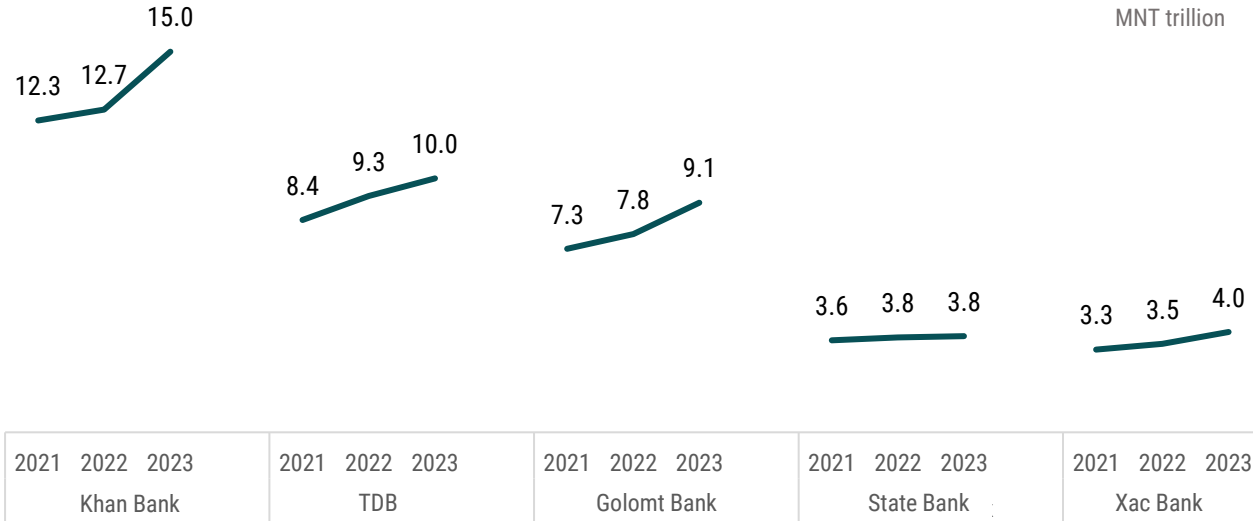
## Bank assets

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

Assets of systemically important banks increased by

# 13%

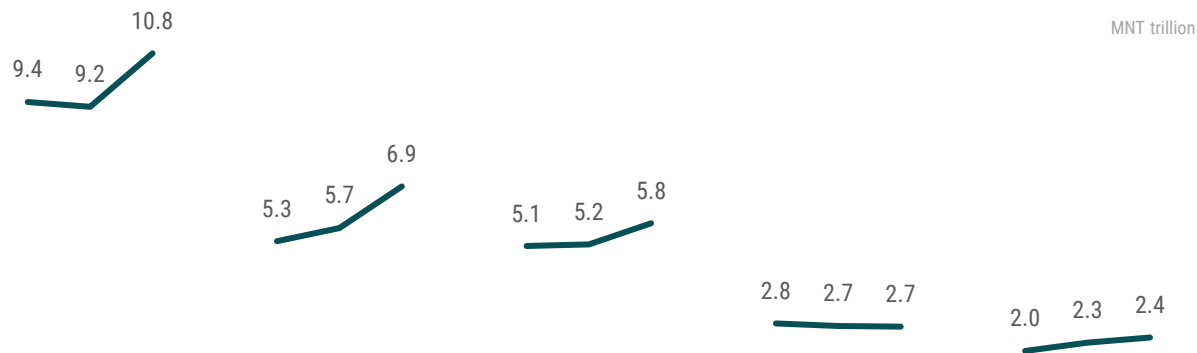
Banks total assets, shown in 1<sup>st</sup> quarter of each year



# The total liabilities of the banking sector increased by MNT 3.6 trillion compared to the same period of the previous year.

The Khan Bank's liability increased by MNT 1.6 trillion, and the liability of TDB increased by MNT 1.2 trillion, respectively.

