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# BANKING SECTOR REVIEW

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**First half of 2023 Report**

Closing the stable door after the horse  
has bolted

# "Closing the stable door after the horse has bolted"

The performance of the banking sector has been stable, with steady improvements. Banks' total active increased by 11% compared to the same period last year. Customers depended on payday loans and deposit-secured loans the most. Loans to the mining sector and trade sector decreased while loans to the service sector increased. With inflation growth stagnating and the domestic currency appreciating, returns on MNT deposits have caught up with returns on foreign currency deposits.

Due to the importance of trust between customers and for the sustainable development of the banking sector, the Mongolian Bankers Association established the "Codex of Banking Services" to protect customer rights.

Economic growth in the first half of the year improved by 6.4%. From the beginning of the year, improvements in the mining sector, followed by the quick recovery of the transportation industry had a significant impact on economic growth. On the other hand, the agriculture sector suffered due to unfavorable weather conditions, while other sectors experienced slower but gradual growth. Though the foreign currency reserves increased by 23% compared to the previous year, it is insufficient that it is equivalent to 4.5 months' worth of imports. As a result, the rising real value of the MNT is impairing Mongolia's competitive capabilities.

Even if the economy is recovering well, without creating an environment that can nurture the growth of sectors other than mining, it may still be vulnerable to volatile fluctuations, as the saying goes, "Closing the stable door after the horse has bolted."



# CHANGES AND TRENDS IN THE BANKING SECTOR IN THE FIRST HALF OF 2023

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Banks' loans provided to individuals have increased. Business loans are recovering.



Non-performing loans are decreasing gradually.



The banking sector is establishing a unified standard to safeguard customer rights.



Performance of the 5 banks of systemic importance have been relatively good.



Banks of systemic importance have each successfully commenced their IPOs, raising a total of MNT 447 billion.



MNT deposits have overtaken foreign currency deposits.

# FINANCIAL INDICATORS OF THE BANKING SECTOR

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**First half of 2023**

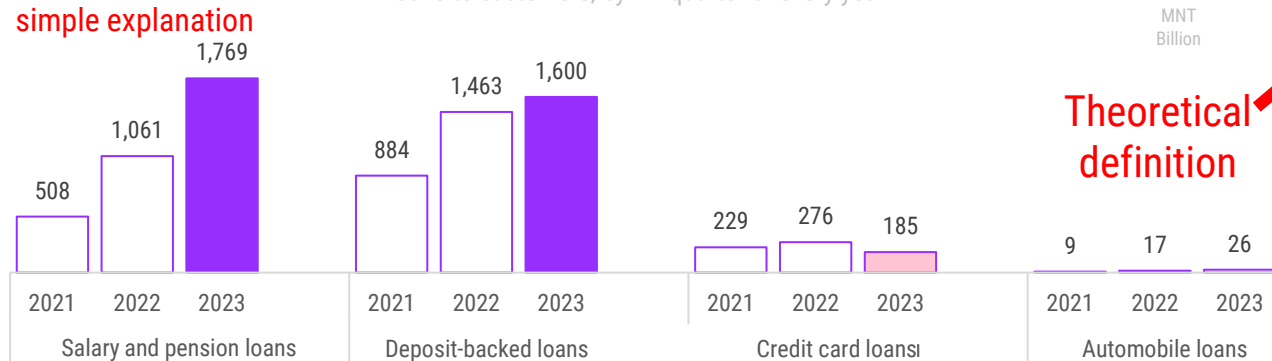
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# Customers mainly depended on salary, pension and deposit collateralized loans

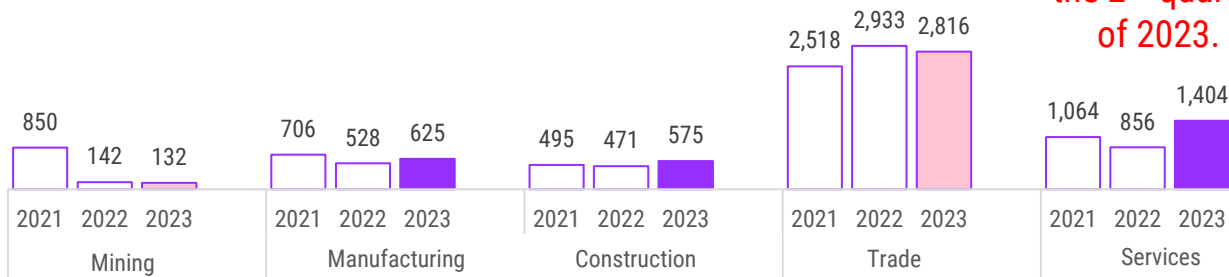
Banks have primarily offered consumer loans to individuals.  
Loans to the mining and trading sector have decreased, while loans to the services industry increased.

Highlight changes and simple explanation

Loans to customers, by 2<sup>nd</sup> quarter of every year



Business loans, 2<sup>nd</sup> quarter of every year



## Banks' newly offered loans

Note: Outstanding loans increase with new loans offered within the year

Theoretical definition

Individual loans have increased

Performance of the 2<sup>nd</sup> quarter of 2023.

27%

## Banks' loan portfolio

Note: The outstanding balance increases as it accumulates with new loans, resulting in a growing repayment burden.

