



BANKING SECTOR REVIEW

2024 Q3 Report

A DOUBLE-EDGED SWORD

A double-edged sword

The banking sector's performance remained relatively stable and continued to grow. Compared to the same period last year, the banking sector's total assets increased by 27 percent. Consumer loans extended to individuals were higher, while business loans grew in all sectors except manufacturing. Non-performing loans decreased, reaching the lowest level in the past ten years. Due to stable inflation and a steady exchange rate of the MNT, the return on MNT deposits remains higher than that of foreign currency deposits.

Meanwhile, increased activity in the mining, transportation, trade, and services sectors positively impacted economic growth, playing a significant role in achieving a 5 percent increase in the economy. Due to weather conditions, the agricultural industry experienced a downturn, and growth in other sectors was relatively weak.

Since the beginning of the year, the export of mineral products has been growing, while imports of automobiles and goods intended for investment have also shown high growth. The current account deficit contributed to the increase in the balance of payments deficit, while higher foreign direct investment played an important role in reducing the balance of payments deficit. The primary balance of the budget has shown a surplus, easing pressure on the budget.

Looking ahead to 2025, the budget has been expanded based on optimistic forecasts for the prices and volumes of mining-based mineral products. This will be important for supporting economic growth in the coming years; however, by spurring imports, it could also pose a high risk of putting pressure on inflation, the balance of payments, and the MNT exchange rate. Therefore, excessive fiscal expansion may backfire like a double-edged sword, potentially undermining opportunities for economic growth.



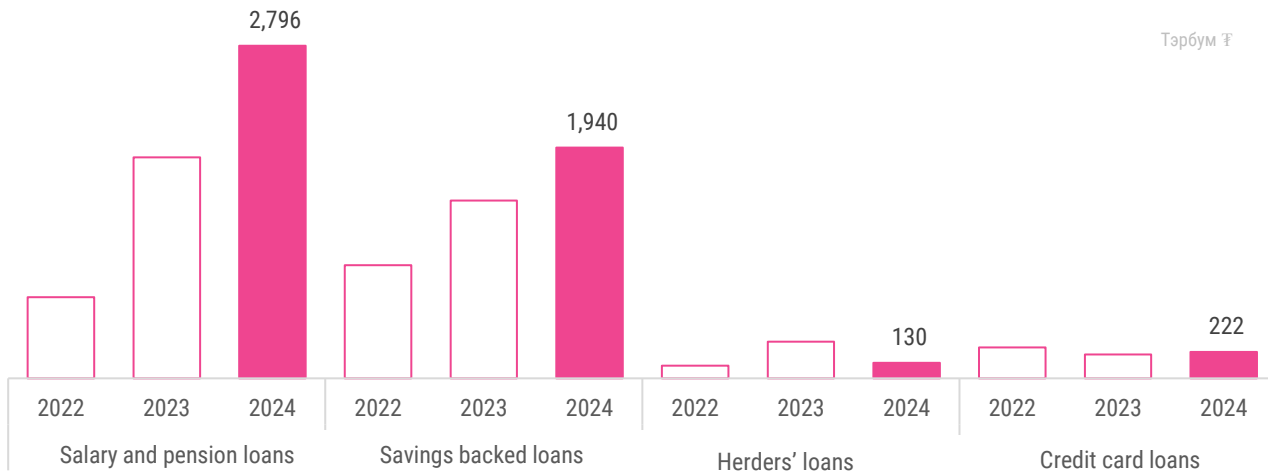
Consumer loans continue to increase.

Demand for consumer loans, including those secured by salaries, pensions, and savings, remains high. Meanwhile, the amount of loans granted to herders has decreased.

Key changes,
Simple explanation



New consumer loans, 1st half of each year



Theoretical definition



Newly disbursed bank loans

Note: In a given year, the outstanding loan balance increases by the amount of newly issued bank loans.

The amount of newly
disbursed loans increased

30%



2024 Q3 Performance

Key Changes in the Banking Sector and Future Trends in the Third Quarter of 2024



The growth of bank loans continues.



The quality of bank loans is improving.



Banks' return on equity is at 20%.



The financial performance of the systemically important banks is strong.



The stock prices of banks are relatively low compared to other sectors.



The returns on MNT deposits are higher than those on foreign currency deposits.

MAIN FINANCIAL INDICATORS OF COMMERCIAL BANKS

2024 Q3

Banks' loan portfolio

Note: The outstanding loan balance increases with newly disbursed loans and decreases with repayments

Outstanding loans
increased by

+35%

Source: Bank of Mongolia
National Statistics Office

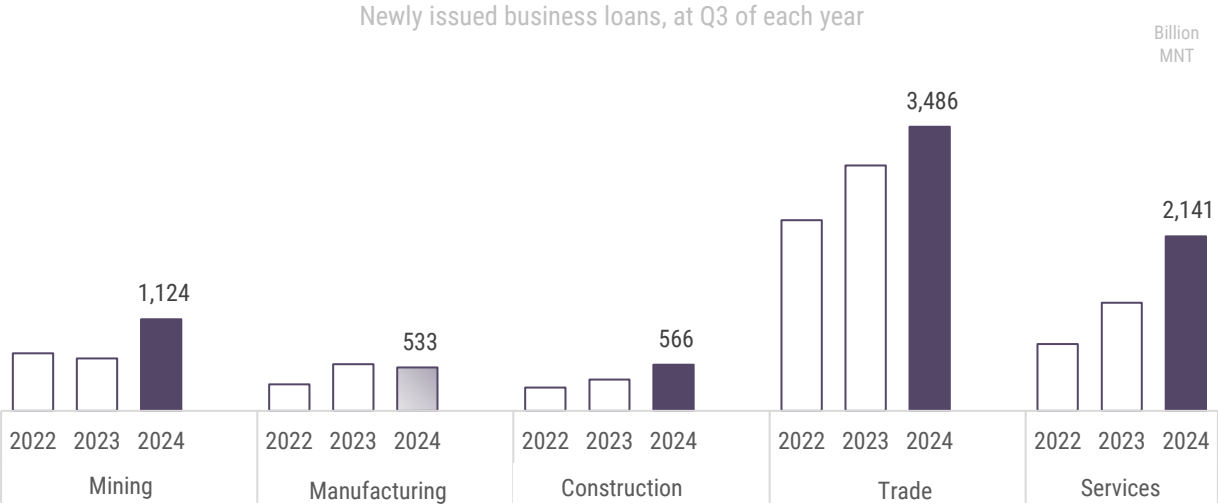
The loan growth in the banking sector continues.

