



BANKING SECTOR REVIEW

2023

DON'T COUNT YOUR CHICKENS..

Don't count your chickens before they're hatched

The financial indicators of the banking sector was stable and improving, as the total assets of the sector increased by 23 percent compared to the same of the previous year. Non-performing loans has decreased. Starting from 2023, due to interest being calculated on demand deposits, which had a significant effect on the increase of MNT deposits. Bank loans aimed at supporting the economic sectors continue to grow.

The decision to keep policy rates at a high level to curb high inflation rates yielded positive results as the inflation rate came down to a one-digit level.

Purchasing power of the MNT increased due to the surplus in balance of payments, especially the current account. Due to the increase in exports of mining products, the national budget resulted in a surplus.

Уул уурхайн салбар болон түүнийг дагасан тээвэр, логистикийн салбарын сэргэлт харьцангуй хурдан, үйлчилгээ болон худалдааны салбарын өсөлт үргэлжилсэн нь эдийн засаг 7 хувиар өсөхөд чухал нөлөө үзүүллээ. Цаг уурын нөхцөл байдлаас шалтгаалж оны эхнээс хөдөө аж ахуйн салбар уналттай байсан нь эдийн засгийн өсөлтөд сөргөөр нөлөөлжээ.

The swift resurgence of the mining sector, along with the corresponding improvements in the transport and logistics industry, coupled with the sustained expansion of the service and trade sectors, exerted a noteworthy influence on the 7 percent GDP growth. On the other hand, the agriculture sector declined due to adverse weather conditions.

Relying on the increase in the price and quantity of mineral products from mining and planning for high economic growth and approving the budget income and expenditure at a high level as a result was an overhasty decision, as the saying goes "Don't count your chickens before they're hatched".

The implementation of the interest rate reduction strategy is insufficient.



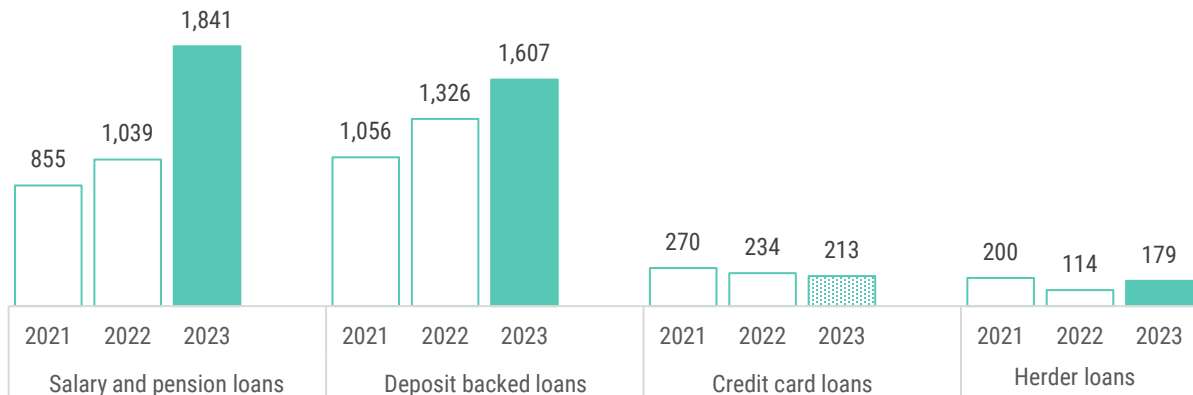
Loans to individuals continue to grow

Banks mostly provided consumer loans, which are loans secured by salary, pension and deposits. Loans to herders increased by 57 percent, while credit card loans declined by 9 percent.

Notable changes,
Simple explanation



Loans to individuals, at the end of each year



Newly issued bank loans

Note: The outstanding loan balance increases with the amount of new loans issued by the bank.

Definition



Newly issued loans in the banking sector increased by

38%



Year-end results of
2023

NOTABLE CHANGES IN THE BANKING SECTOR, FUTURE TRENDS



Increased business loans had a significant positive impact on the economy.



Quality of bank loans has improved.



The profit made by the banks on their capital is higher than the return on deposits.



The financial indicators of the 5 systemically influential banks are strong.



These 5 banks have made a significant contribution to the development of the capital market by successfully issuing their shares to the public.



The fact that the return on MNT deposits is higher than the return on foreign currency deposits has contributed to the increase in bank capital.

MAIN FINANCIAL INDICATORS OF BANKS

2023

The banking sector's lending continues to rise despite high policy rates.

As the economy continues to grow, lending to economic sectors has increased.

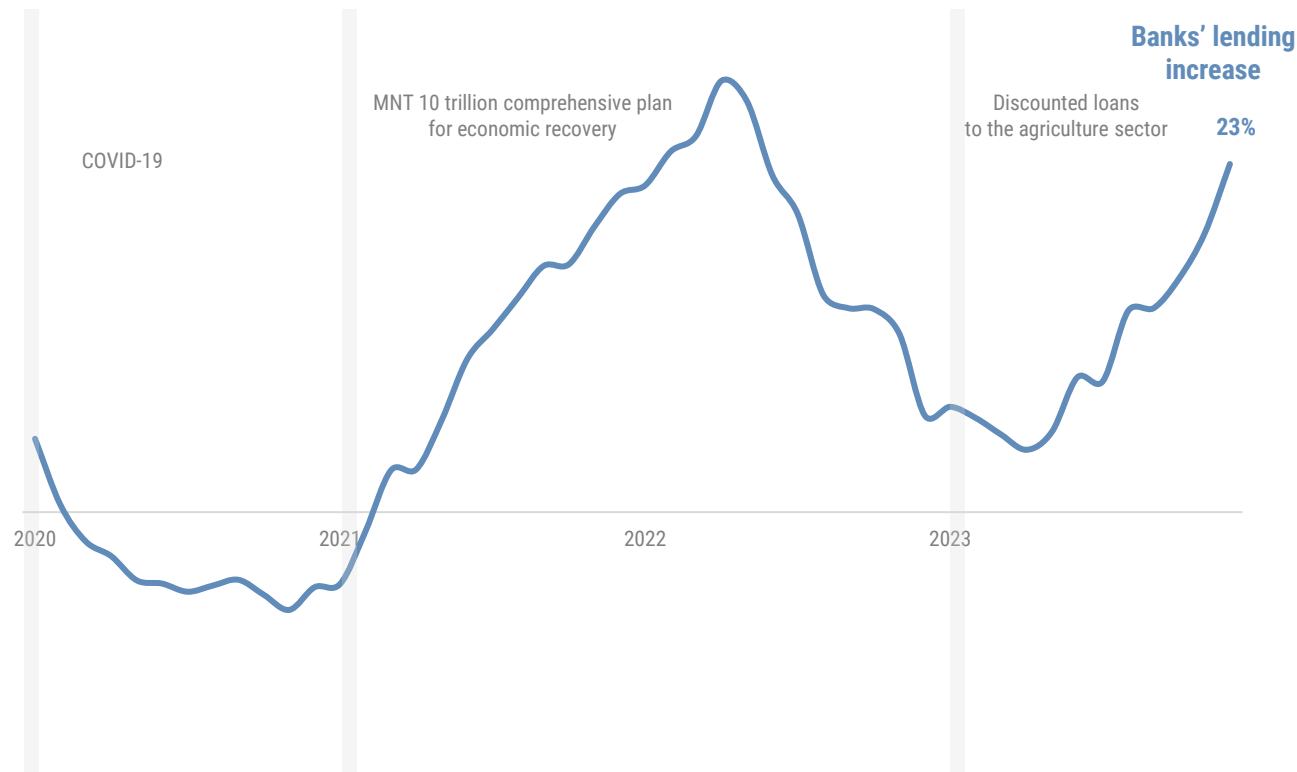
Discounted loans to the agriculture sector was initiated between the cooperation of the Government and banks.