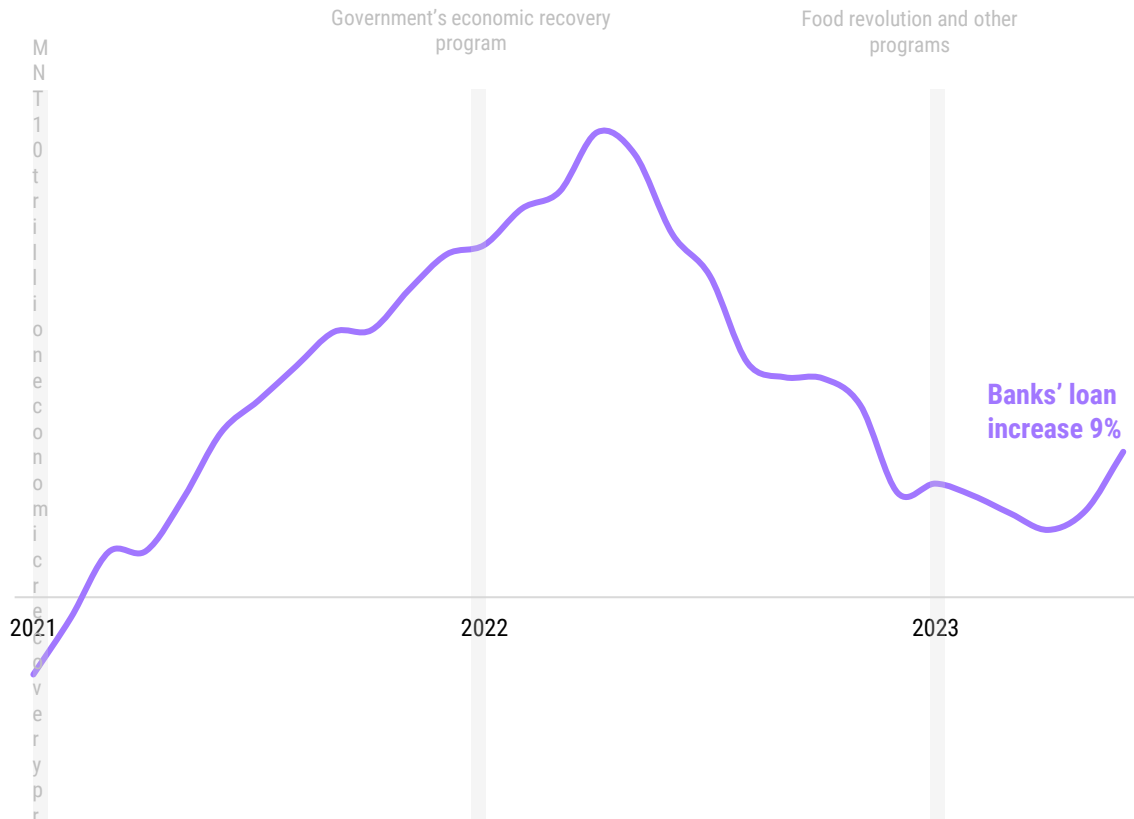
Outstanding loans increased by

# +9%

Source: Bank of Mongolia,  
National Statistics Office of Mongolia

## Banks' loans continues to rise

In accordance with government programs, banks offering loans through their own funding have contributed to increase in total outstanding loans



## Banks' credit quality

Note: Becomes a non-performing loan if not repaid within 90 days.

1 in 9 loans in the banking sector is non-performing

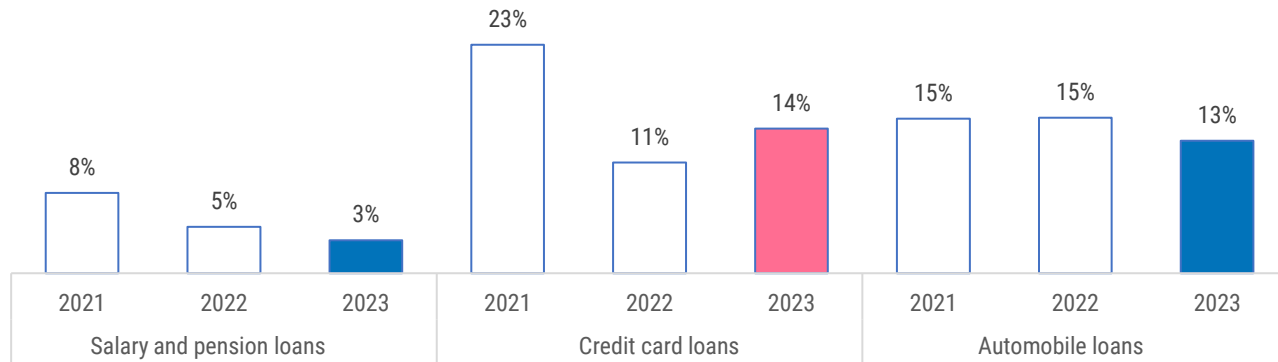
# 9%

Source: Bank of Mongolia,  
National Statistics Office of Mongolia

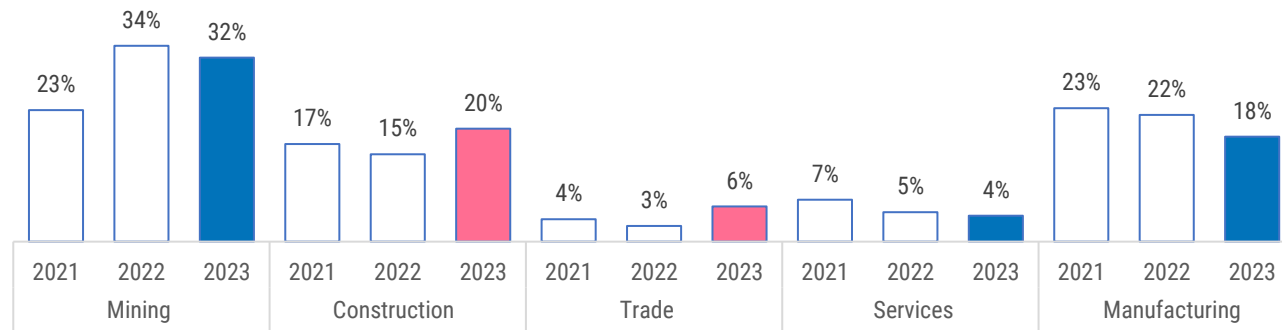
## Quality of credit portfolios are improving gradually

Better purchasing power of households is having a positive effect on credit quality  
Credit quality in the construction and trading sector requires attention

Individuals' non-performing loans comparison, at Q2 of each year



Non-performing loans to businesses, at Q2 of each year



# The calculation of interest on demand savings has become a key reason for increases in MNT current accounts.

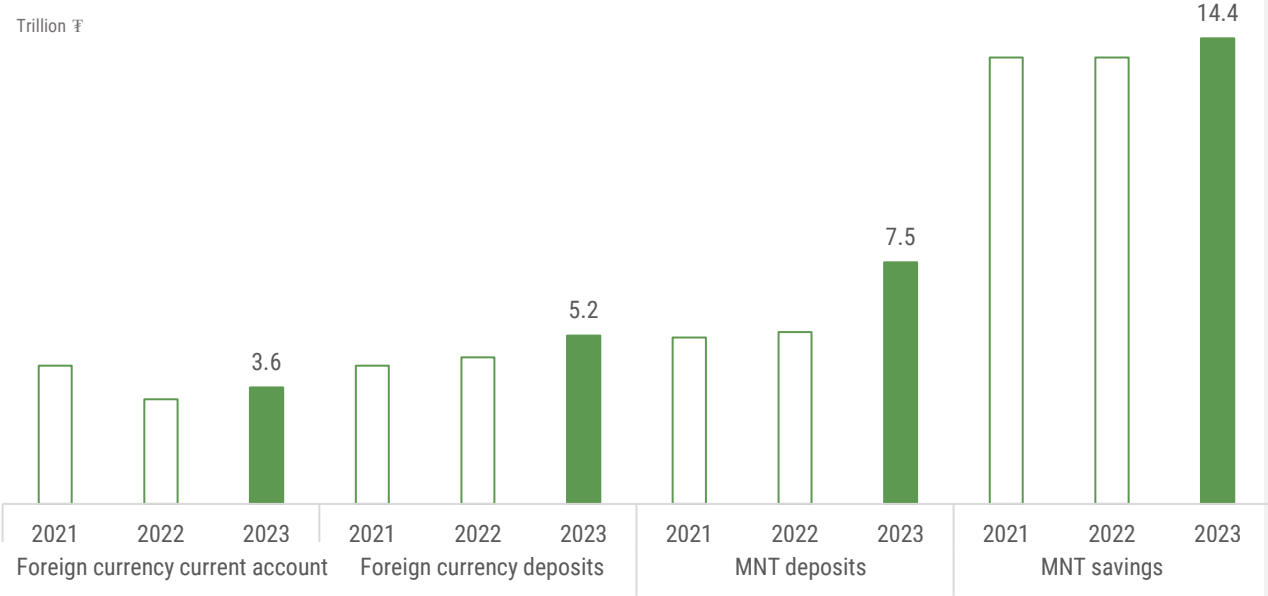
The act of saving foreign currency has become popular among individuals, due to uncertainty in the international financial environment.  
Consumers are worried that the currency exchange risk could reoccur, thus the increasing trend in saving foreign currency.