Banks liabilities, shown in 1<sup>st</sup> quarter of each year



2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
Khan Bank			TDB			Golomt Bank			State Bank			Xac Bank		

## Banks liability

Note: Amounts of liabilities from individuals, organizations and investors

Banks' liability have increased by

# 14%

## 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 banks.

# 16%

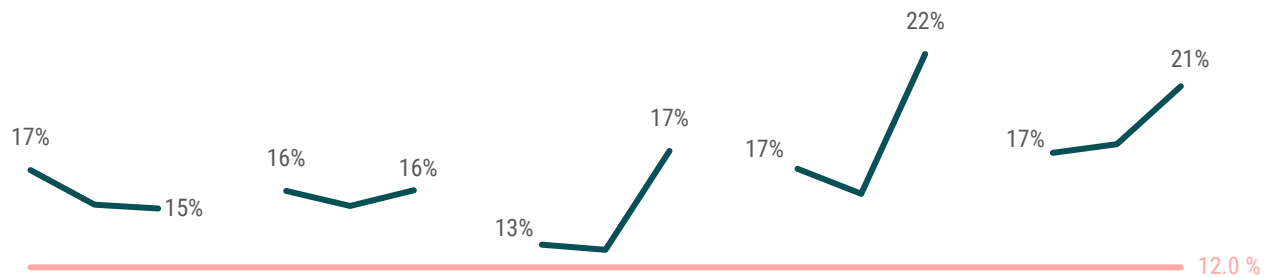
## Banks meet capital adequacy requirements.

Banks have enough capital to support the recovery of key economic sectors.

Banks have been able to increase their capital through successful IPOs.

Capital adequacy of Golomt, Xac and State Bank increased.

Banks capital adequacy, shown in 1<sup>st</sup> quarter of each year

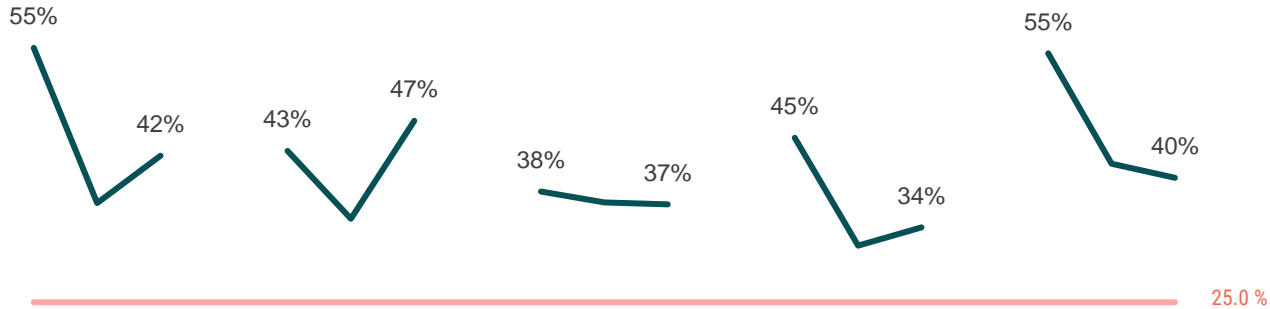


2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
Khan Bank			TDB			Golomt Bank			State Bank			XacBank		

## Liquidity ratios of 5 systemically influential banks remain too high.

The amount of loans provided by banks has increased compared to the same period of the previous year. Although the liquidity ratio of Golomt and Xacbank decreased, liquidity remains high.

Banks liquidity ratio, shown in 1<sup>st</sup> 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