Loan portfolio

Note: Outstanding loans increase with newly issued loans and decrease with repayments.

Outstanding loans
increased by

23%



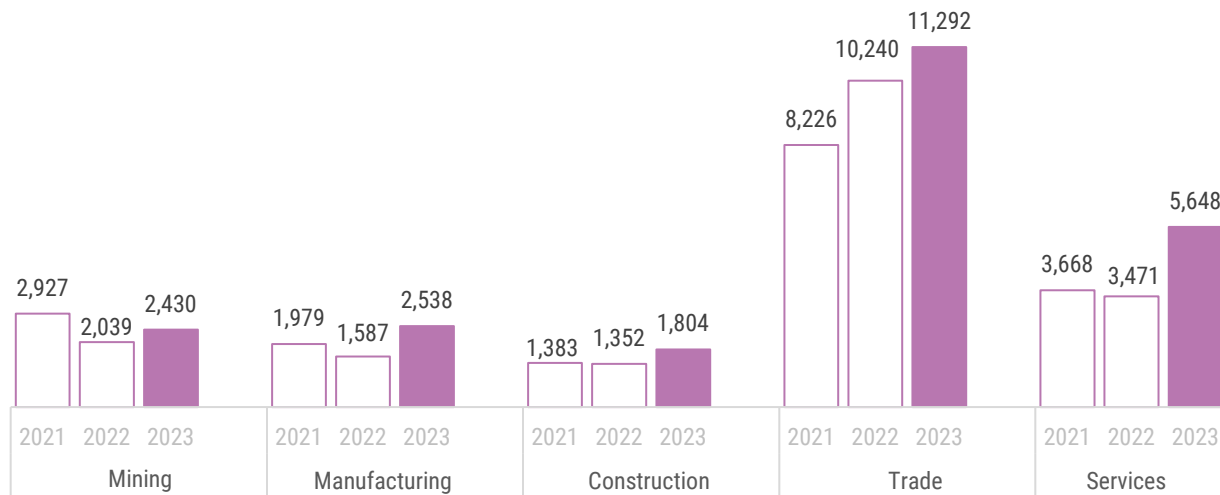
Lending to all economic sectors has increased

Lending to the trade & services sector continues to grow.

The recovery of the mining and processing sector has contributed to the increase in lending to the sector.'

Business loans, at the end of each year

Billion MNT



Newly issued bank loans

Note: The outstanding loan balance increases with the amount of new loans issued by the bank.

Business loans increased by

27%

Banks' loan quality

Note: A loan becomes non-performing if unpaid after 90 days.

Ratio of non-performing loans to outstanding loans decreased to

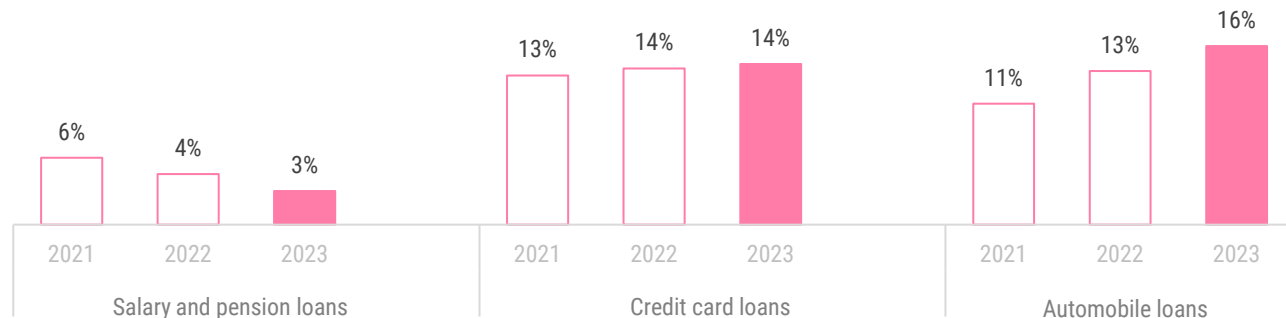
7.5%

Source: Bank of Mongolia
National Statistics Office

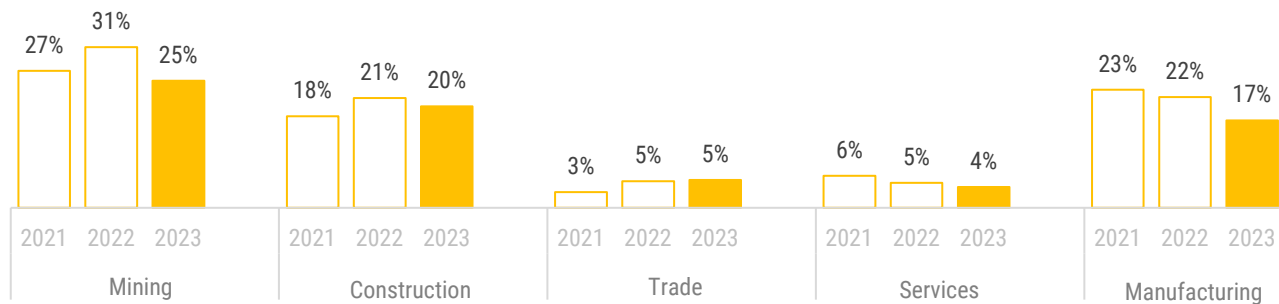
Increased lending to economic sectors led to improved quality of loans

While the quality of loans to individuals is at a normal level, quality of credit card loans and automobile loans continue to be poor. The economic growth has helped reduce credit defaults in economic sectors.