## Bank source funds

*Note: Bank's current account and deposits*

Bank source funds, at Q2 of each year

Trillion ₮



MNT deposits increased

40%



# 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

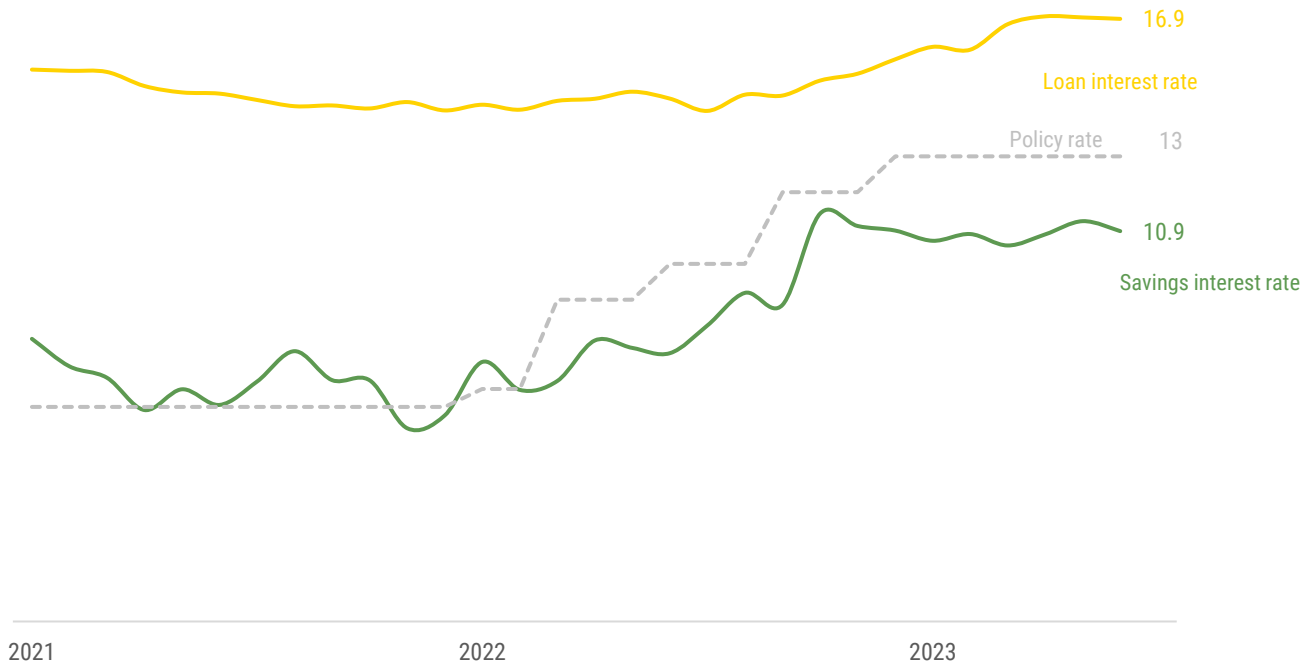
Loan interest rate

# 16.9%

Source: Bank of Mongolia

## Interest rates are stable

While interest rates in the first half of the year are stable, it is expected to decrease in the second half. High policy rates is the reason why interest rates are rising



# BANKS' FINANCIAL INDICATORS

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**Performance of first half 2023**

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## Bank assets

Note: Bank's liabilities + owner's equity = assets (active).

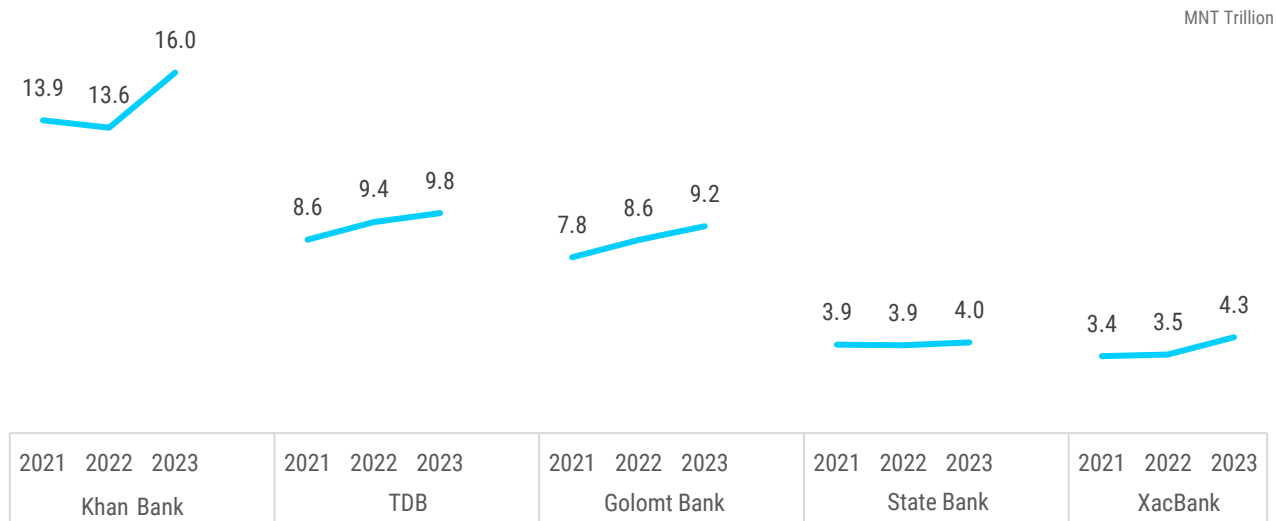
Assets of systemically important banks have increased by