## 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

# 40%



# MACROECONOMIC ENVIRONMENT

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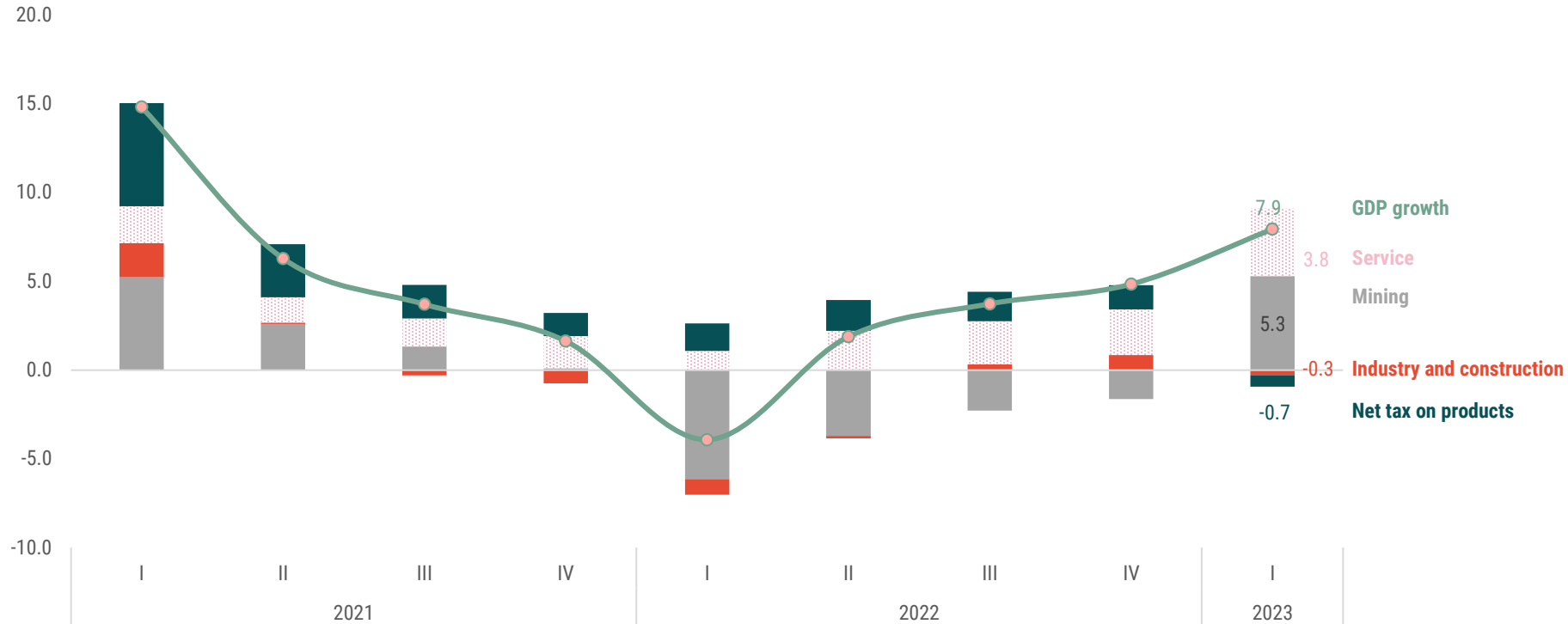
**Situation in 1st quarter of 2023:** Economic growth reached 7.9 percent. The improvement of the border customs situation and the construction of infrastructure to increase and intensify the flow of transport and logistics has had a significant impact on economic growth due to the increase in the export of mineral products that have accelerated the recovery of the mining sector.

**Scenario:** If the mining of Oyu Tolgoi and the export of raw materials continue at this level, there are positive expectations that the economic situation will improve by the end of the year. The government's reduction in inefficient spending has eased pressure on the balance of payments, creating conditions for exchange rate stabilization. Although supply-driven inflation is high, it is expected to decline further.

# In the first quarter of 2023, the economy grew by 7.9 percent.

The improvement of the border customs situation and the infrastructural works have brought recovery to the mining sector. The recovery of the mining sector has positively affected the transport sector, which has led to the recovery of the transport sector.

Continued growth in the service sector, including the information, communications and trade sector, continues to be an important contributor to economic expansion.



# The foreign trade balance in the first quarter was USD 1.8 billion surplus.

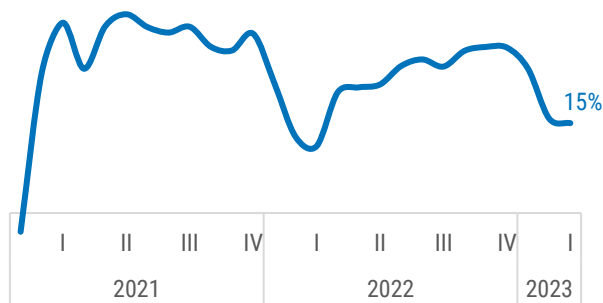
Compared to the same period of the previous year, coal exports increased by 3.3 times and iron ore exports by 1 time, which had a significant impact on export growth. Although the actual volume of imported goods did not increase, the volume of imports increased due to the increase in the prices of goods on the foreign market. In the first half of the year, the increase in the volume of imported products for investment purposes accounted for the majority of the increase in imports.

The decrease in border and customs restrictions and the difficulties in transport and logistics contributed to the increase in exports.

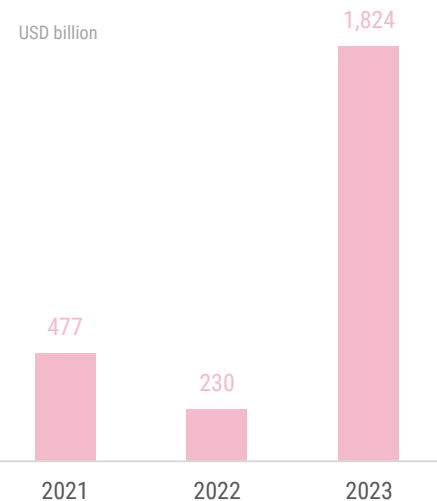
Shown as a percentage



The amount of goods imported for investment purposes has increased.