As the economy improves, loans extended to businesses have increased.
The growth of consumer loans for individuals continues.



The issuance of business loans supporting economic sectors is accelerating.

The revitalization of the mining and construction sectors has contributed to an increase in loans extended to these sectors. The growth of loans provided to the trade and services sectors continues.



Newly issued loans

Note: The loan balance increases with the amount of newly issued loans by banks in that year

Newly issued business loans increased by

36%

Loan Quality of Banks

Note: Loans are classified as non-performing if they are overdue for more than 90 days.

Non-performing loans in the sector:

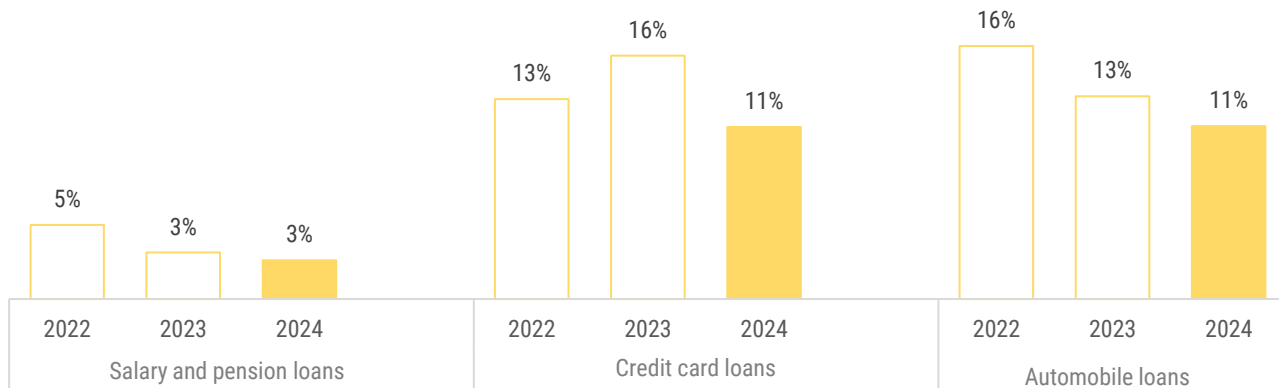
5.7%

Source: Bank of Mongolia
National Statistics Office

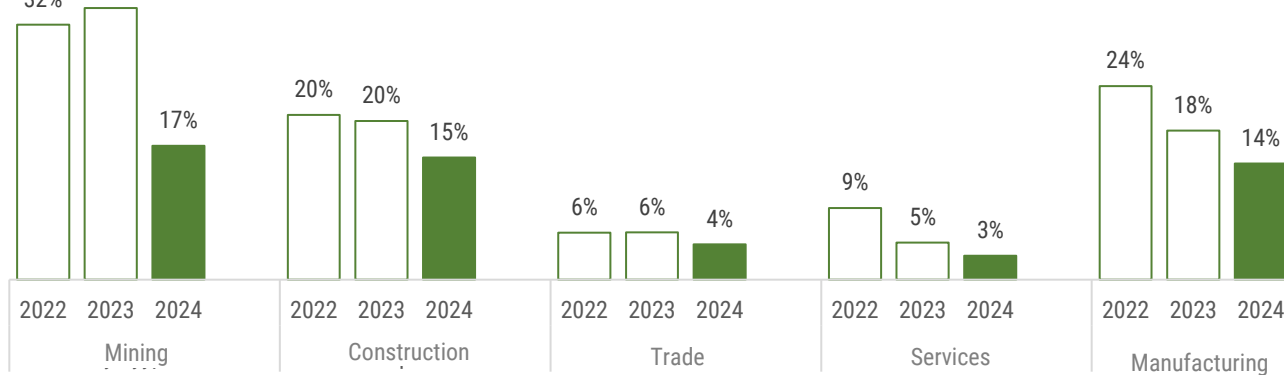
The volume of non-performing loans is at its lowest level in the past 10 years.

The increasing purchasing power of households has positively impacted the quality of individual loans. Enhanced business activity has played a significant role in reducing the volume of non-performing loans. The ratio of non-performing loans in the mining sector has decreased by half.

Ratio of Non-Performing Consumer Loans, at Q3 of Each Year



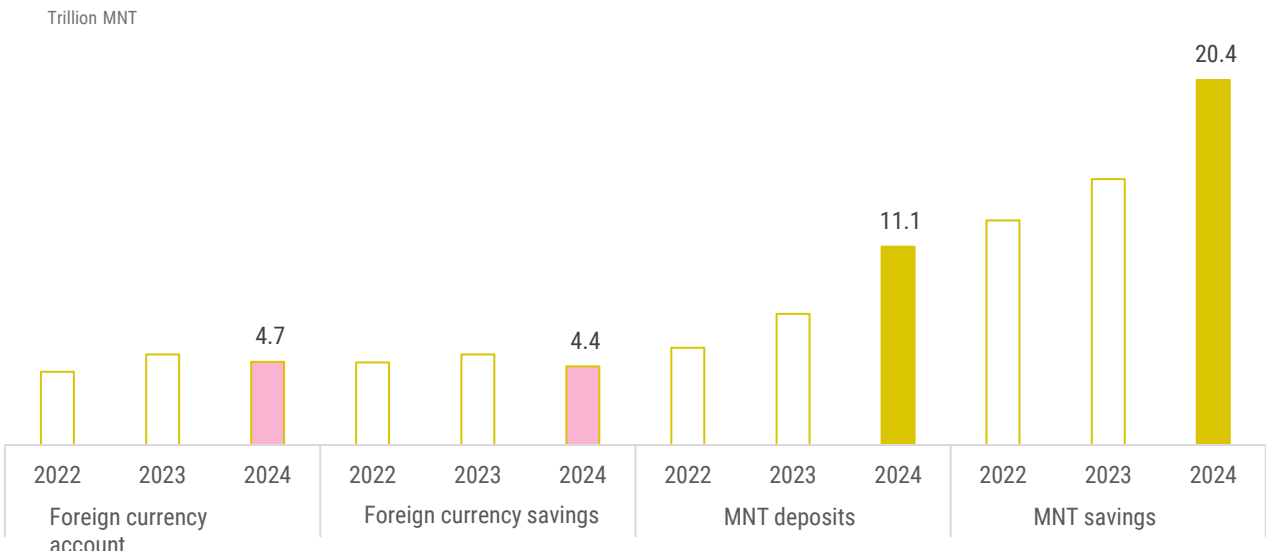
Business Non-Performing Loan Ratio, at Q3 of Each Year



The high returns on MNT deposits have contributed to an increase in MNT-denominated funding.