Non-performing loans of individuals, at the end of each year



Non-performing loans of businesses, at the end of each year



Bank weighted average interest rate

Note: The interest rate of the newly drawn funds of banks and the interest rate of the granted loan means the weighted average interest rate in terms of time and amount.

Interest rate on savings

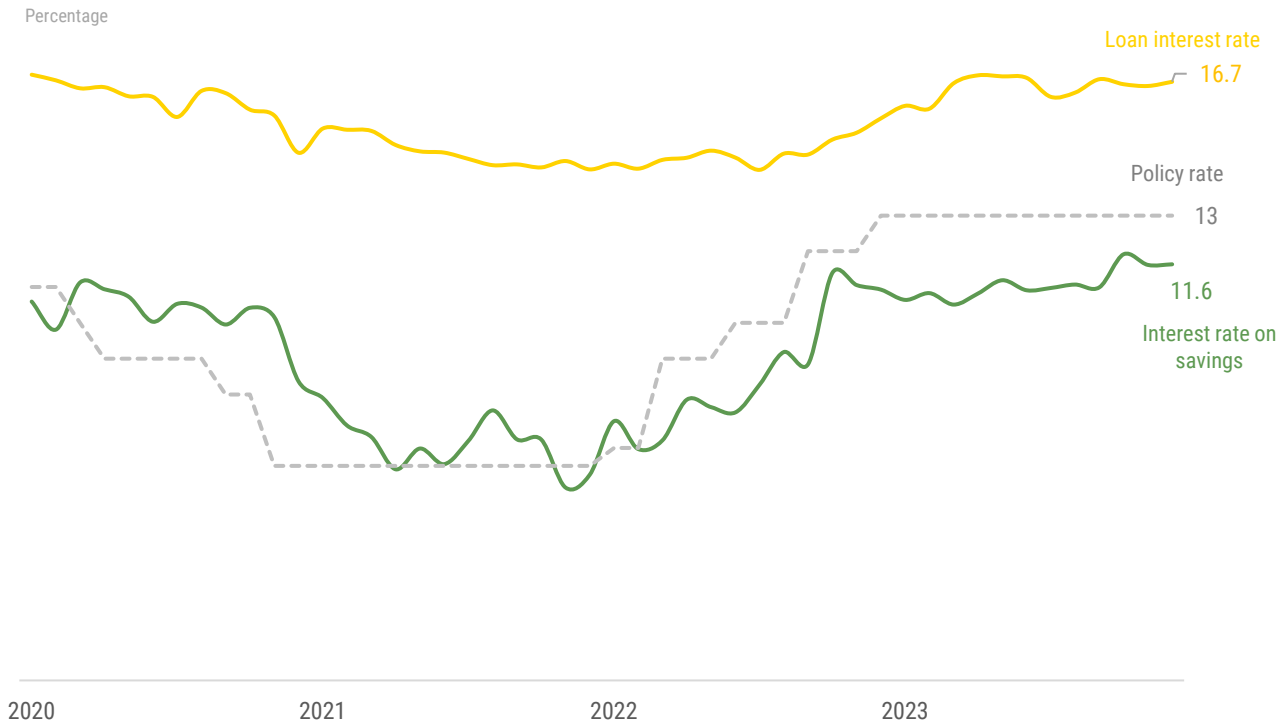
11.6%

Source: Bank of Mongolia

Interest rates are relatively stable.

The high policy rates set by the Central Bank due to internal and external economic uncertainties has caused increased interest rates on savings.

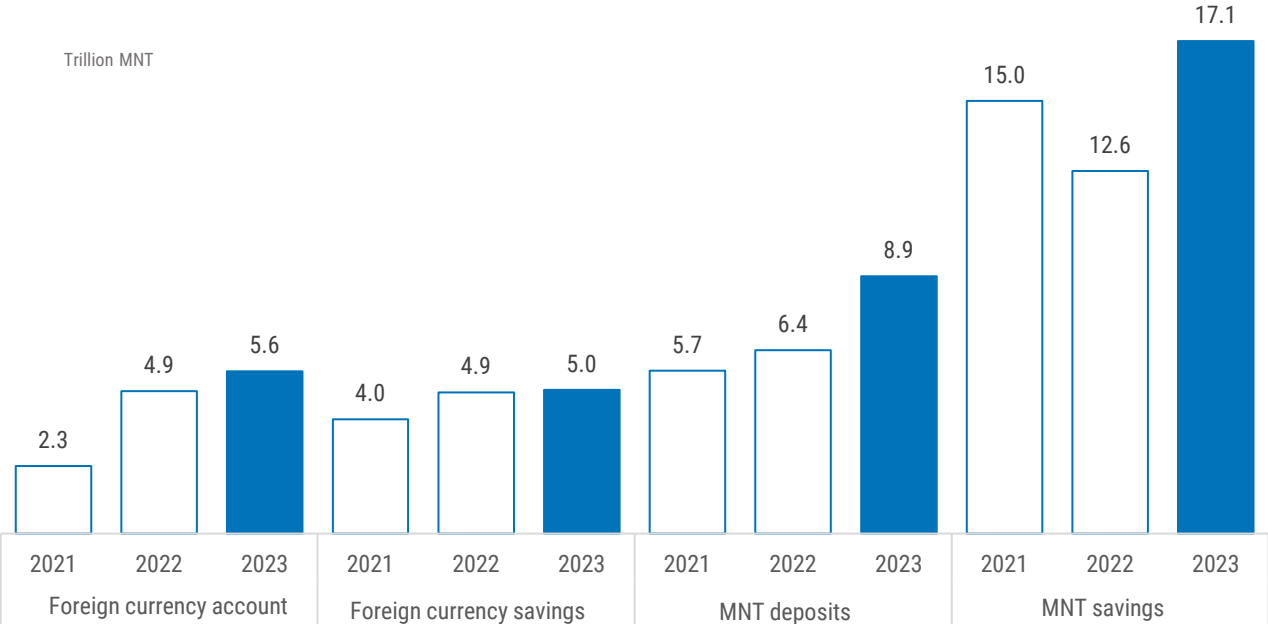
Interest rates on loans are also stable.