# 11%

## Total active of the banking system has increased by 4.3 trillion MNT from the same period of the previous year.

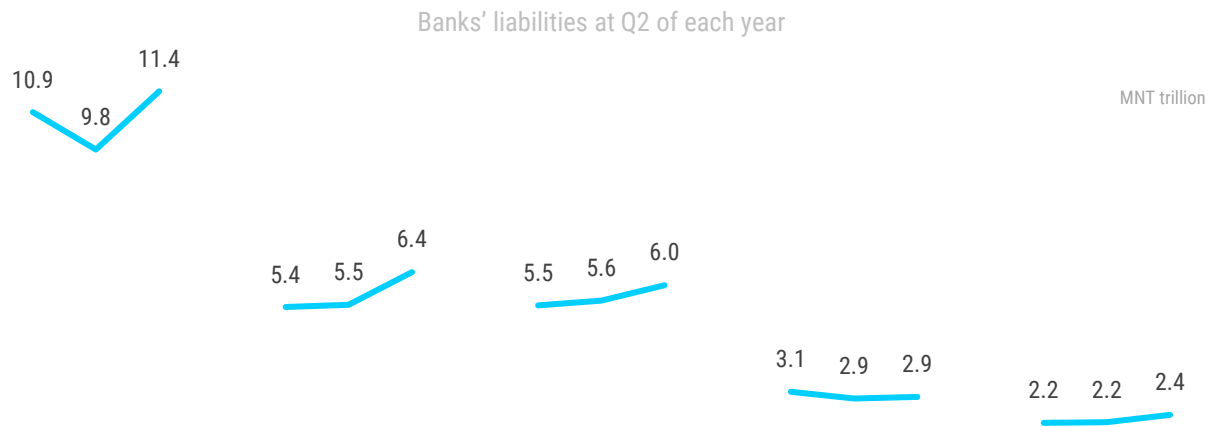
Khan Bank and Xac Bank's actives increased by 18% and 22%, respectively.

Banks' assets at Q2 of each year.



# Total liabilities in the banking sector increased by MNT 3.2 trillion compared to the previous year

Khan Bank and Trade Development Bank's liabilities have each increased by 16%.



2021	2022	2023
Khan Bank		
TDB		
Golomt Bank		
State Bank		
XacBank		

## Bank liabilities

Note: Liabilities sourced from individuals, organizations and investors

Banks' liabilities increased by

# 12%

## Return on equity

Note: Banks provide information how they spend their assets to the public. In other words, it shows how efficiently the company uses their assets for profit

Banks' average return on equity

10%

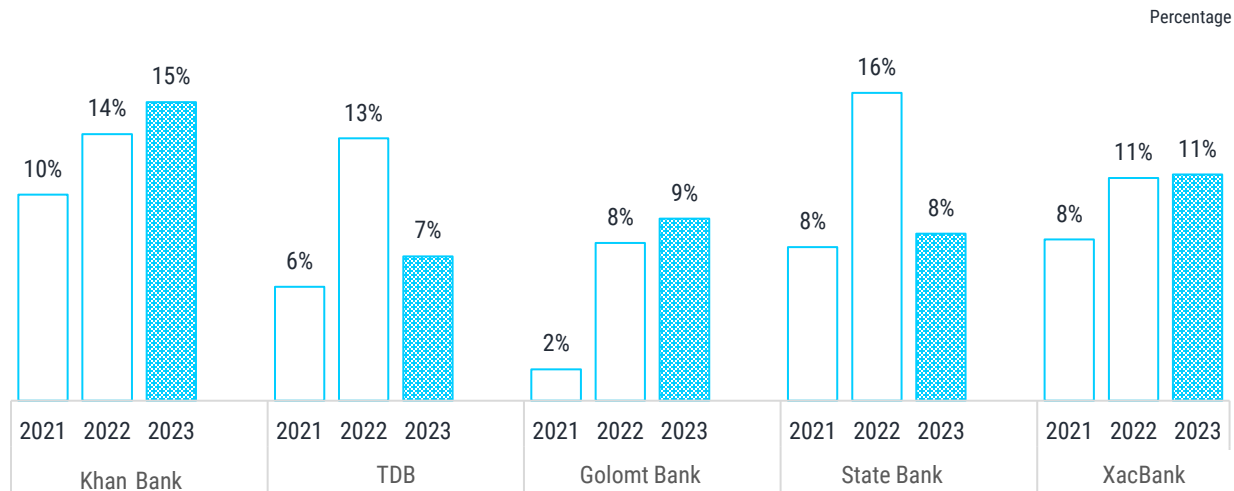
Source: Bank's unaudited financial reports

## Some banks' return on equity has decreased

Equity of systemically important banks have reached MNT 4.9 trillion, an increase of 13% from the same period of the previous year.

Profits from equity are lower than profits from savings

Banks' return on equity, at Q2 of each year



## Share prices

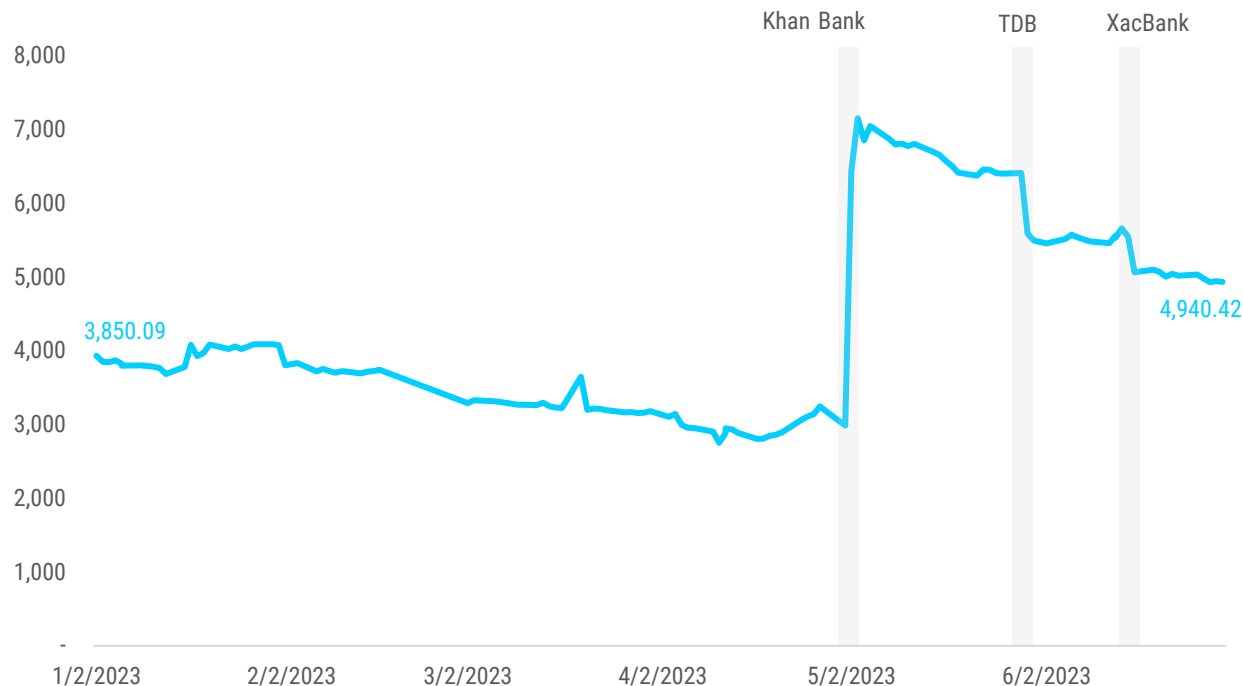
Note: Banks' share prices is an indicator that shows how bank's share values change on the stock market

### Influx of investors who are interested in making short-term profits is the main reason banks' share prices are falling.