The export situation has improved and the trade balance has reached an all-time high.



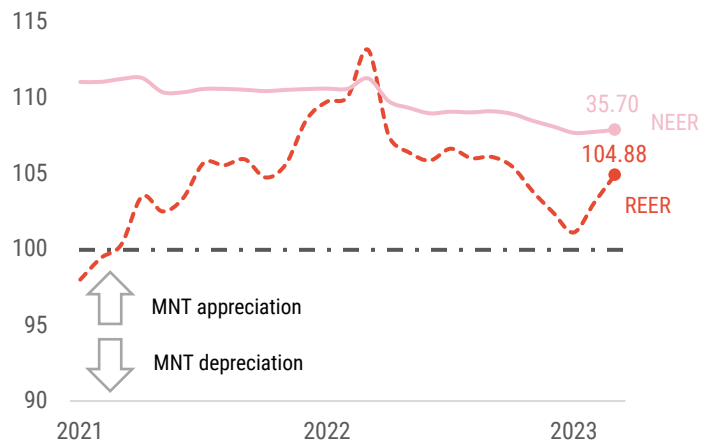
## The balance of payments has a surplus of USD 79.6 million.

As the real exchange rate of MNT weakened and the goods and products of our country started to become cheaper compared to other countries, the output of export products increased, which had a significant effect on the balance of payments.

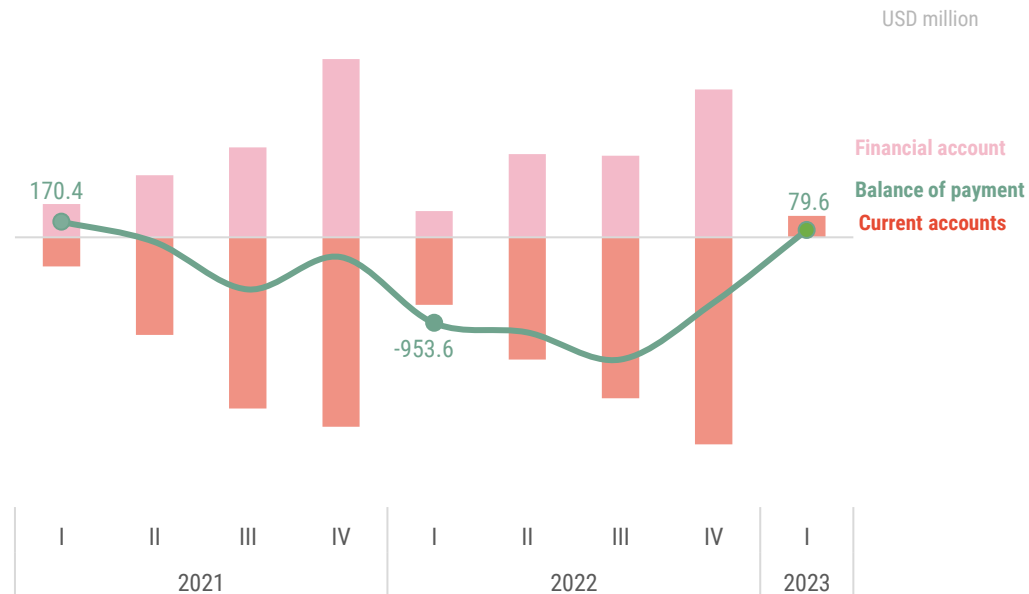
Due to the increase in the price of imported goods, the outflow of foreign currency is not decreasing.

The real exchange rate of MNT has strengthened, and the goods of Mongolia have become more expensive compared to other countries.