The stability of the MNT exchange rate has contributed to a decline in foreign currency current accounts and deposits. Increased confidence in the MNT has led to a rise in MNT current accounts and deposits.

Bank liabilities, at Q3 of each year



Bank Liabilities

Note: This refers to the deposits and savings collected by the bank..

Banks' liabilities increased by

25%

Weighted average interest rate of banks

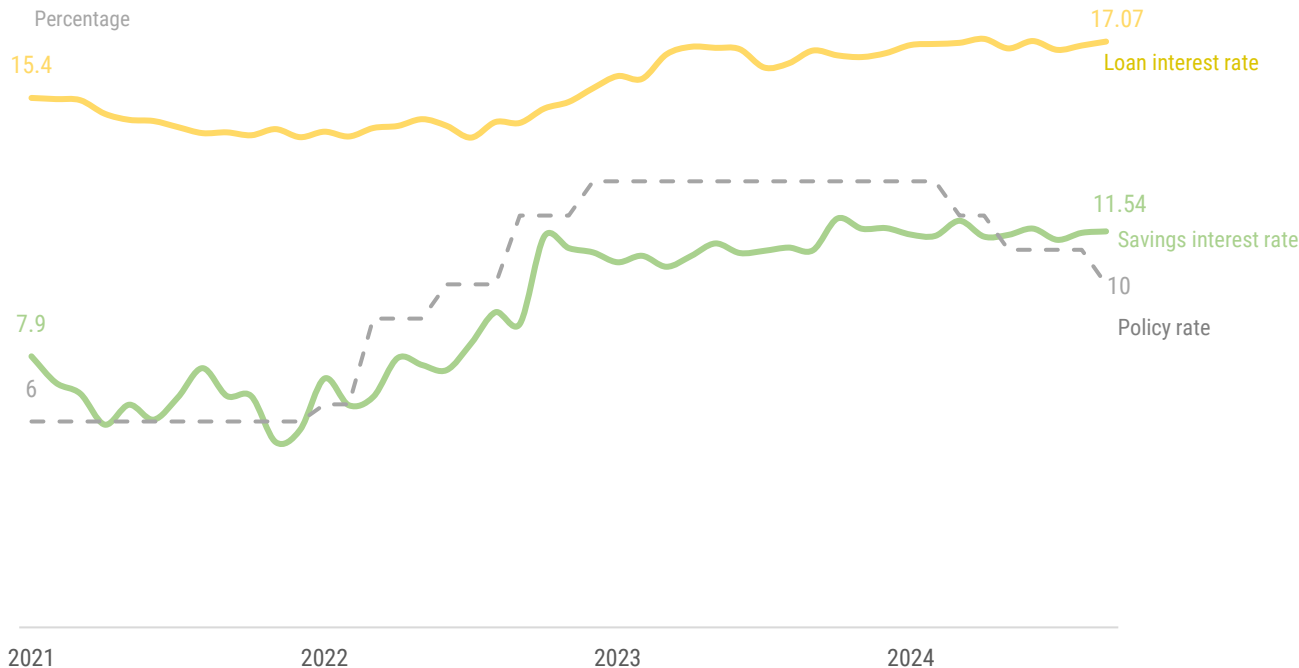
Note: The weighted average interest rate refers to the average interest rate of newly attracted funds and disbursed loans by banks, weighted by time and monetary amounts.

Savings interest rate

11.5%

Interest rate levels are stable.

Although the central bank is gradually lowering interest rates due to external and domestic economic conditions, deposit interest rates are not expected to decline.



MAIN FINANCIAL INDICATORS OF COMMERCIAL BANKS

2024 Q3 Performance

Bank assets

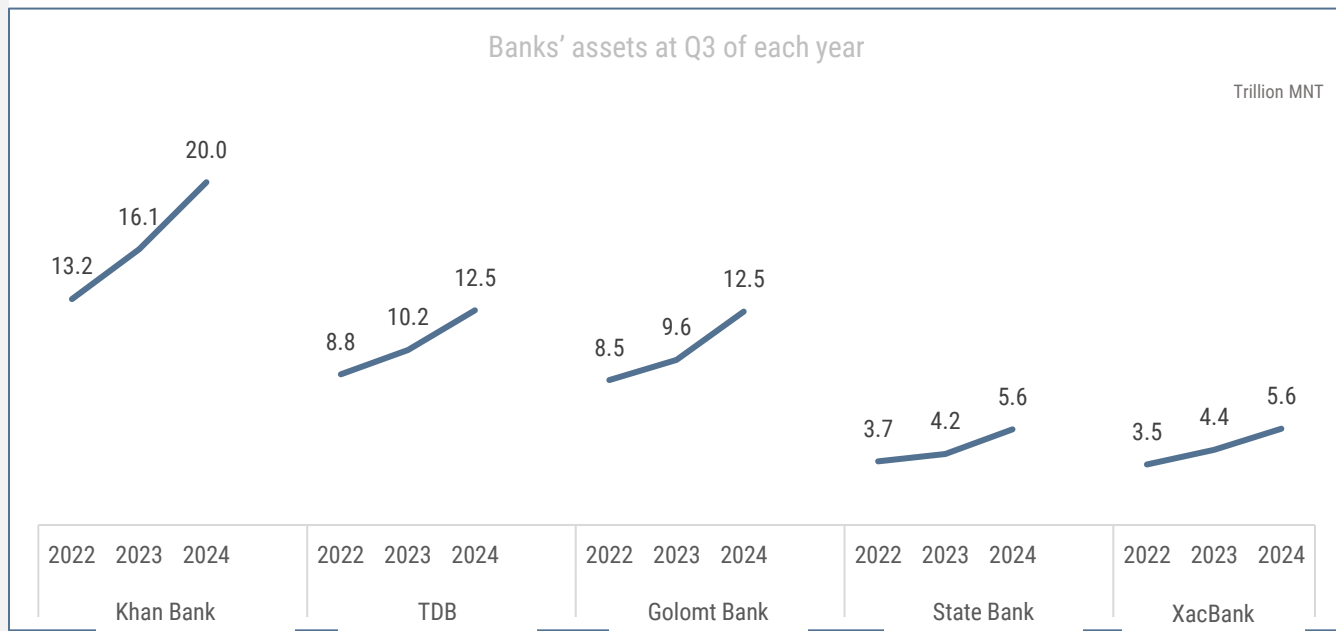
Note: The total liabilities of a bank plus the equity of its owners collectively constitute the bank's assets..