Professional investors that make long-term investments are scarce.

Foreign investors make up only 2-3% of total participants in the stock market.

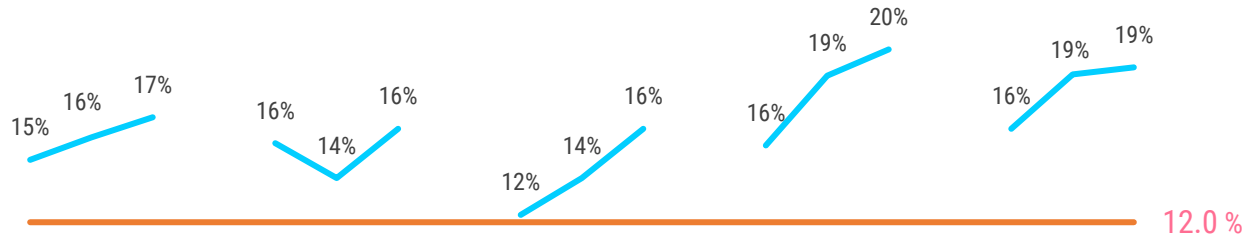
Banks are required to raise an additional MNT 2.2 trillion is 13 times higher than MSE's total trading amount of 1 year.



## Banks' capital adequacy has increased.

Successful commencement of IPOs have caused bank's capital adequacy to increase.  
Banks have enough capital to accelerate the recovery of key sectors and support the economy.

Banks' capital adequacy, at Q2 of each year



## Capital adequacy

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

Banks' average capital adequacy

18%

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

## Liquidity ratio

Note: Liquidity ratios are a measure of the ability of a company to pay off its short-term liabilities.

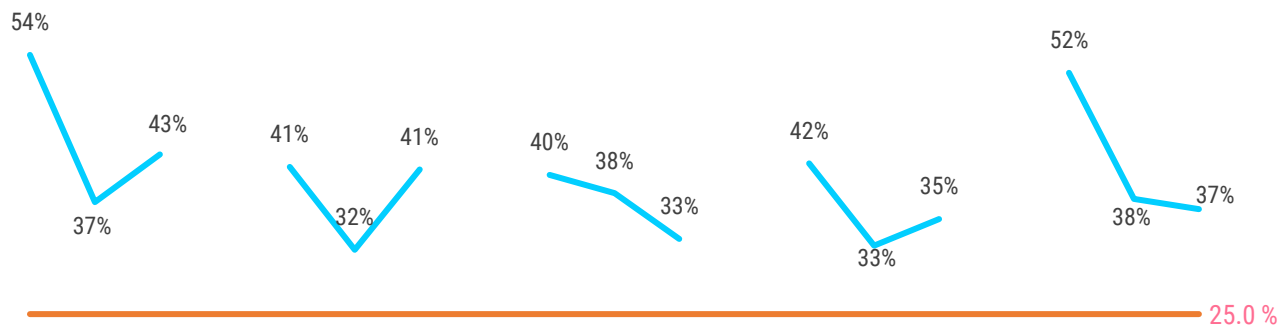
Average liquidity ratio of systemically important banks

# 38%

## Liquidity ratio of 5 systemically important banks are too high.

Loans offered to individuals have increased compared to previous year.  
Banks' liquidity ratio have increased.

Banks' liquidity ratio, at Q2 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		



# MACRO-ECONOMIC ENVIRONMENT

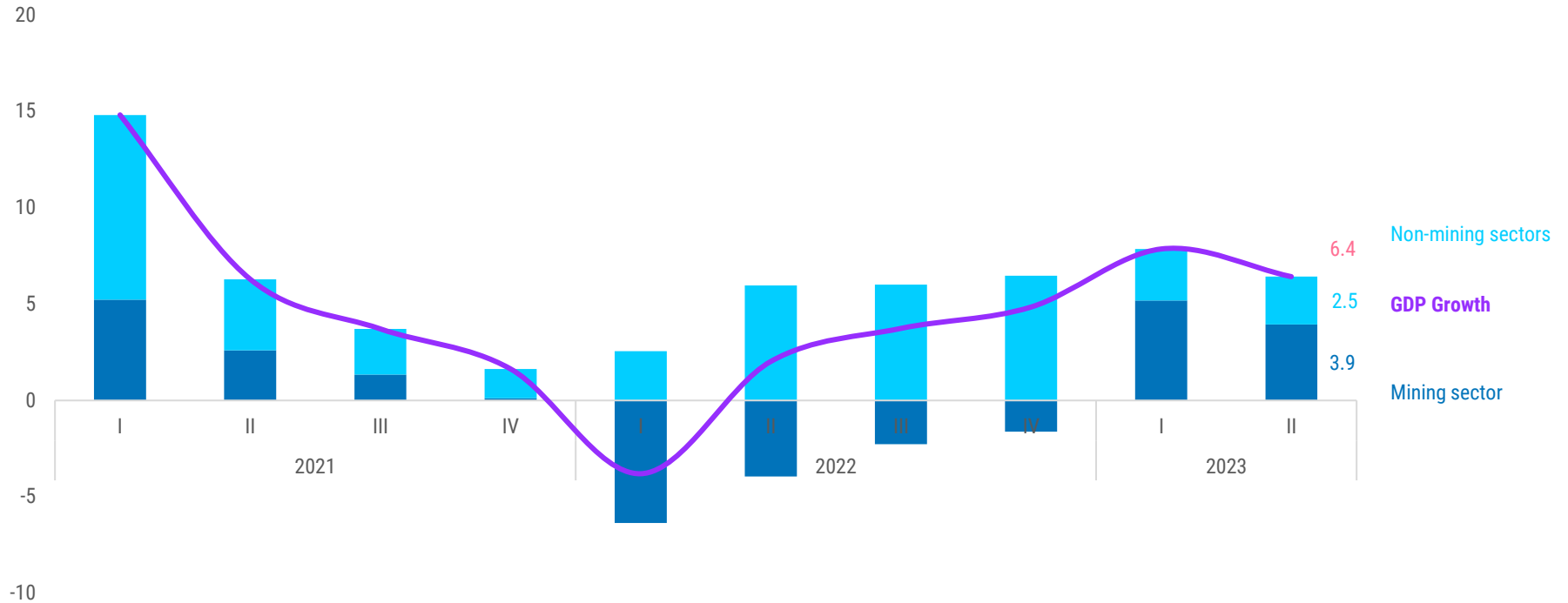
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**First half of 2023:** Economic growth was at 6.4%. From the beginning of the year, improvements in the mining sector, followed by the quick recovery of the transportation industry had a positive impact on economic growth. On the other hand, the agriculture sector suffered due to unfavorable weather conditions, while other sectors experienced slower, but gradual growth. From the demand side, the increase in consumption and net exports have contributed to the economic growth. Whereas the slowdown in foreign direct investment has had a negative effect. In most other countries, decreases in price of goods have lowered the supply side of inflation, resulting in lower inflation.