### Nominal and real exchange rates of the MNT



### The balance of payments is profitable.

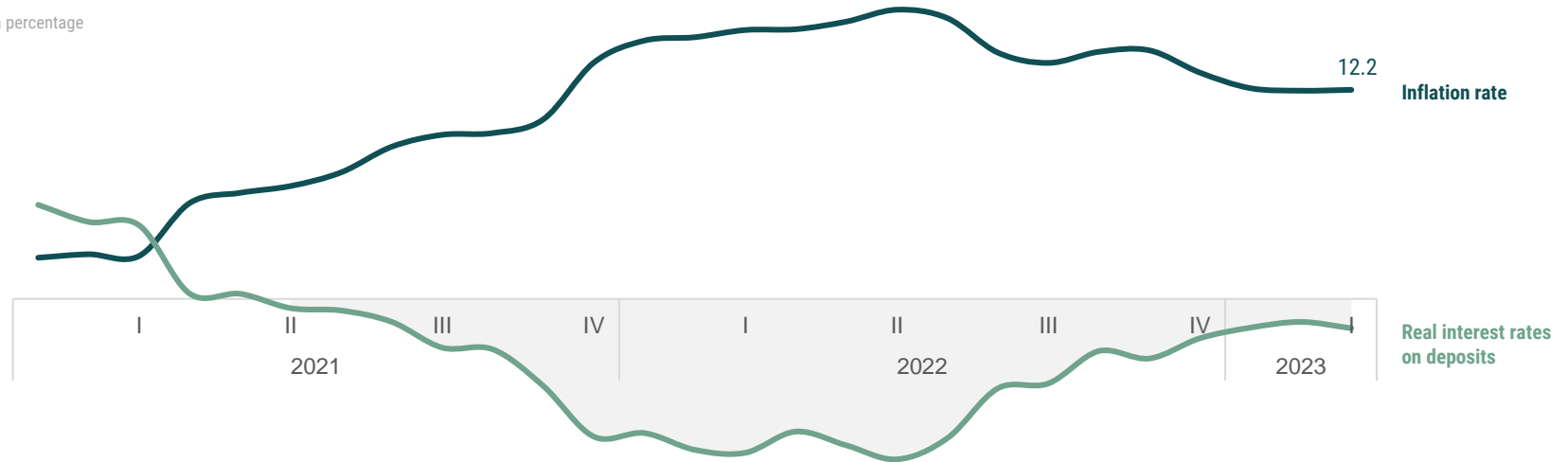


# Inflation is gradually decreasing, allowing the real return on savings to become positive.

The increase in the price of imported fuel, food, and other important production inputs has become the main factor in the high level of supply-side inflation. The price of food and beverages increased by 18 percent, which has a significant impact on the high inflation rate.

Inflation and real interest rates on deposits

Shown as a percentage

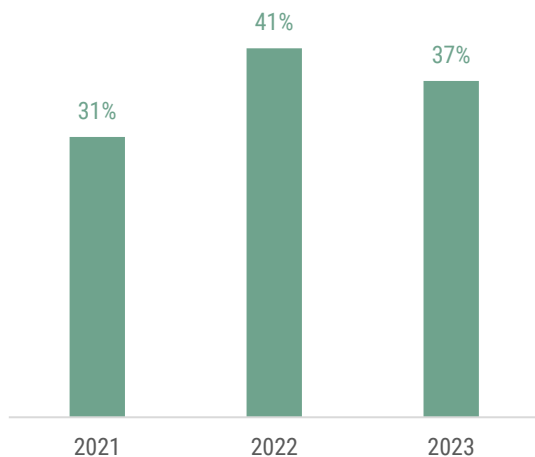


# The budget balance has a surplus of MNT 656.6 billion, and the burden of the budget deficit is decreasing.

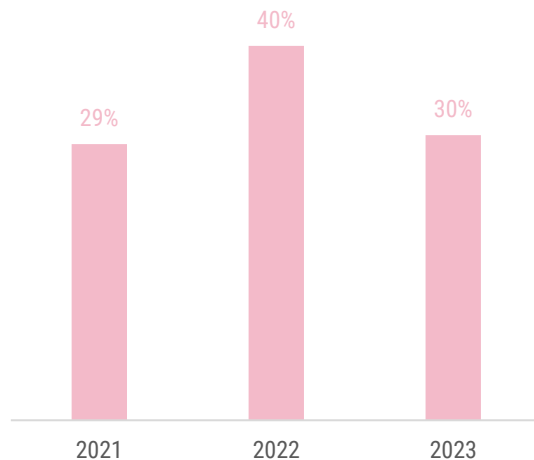
The recovery of economic sectors and the increase in the export of raw materials supported the growth of budget revenue. On the other hand, reducing inefficient budget expenditures has a significant impact on the budget balance. The primary balance is in surplus and the budget deficit pressure is decreasing.

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

As a percentage of GDP



Total budget expenditure increased by 10 percent from the same period last year.



The budget deficit has decreased.