Assets of systemically important banks increased by

26%

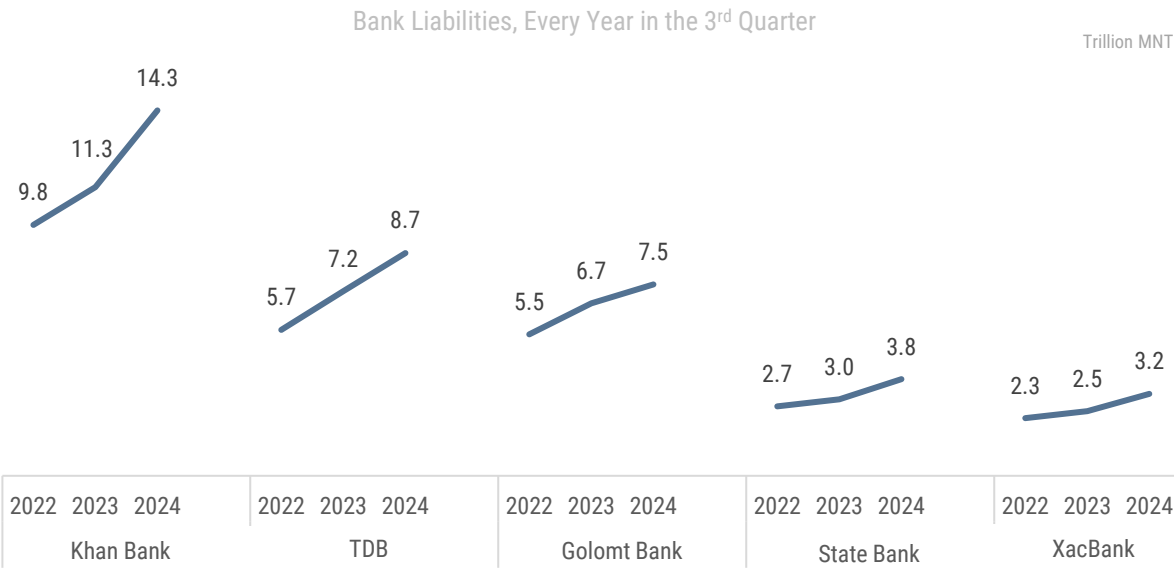
Total assets in the banking sector increased by MNT 11.7 trillion from the same period last year.

XacBank's assets increased by 30%, Golomt Bank and State Bank's assets by 28%, and TDB's assets grew by 25%, which played an important role in the sector's overall growth in assets.



The total funding of the banking sector increased by MNT 6.7 trillion MNT compared to the same period last year.

Khan Bank and TDB's liabilities grew by MNT 3 trillion and 1.5 trillion, respectively.



Bank Liabilities

Note: The amount of debt raised from individuals, organizations, and investors

Banks' liabilities increased by

22%

Return on Equity

Note: It provides information about how efficiently the organization is utilizing its assets. In other words, it is an indicator of how the company is turning its assets into profit.

Banks' Avg. Return on Equity

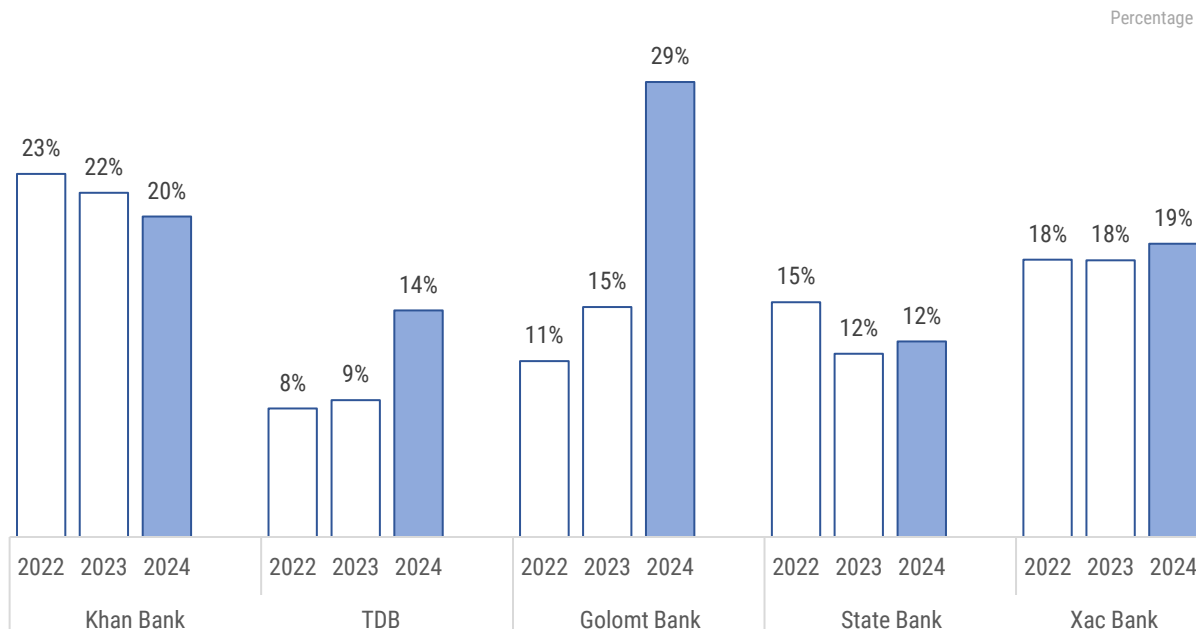
19%

Source: Banks' unaudited financial reports

Banks' return on equity is higher than the returns on savings.