**Forecast:** If Oyu Tolgoi's underground mining and flows of raw material exports go smoothly, economic growth is expected to continue. Further, if no efforts are made to support the recovery of key sectors other than mining, and improve the economic variety, changes in China's economy could substantially affect our economy. The government's act of minimizing inefficient expenses have lowered the pressure on the balance of payments, which in turn helps stabilize the domestic currency. Inflation caused by supply side effects have subsided.

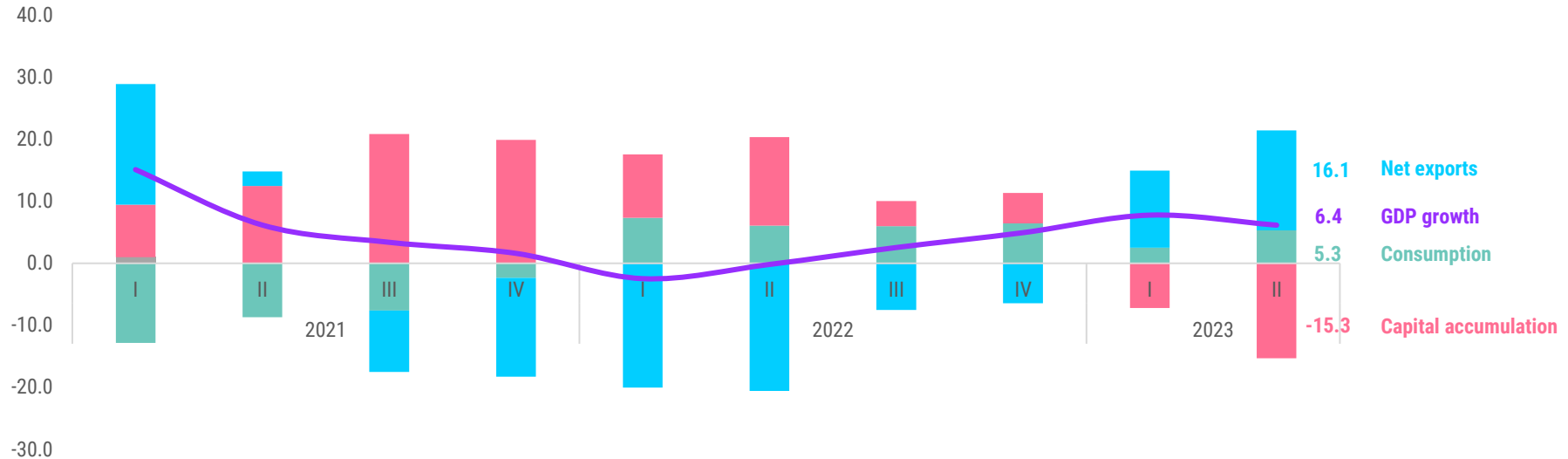
## GDP growth is at 6.4% at first half of 2023.

Recovery of the mining sector have catalyzed the transportation and warehousing industry and have contributed 5.8% of the growth. Though the manufacturing and energy sectors have experienced recovery, the rate of recovery is not yet sufficient. Growth in the agricultural sector have slowed due to unfavorable weather conditions, whereas the construction sector saw little to no growth.



# Sustained economic growth could not be maintained if foreign investments do not improve.

Lower imports and higher exports have increased net exports, which played a key role in economic growth.  
Rise in consumption levels continues.



# International trade balance increased by 42% from same period of previous year.

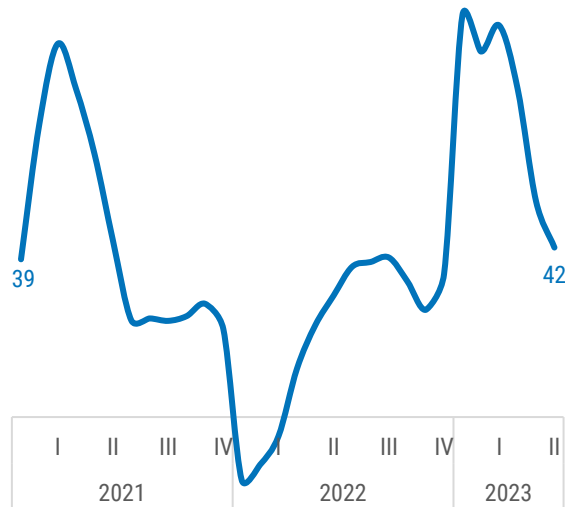
The rise in exports of coal and oil while other stable exports of raw materials had a positive effect on the international trade balance. Despite the lack of a significant decrease in the physical volume of imported goods, the lower prices in the international market are causing a price-driven decrease in the volume of imports.

Recovery in the mining sector has resulted in increased exports

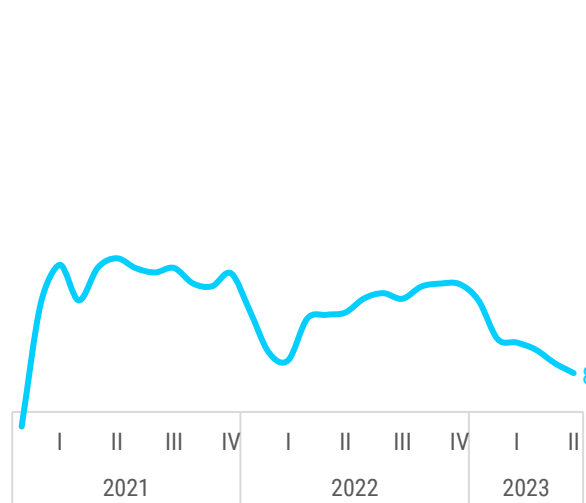
Import growth has stagnated due to stabilization of the international economy.