Interest calculated on demand deposits from the beginning of the year, interest on deposits increased bank resources.

The relative stable value of the MNT, and the decreasing inflation rates has led to increased MNT deposits. The calculation of interest on demand deposits has had a significant impact on the increase of current account balances.

Banks' source funds, at the end of each year



Bank deposits

Note: This is the bank's current account and savings deposits

Banks' source funds increased

27%

Dollarization of the banking sector

Note: Determined by how much of the total loans and savings deposits are of foreign currency

Deposit dollarization is

29%

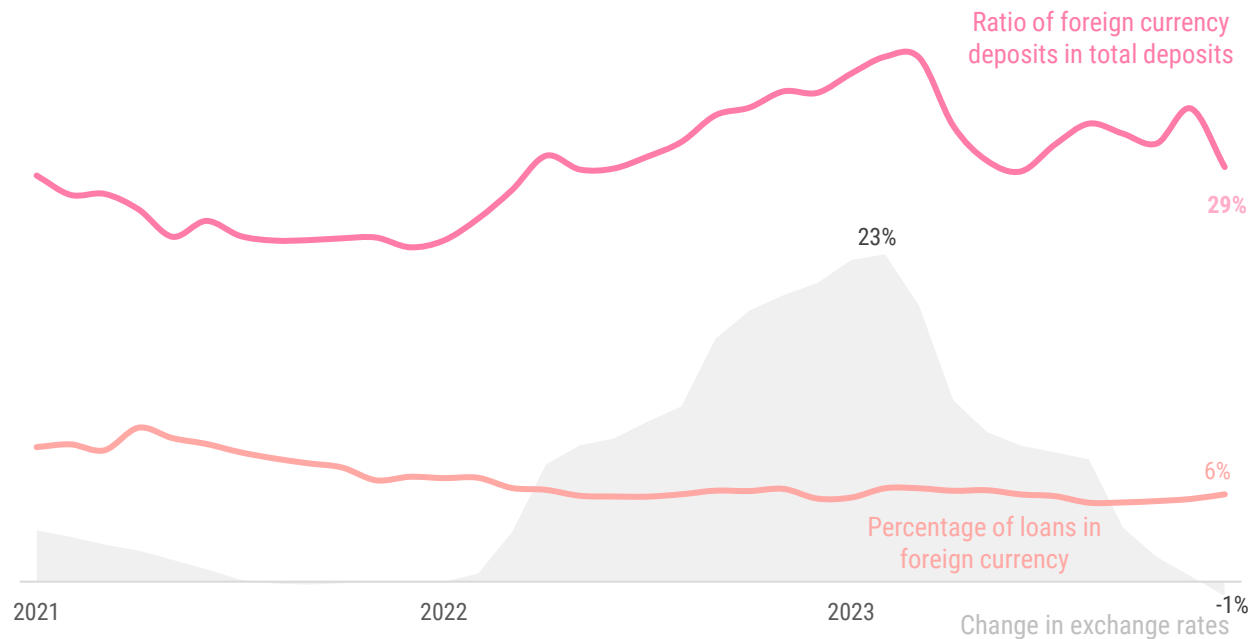
Source: Bank of Mongolia
National Statistics Office

Increased purchasing power of the MNT led the dollarization of deposits to decrease.

The stable value of the MNT increased confidence in the domestic currency.

Инфляц аажмаар буурсан дээр нь хугацаагүй хадгаламжид хүү тооцож эхэлсэн нь төгрөгийн хадгаламжийг нэмэгдүүллээ

The gradual decrease in inflation rates and the application of interest on demand deposits have increased MNT deposits



MAIN FINANCIAL INDICATORS OF BANKS

2023

Banks' assets

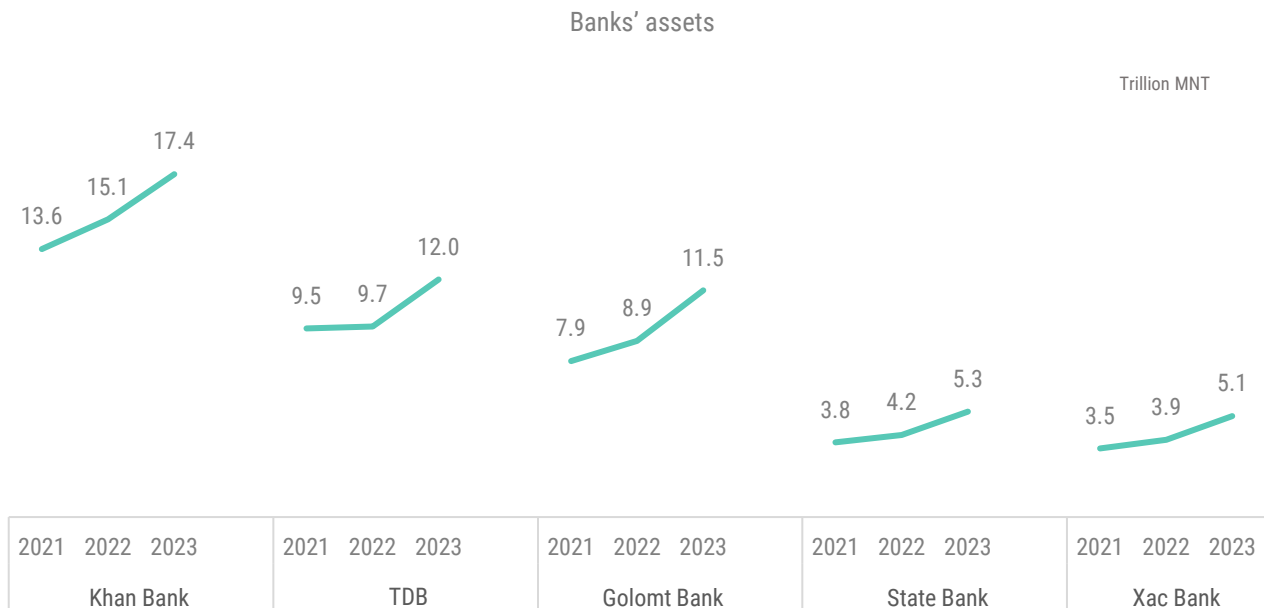
Note: Bank's total assets are a combination of total liability and owner's equity