The equity of systemically important banks reached MNT 6.2 trillion, marking a 20% increase compared to the same period last year. The profit generated from equity remains high

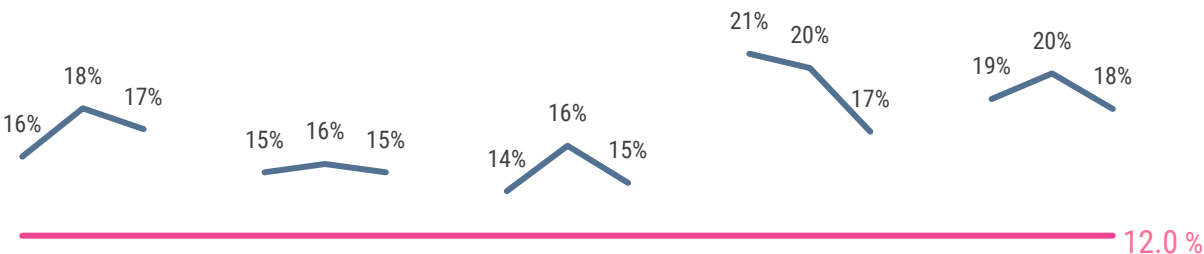
Banks' return on equity, at Q3 of each year



The capital adequacy of banks has decreased.

However, banks still have sufficient equity to provide loans aimed at supporting the economy and fostering growth in key sectors.

Banks' capital adequacy, Q3 of each year.



2022	2023	2024
Khan Bank		
2022	2023	2024
TDB		
2022	2023	2024
Golomt Bank		
2022	2023	2024
State Bank		
2022	2023	2024
XacBank		

Capital adequacy

Note: This refers to an assessment that determines whether the bank has sufficient capital to cover losses arising from financial and operational risks.

Average Capital Adequacy Ratio of Banks

16%

Liquidity Ratio

Note: This ratio measures the ability to pay short-term obligations on time.

Average Liquidity Ratio of
Systemically Important Banks

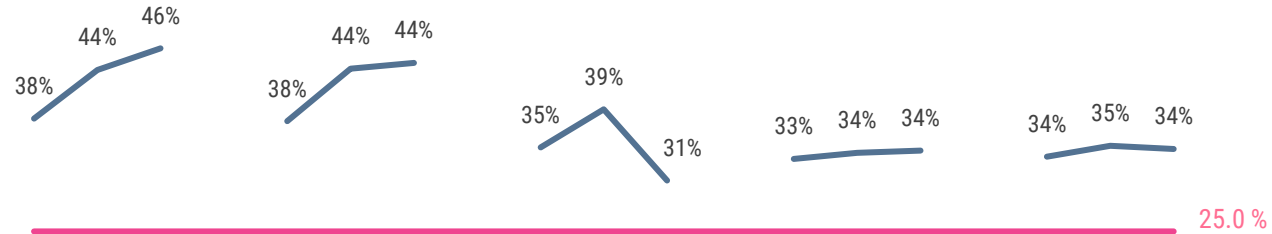
38%

Source: Banks' Unaudited Financial Reports

The liquidity ratio of the five systemically important banks remains high.

Banks have sufficient capital to continue supporting sustainable economic growth in the future..

Banks' liquidity ratio, at Q3 of each year



2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024
Khan Bank			TDB			Golomt Bank			State Bank			XacBank		

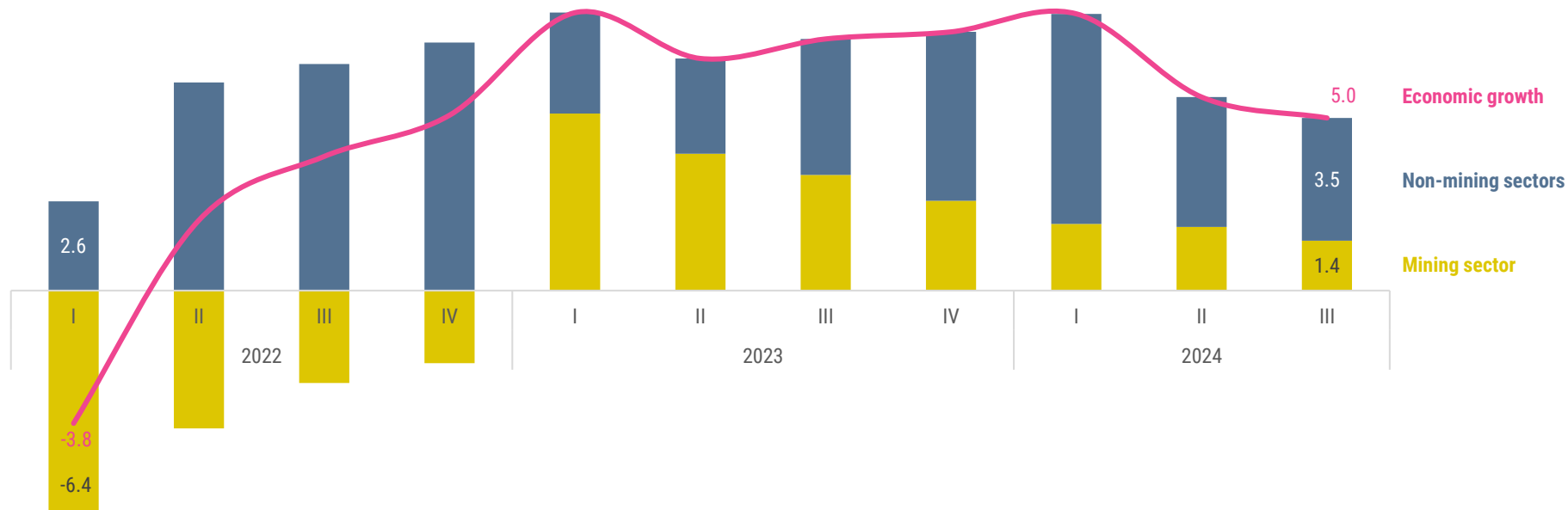
THE MACRO-ECONOMIC ENVIRONMENT

2024 Q3: Economic growth reached 5 percent. Since the beginning of the year, high activity in the mining sector, followed by the transportation and warehousing sectors, has had a positive impact on economic growth. The two-tier elections contributed to the growth of the trade and services sectors. The gradual recovery of the manufacturing and construction sectors is also positively influencing economic growth. However, since the end of last year, unfavorable weather conditions have caused a downturn in the agricultural sector, negatively affecting overall economic growth.

Outlook: The technological competition and trade war between the United States and China are expected to persist. Additionally, unfavorable economic conditions in China pose a risk of declining prices for mining-based products. The overly optimistic projections for revenues from mining products in 2025, combined with excessive fiscal expansion, present significant risks to exchange rates, the balance of payments, and inflation. Therefore, the need for policy measures supporting non-mining sectors to promote stable economic growth in the medium term is becoming increasingly critical.

Economic growth reached 5% in the 3rd quarter of 2024.