Exports benefited from favorable trade conditions, supporting the sales margin.

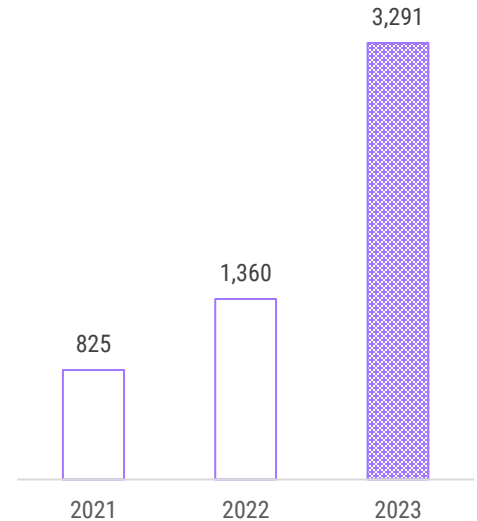
Percentage



Percentage



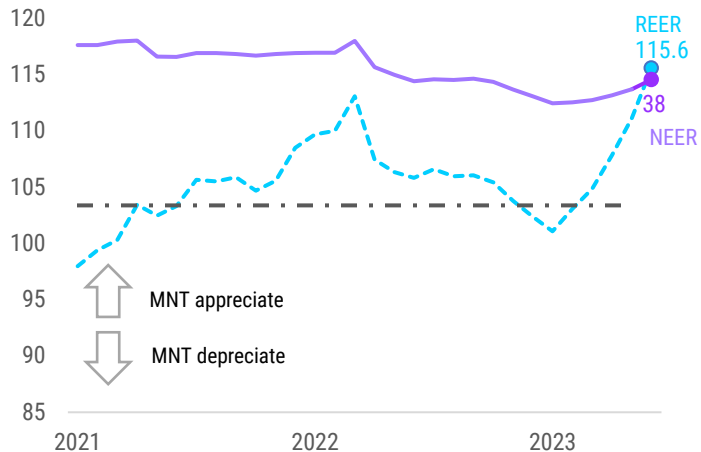
Billion USD



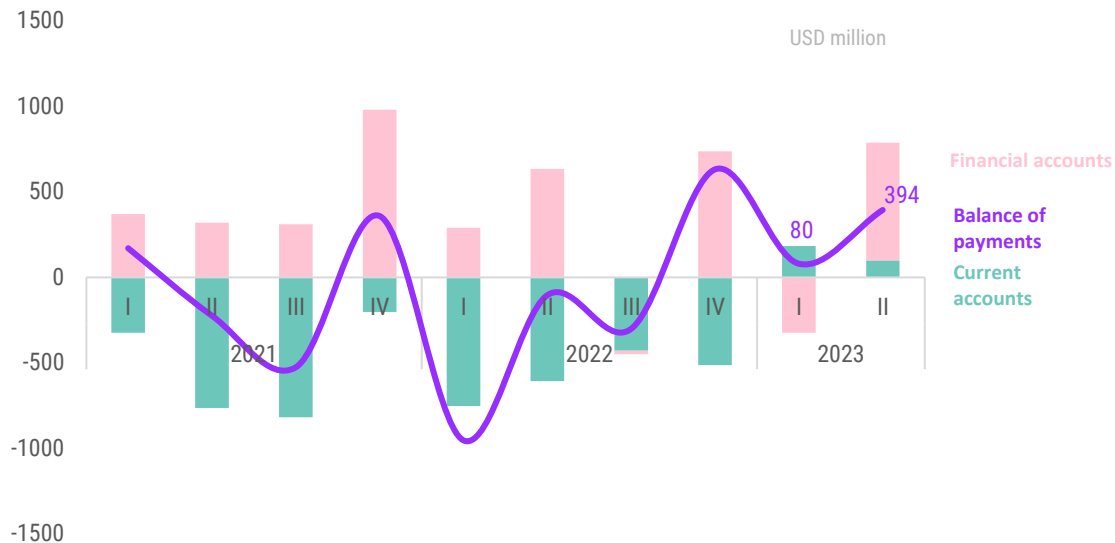
# Real value of the MNT experienced sharp increases, resulting in higher prices of domestic products

The balance of payments was in profit of amount equivalent to USD 474 million.  
This profit was mainly due to increased levels of exports, as well as lower import prices.

### Real and nominal value of the MNT



### Balance of payments



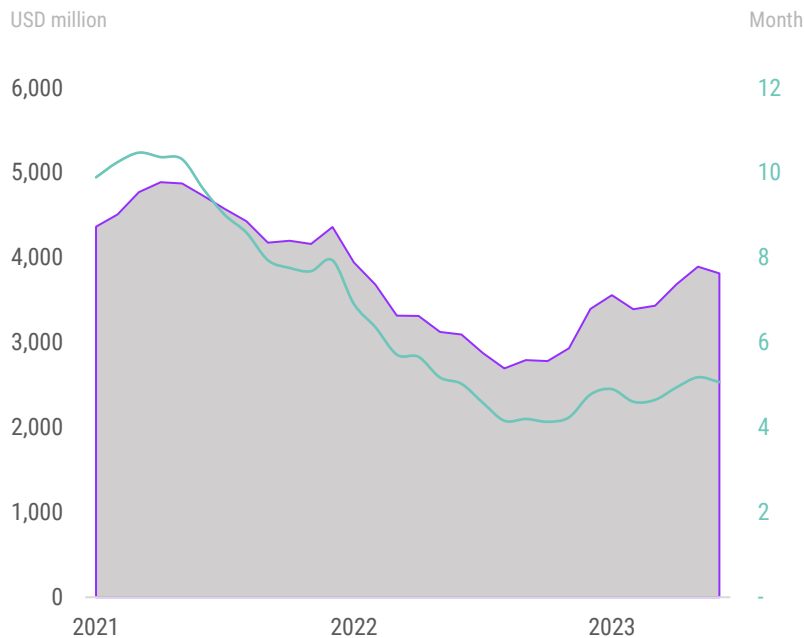
## Foreign currency reserves are sufficient

Foreign currency reserves increased by 23% compared to the same period of the previous year.