Assets of systemically influential banks increased by

23%

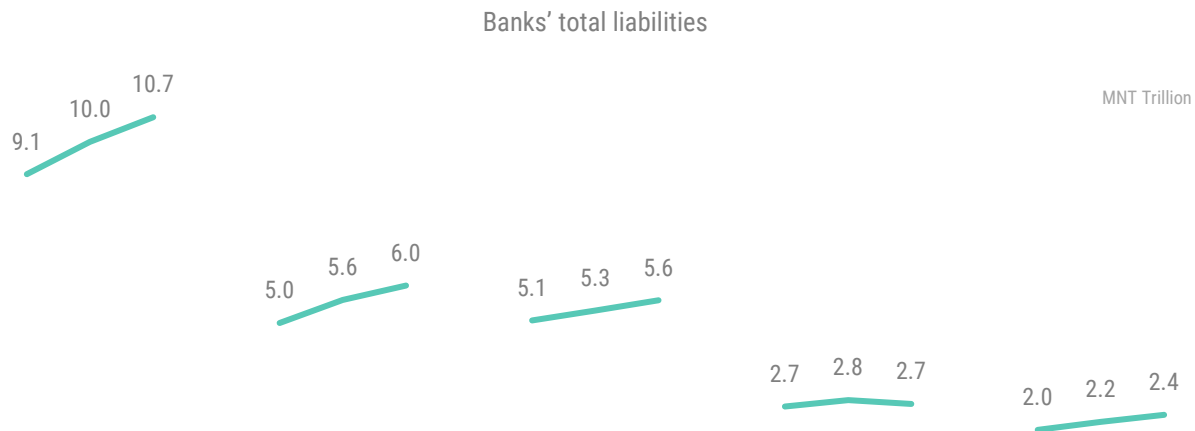
Total assets of the banking system increased by MNT 9.6 trillion from the same period of the previous year.

Xac Bank's assets increased 30%, whereas Golomt Bank and State Bank's assets rose by 25% each.



Banks' total liabilities increased by MNT 3.8 trillion compared to the previous year.

TDB and Golomt Bank's liabilities increased by MNT 2.5, and 2.2 trillion, respectively. Khan Bank, Xac Bank, and State Bank's liabilities also increased compared to the previous year.



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

Banks' own funds

Note: Иргэд, байгууллага болон хөрөнгө оруулагчдаас татсан өр төлбөрийн хэмжээ.

Banks' total liabilities increased by

13%



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

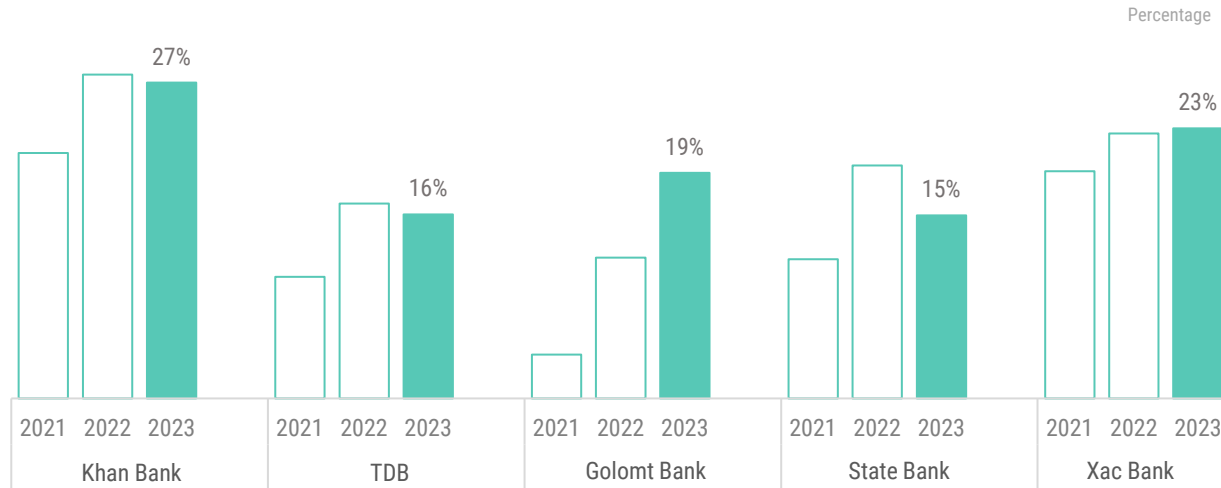
20%

Note: Banks' unaudited financial reports

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

Systemically influential banks' equity reached MNT 4.6 trillion, which is a 20% increase from the previous year. The amount of profit generated by equity is high.

Banks' return on equity

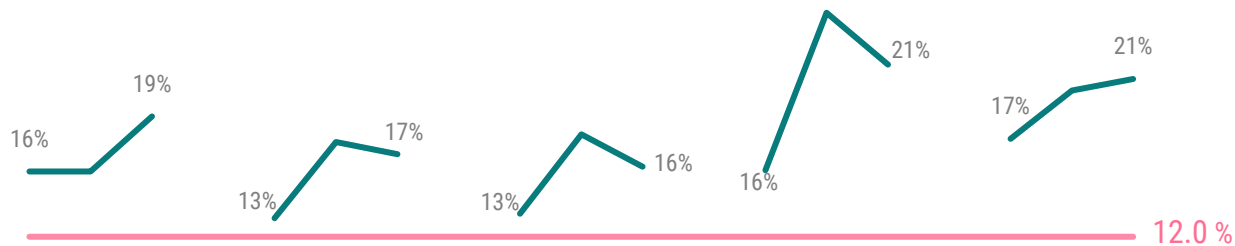


Banks' capital adequacy is high

Banks issuing their shares to the public helped increase their capital adequacy.