The two-tier elections supported the activity in the trade and services sectors, contributing to the majority of economic growth at 3.7 percent. The revitalization of the mining sector boosted the transportation and warehousing sectors, accounting for 2.3 percent of economic growth. While the construction sector is recovering, the agricultural sector has been in decline for the past four consecutive quarters.



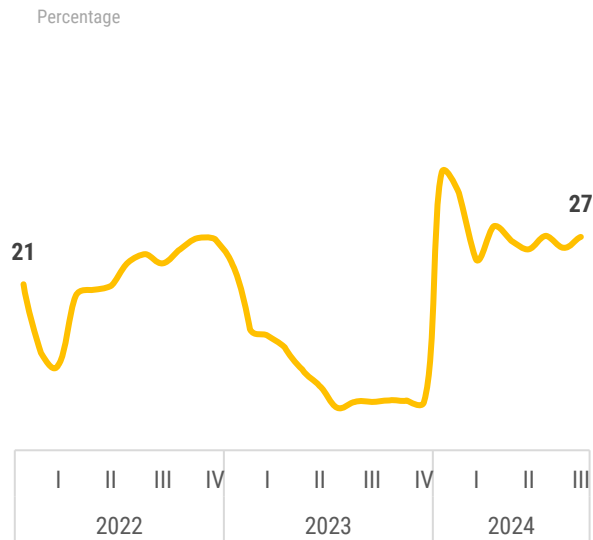
The foreign trade balance decreased by 30% compared to the same period last year.

The increase in exports of copper concentrate, coal, and iron ore concentrate played a key role in achieving a favorable trade balance. Meanwhile, the rise in imports of passenger cars and other investment-related products significantly contributed to the growth in total imports.

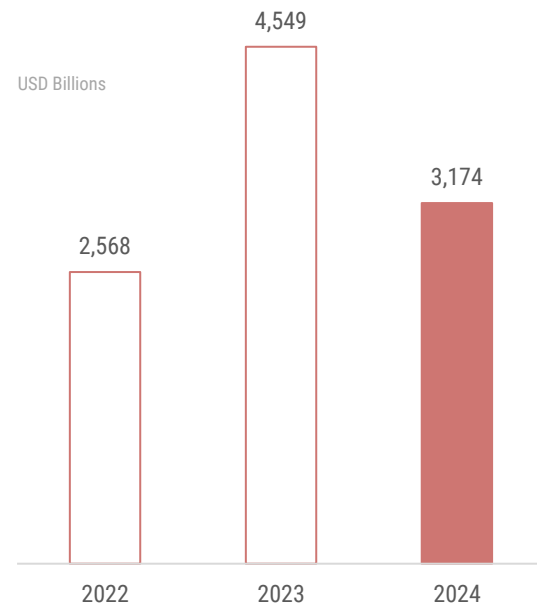
The decline in global market prices of major mining products has slowed down **exports**.



The **import** of investment-related goods is on the rise



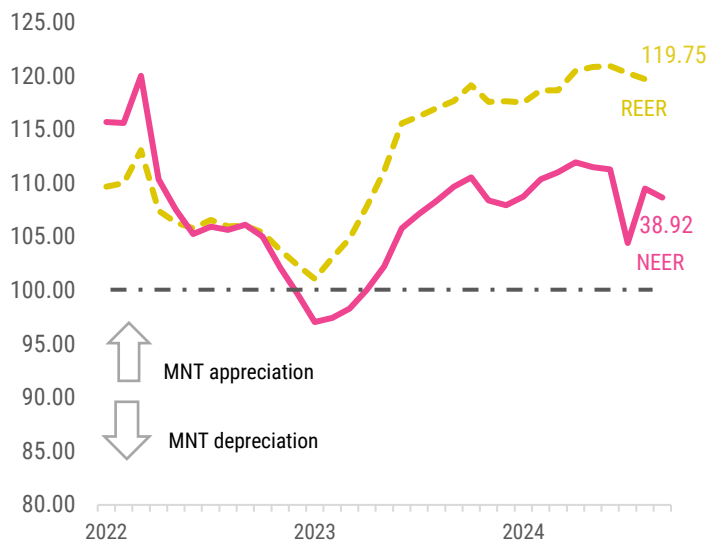
The increase in imports has contributed to a decline in the trade balance surplus.



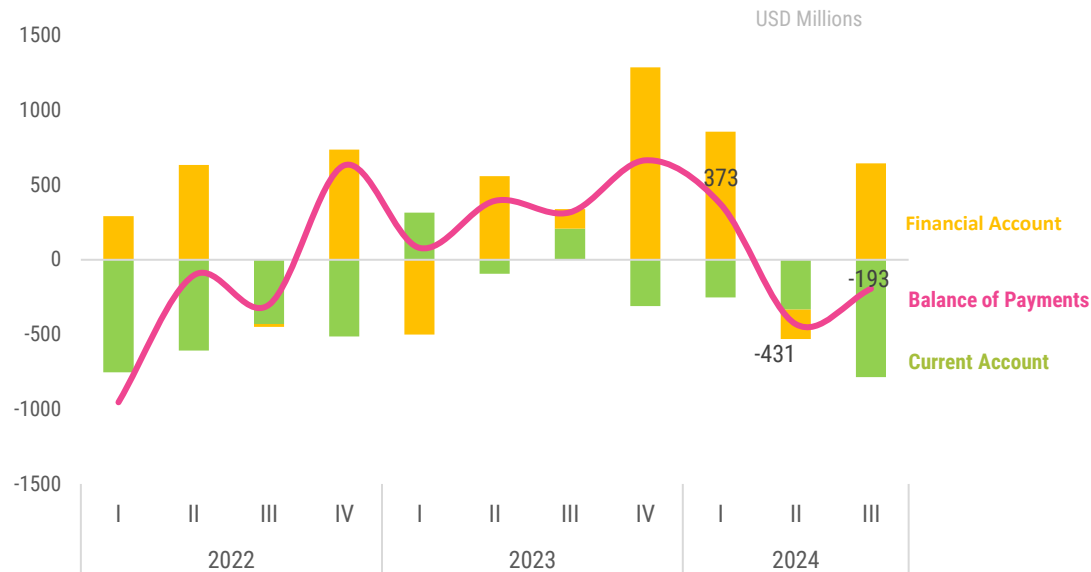
The balance of payments shows a deficit of USD 251 million.