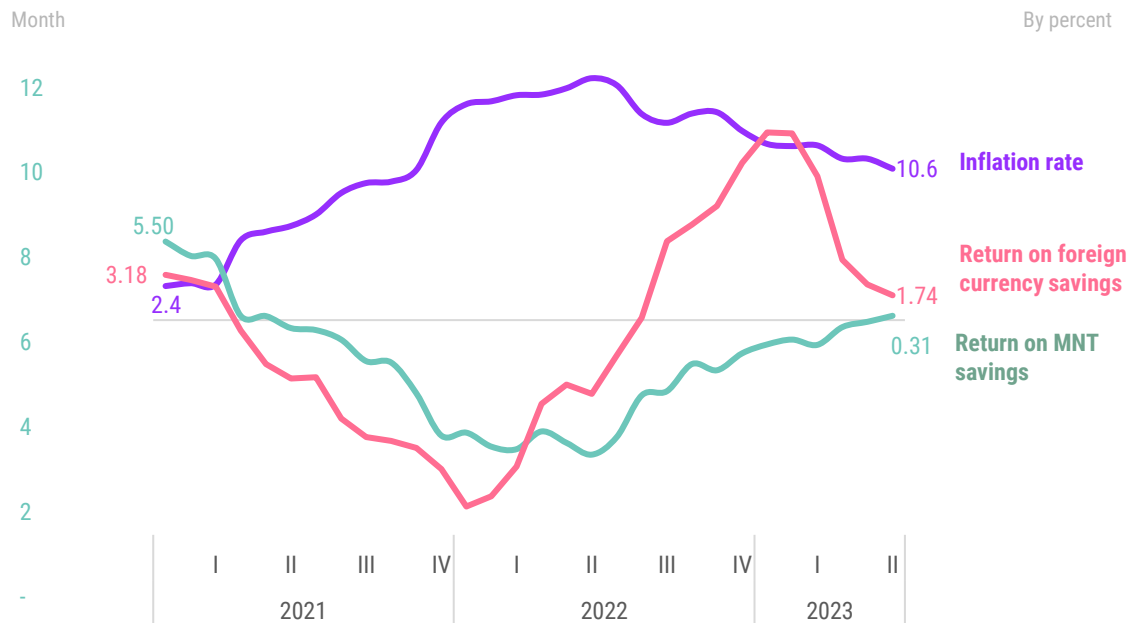
Worldwide market prices of products have gradually stabilized, causing price hikes of products from supply factors to stagnate.

Return on MNT savings has become positive after two years

There are enough foreign currency reserves to fund 4.5 months worth of imports.



Return on MNT savings finally takes a positive turn due to gradual decrease in inflation rates.

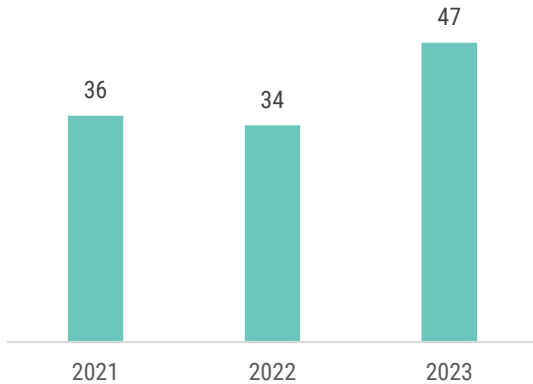


# Government budget balance saw a surplus of MNT 1.5 trillion.

Oyu Tolgoi's underground mining and higher exports of mining products have boosted government tax revenue. Profits in balance of payments have relieved pressure on the government budget deficit

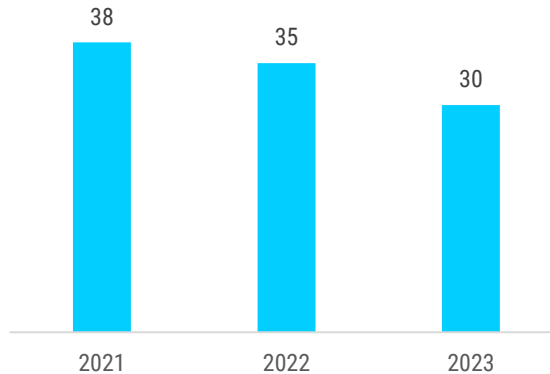
Budget revenue increased 38% from the previous year

% of GDP



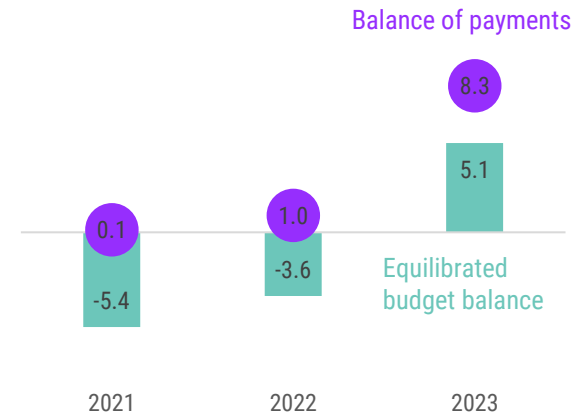
Total budget expenditure increased by roughly 10%

% of GDP



Balance of payment profits

% of GDP



# “THE BANKING CODE” TO PROTECT CUSTOMER RIGHTS





## What is “The Banking Code”?

The codex is a set of promises made by banks on how to work with individuals, small business owners, and guarantors. (Australia’s “The Banking Code”)

### Purpose of code:

- Establish a standard of communication with customers, and implement the good practices of banking;
- Explain, make clear to customers about the products and services banks offer;
- Support and maintain the open & civil relations between banks and their customers;
- Strengthen the trust and confidence of customers on the banking sector. (South African “Code of Banking Practice”)

# Contents

Approved by resolution 23/003 on February 16<sup>th</sup>, 2023 by MBA Board of Directors, which includes 10 sections and 93 clauses.

1. Introduction
2. Terminology
3. Main Principles
4. General ideas
5. Account services
6. Credit services
7. Payment services
8. Customer responsibilities
9. Complaint resolution
10. Others

<https://mba.mn/codex/>

# Main Principles

## 3.1. Be reliable and trustworthy

"We will maintain the trust of our customers and will commit to provide the most suitable services tailored to their needs. We will carefully uphold the law and protect the confidentiality of both our customers and the organization's private information."

## 3.2. Be civil and ethical

"We, in all our activities, prioritize both ethics and the highest standards of integrity. We strive to provide our customers with respect, responsiveness, and unwavering commitment, making them the cornerstone of our organization's success."

## 3.3. Emphasize quality

"We are dedicated to delivering our services with the utmost quality, ensuring that we provide products and services efficiently and professionally. We strive to offer our customers an easy, cost-effective service experience, and are committed to upholding a culture of accountability and responsiveness."

## 3.4. Be transparent and responsible

"We will provide customers with the necessary information promptly and accurately, ensuring that it is delivered in a timely and precise manner. When engaging with you, we prioritize being highly responsive, truthful, and responsible."

## Significance

- Banks will adhere to a single standard regardless of size and age.
- Creating an environment to safeguard the rights of customers (One standard, resolving disputes, supervision).
- Customers will be able to access services tailored to their needs, while improving their financial literacy.
- Build and maintain trust between banks and customers.
- Essential for the sustained development of the banking system.