Banks have sufficient capital to support economic growth and increase activity in key sectors.

Banks' capital adequacy ratio



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

Capital adequacy

Note: Refers to an assessment that determines whether there is sufficient equity capital to cover losses from financial and operational risks.

Banks' average capital adequacy ratio

18.6%

Liquidity ratio

Note: The bank's ability to pay off its short-term liabilities.

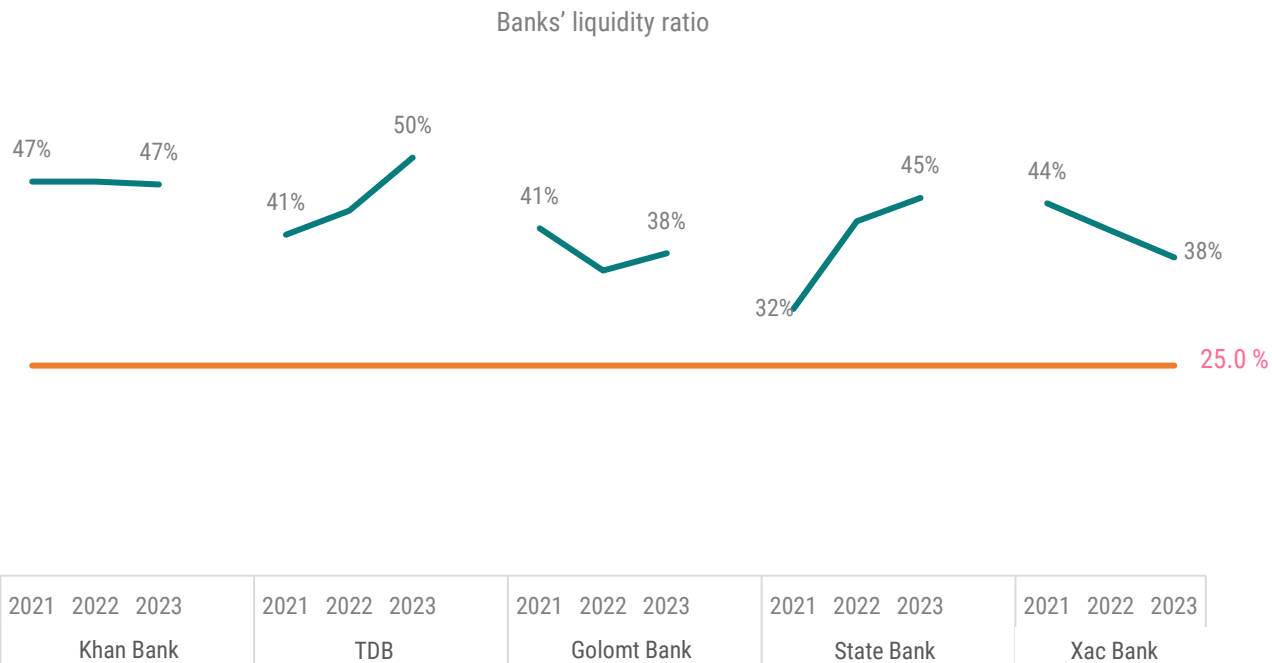
Average liquidity ratio of systemically influential banks

44%

Source: Banks' unaudited financial reports

The liquidity ratio of the 5 systemically influential continues to be at a high level.

Loan amounts to individuals and businesses are higher compared to the same period of the previous year. Although Xac Bank's liquidity ratio has decreased compared to last year, it is still at a high level.



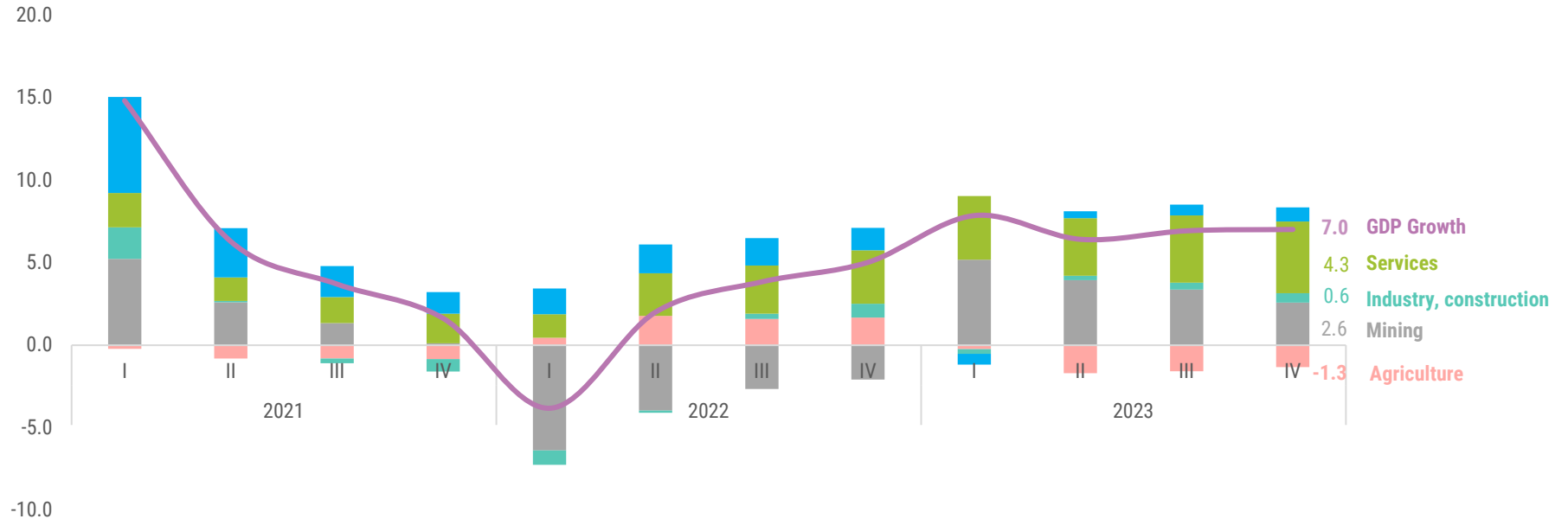
MACRO-ECONOMIC ENVIRONMENT

2023: GDP increased by 7 percent. Since the beginning of the year, the improvements in the border situation, which led to the recovery of the transport and logistics sector, followed by mining, has had a significant impact on economic growth. Growth in the service and trade sectors has been relatively steady, accounting for most of the economic growth. However, growth in the construction and manufacturing sectors are relatively slow. Due to unfavorable weather conditions, the agriculture sector declined.