The higher level of imports compared to exports has increased the current account deficit, contributing to the overall deficit in the balance of payments. The increase in foreign investment by 575 million USD has played a key role in achieving a surplus in the financial account. The real exchange rate of the MNT has gradually weakened, making the country's goods and products more affordable compared to those of other countries.

MNT real effective exchange rate vs. nominal effective exchange rate

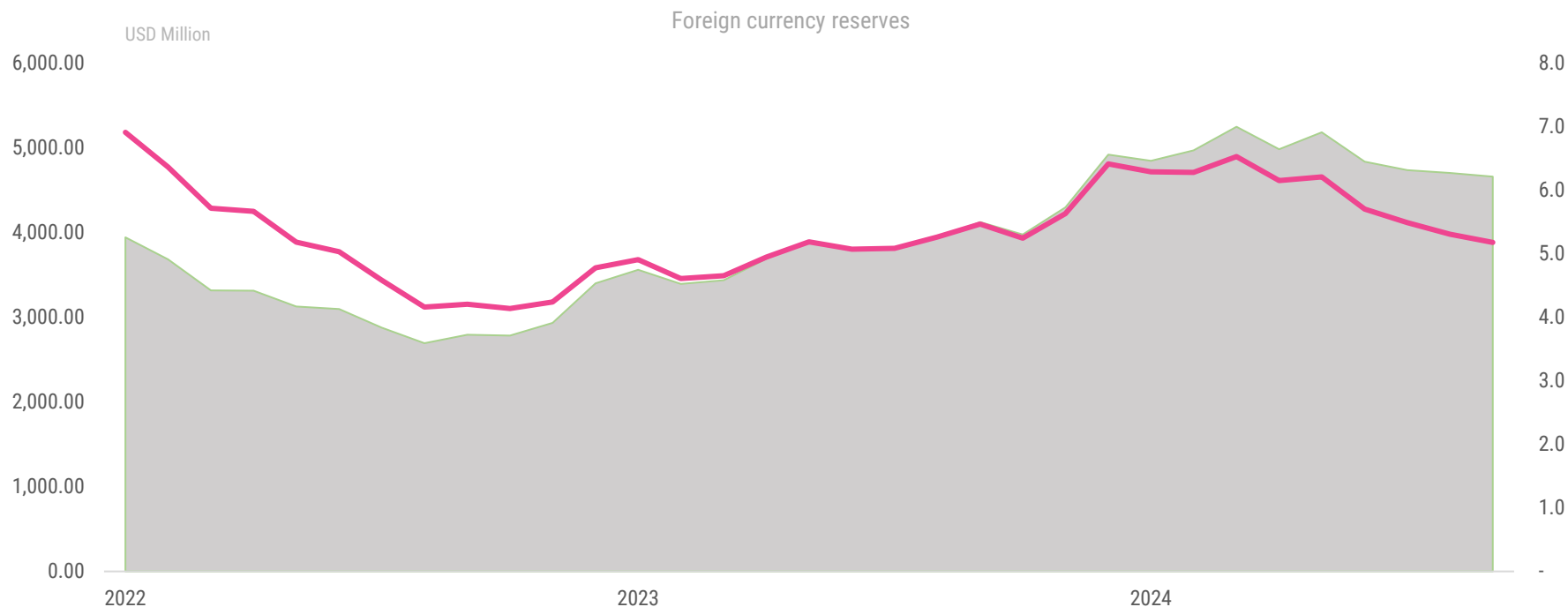


Balance of payments



Despite the higher level of imports, there is an adequate amount of foreign exchange reserves.

Since the beginning of the year, demand for imported goods has increased, leading to a rise in import volumes, yet foreign exchange reserves remain at an adequate level. Although the risk of pressure on foreign exchange reserves in 2025 is relatively low, the expectation of increased import volumes driven by excessive fiscal expansion has emerged.

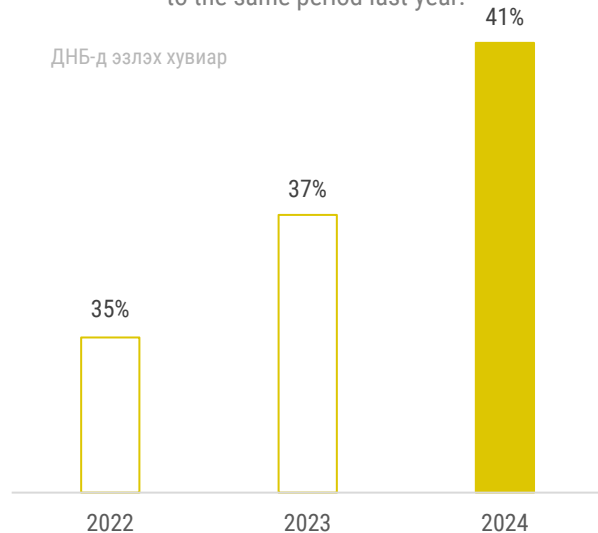


The fiscal balance recorded a surplus of MNT 1.5 trillion.

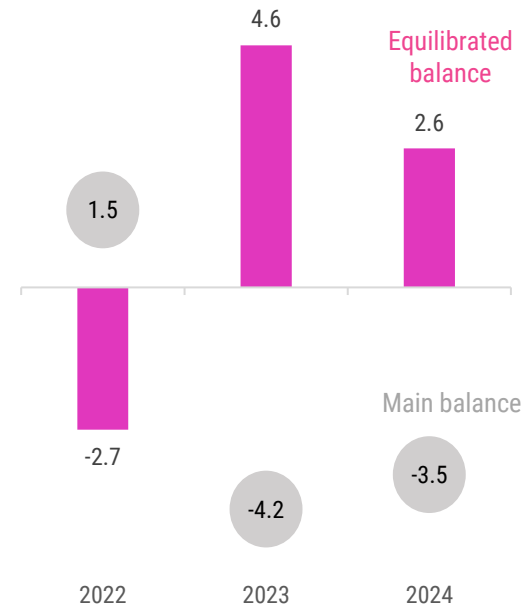
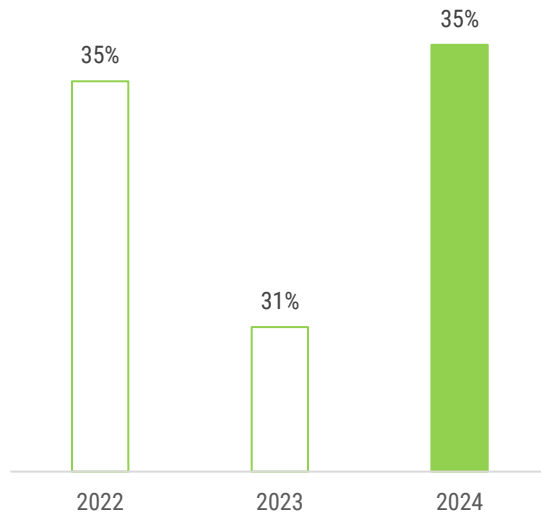
The majority of budget expenditures are accounted for by increases in current expenses, particularly wages and the cost of goods and services. The primary balance has recorded a surplus, easing the pressure from the budget deficit. The recovery of the mining sector has played a significant role in boosting budget revenues.