Current situation: In Mongolia, there is a necessity to improve and hasten the infrastructure of sectors other than mining, such as construction, manufacturing and agriculture. Implementation of infrastructure projects targeting export growth is underway, with a heightened focus on deep mining at Oyu Tolgoi, leading to increased copper concentration. Expecting the income from the export of mining raw materials for the next year, the increase of the budget expenditure by 20 percent poses a risk to the macroeconomic stability.

GDP increased by 7 percent as of 2023.

The rapid recovery of the mining sector and the accompanying transport and logistics sector has had a significant impact on economic growth. The steady growth of the trade and service sector also contributed in the economic growth. A gradual recovery in the manufacturing and construction sectors has supported economic growth. The declined performance of the agriculture sector due to adverse weather conditions has negatively impacted the economy.





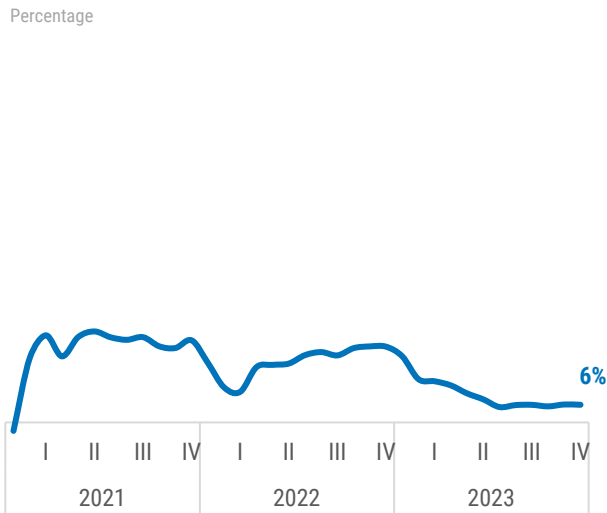
Net exports increased by 55% compared to the previous year.

Increased production of mining products, such as coal, copper concentrates, and crude oil has comprised most of the exports. Exports of livestock raw materials has also increased. The stabilization of commodity prices on the global market and transport and logistics costs have reached the same level as before the pandemic, which has contributed to the slow growth of imports.

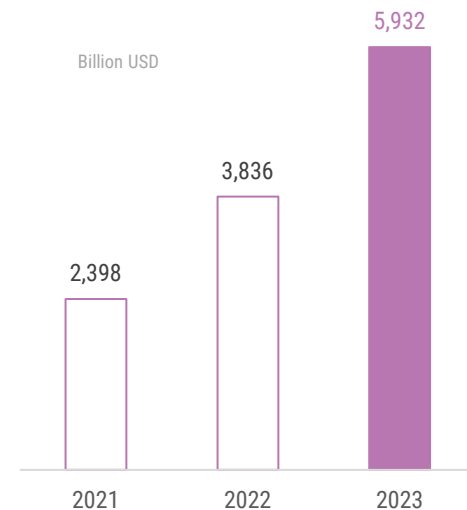
The border re-openings relieved the difficulties in transportation and logistics, which had a significant impact on the increase in **exports**.



Stabilization of commodity prices in the world market affected **imports**.



Net **exports** increased significantly



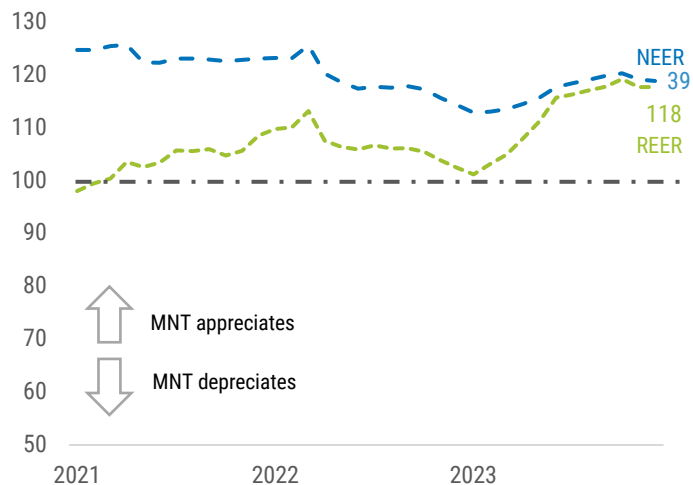
The balance of payments had a surplus of 1.5 billion USD, reducing the pressure on the MNT.

The fact that our country exported more than imported had a significant impact on the balance of payments.

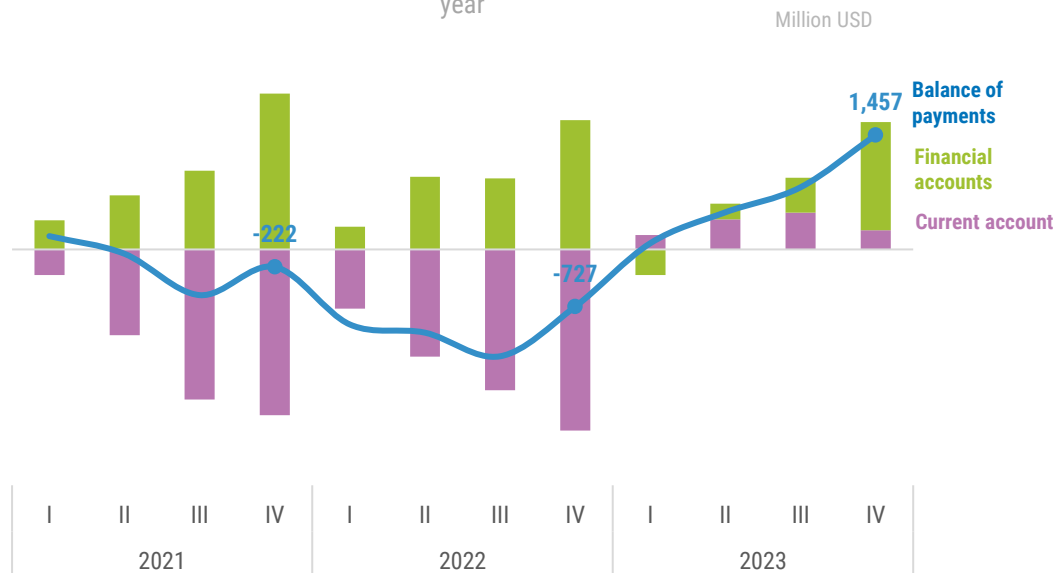
Despite the decrease in foreign investment, enhanced export activities and the current account deficit decreased, creating a favorable balance of payments.