Budget revenue increased by 29% compared to the same period last year.

ДНБ-д эзлэх хувиар



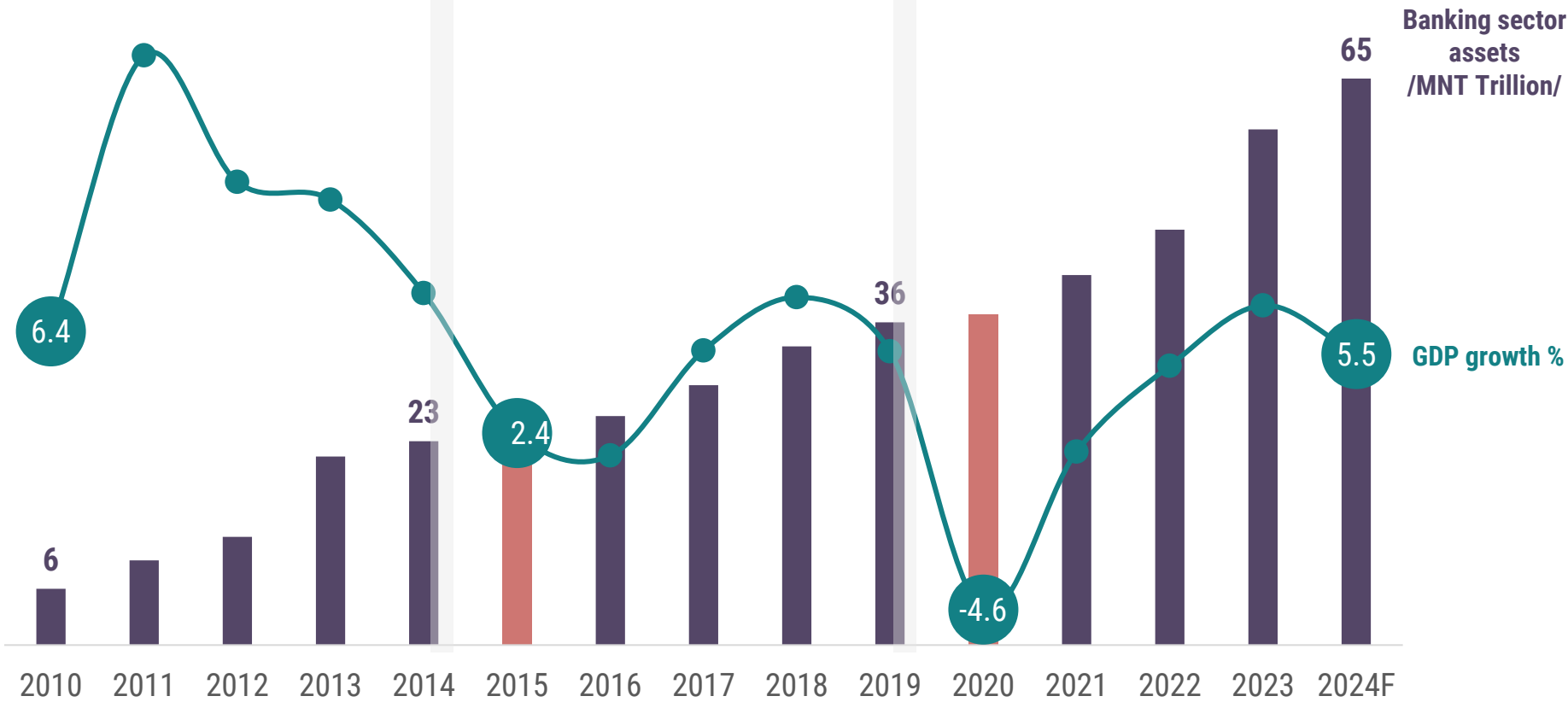
Budget expenditures increased by 34% compared to the same period last year.



The activity in the mining sector plays a significant role in the growth of the banking sector.

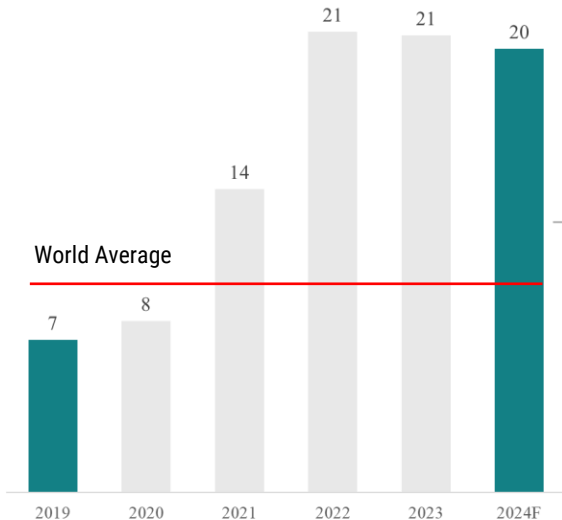
The growth of the banking sector increases following economic cycles.

Technological solutions are playing a significant role in the growth of the banking sector.

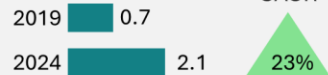


The efficiency of the banking sector has improved.

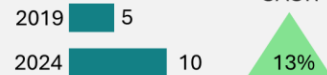
Return on Equity (ROE) percentage of banks



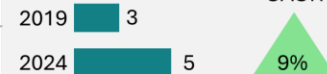
Return on Assets %



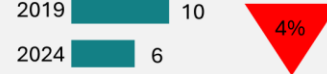
Net Operating Income/Assets



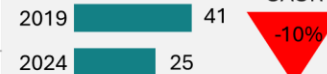
Margin %



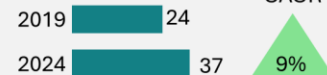
Banks' Risk Cost %



Expense %



Tax rate %



Leverage %