The real exchange rate of the domestic currency has appreciated, and the goods and products of our country have become more expensive compared to other countries.

Nominal and real exchange rates of the MNT



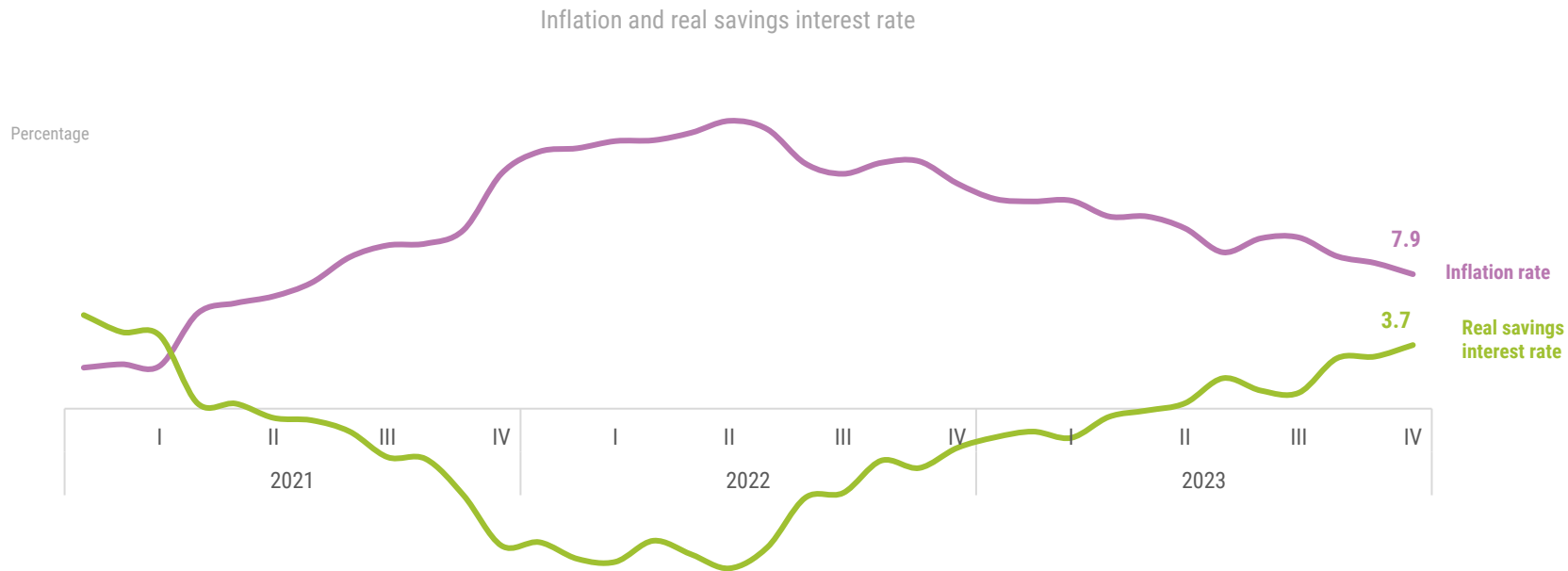
The balance of payments has been favorable since the beginning of the year



The growth of inflation rates has gradually slowed down and reached single digits.

Stabilization of commodity prices on the world market has led to a decrease in supply-side inflation. Since the beginning of the year, the increase in wages and salaries of civil servants has stimulated demand-driven inflation.

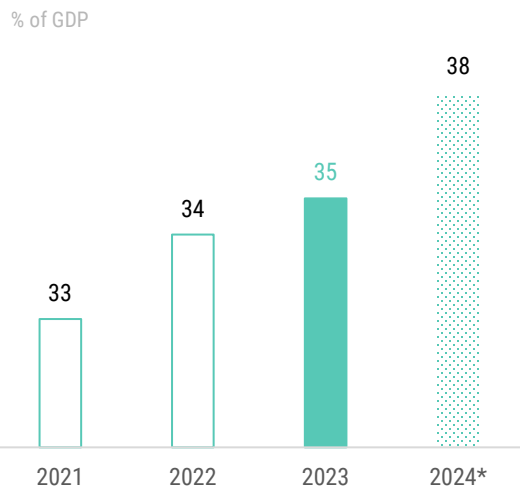
The increase in domestic food prices, especially meat and flour, plays an important role in high inflation.



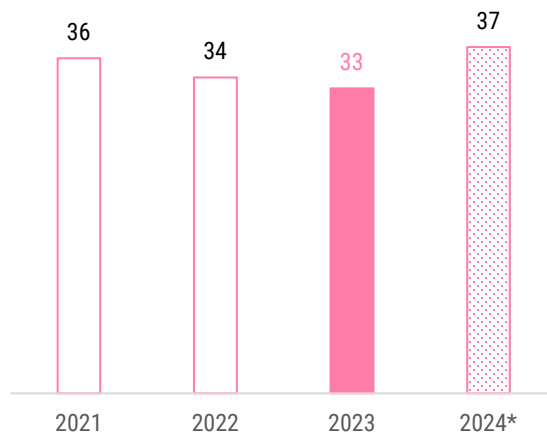
The budget balance recorded a profit of 763 billion MNT.

From the start of the year, the rise in revenue generated from mining products has played a significant role in boosting both budgetary income and profitability. Amendments to the budget in the third quarter of the year led to the increase of budget expenditures. The budget balance has been profitable in the last 2 years.

Budget revenue increased by 30% YoY.



Budget expenditures increased by 20% YoY.



Budget deficit has decreased

