



BANKING SECTOR REVIEW

III quarter of 2023



Times are not always the same, the iris is not always blue.

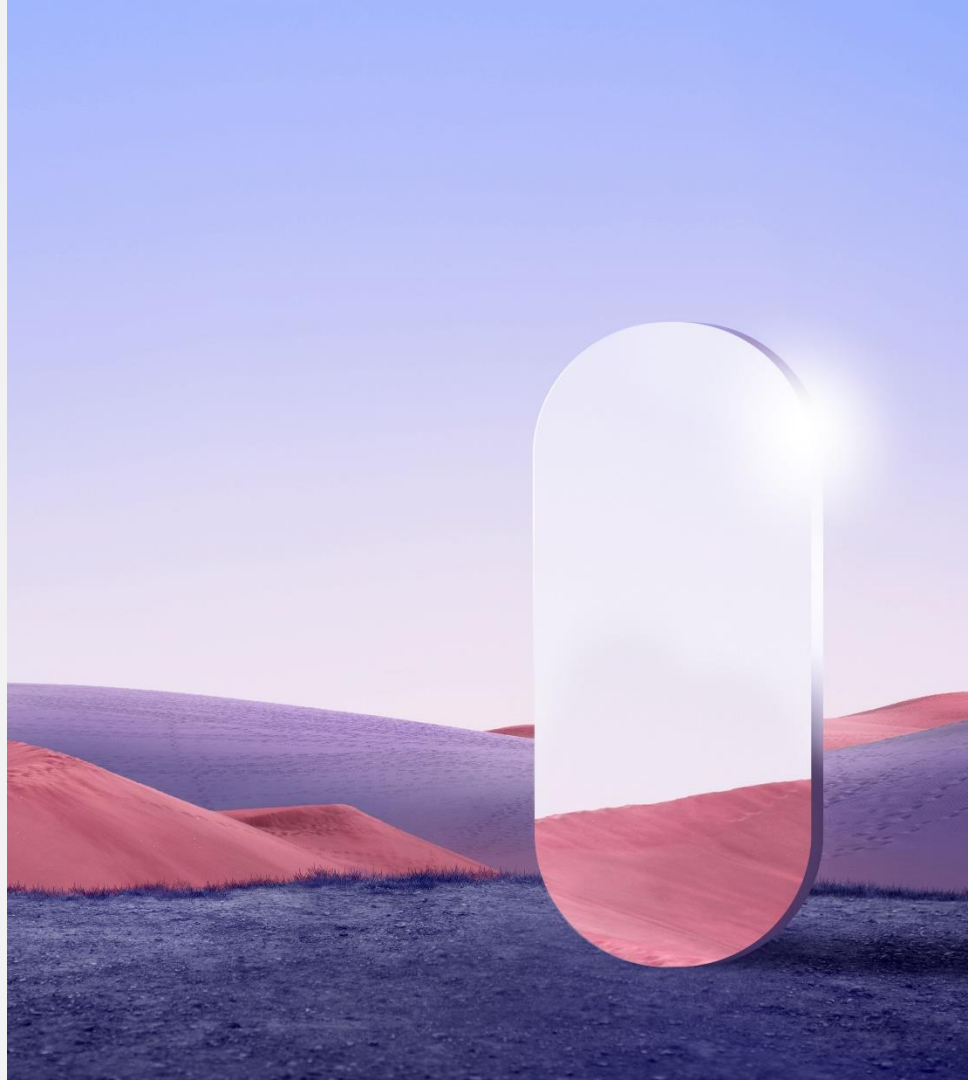
The indicators of the banking sector were relatively stable and growing. The total assets of the banking sector increased by 18% compared to the same period previous year. More consumer loans were granted to individuals, while business loans have increased in sectors except the mining sector. Non-performing loans are decreasing. Due to stabilization of inflation rate and appreciating of MNT exchange rate, MNT savings return exceeded foreign currency savings returns.

Also recovery of the mining and transport sector had a positive impact on economic growth by 6.9%. Due to the weather conditions, the agricultural sector experienced a decline and the growth of other sectors was relatively weak.

The increase in the export of mineral products from the beginning of the year had a significant effect on the increase of foreign exchange reserves, while the economic conditions of the external environment improved, costs related to transportation and logistics decreased, and the steady growth of imports had a significant effect on the stability of the exchange rate.

A profitable balance of payments has increased foreign exchange reserves and improved the purchasing power of MNT. Profits in balance of payments have relieved pressure on the government budget deficit.

The price and demand of mineral products from mining are not constant during periods of growth like this year, so if we do not take measures aimed at supporting other sectors, there is a high risk that the price of mineral products will drop one day and the demand will decrease, and the economy will fall into disrepair.



Consumer loans continues to grow

Banks have given more loans such as consumer and salary loans, deposit or pension backed loans to individuals. Lending in sectors has increased except the mining sector.

Highlight changes and simple explanations



Individual loans, 3rd quarter of each year

Billion MNT

Theoretical definition

Banks new loans

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

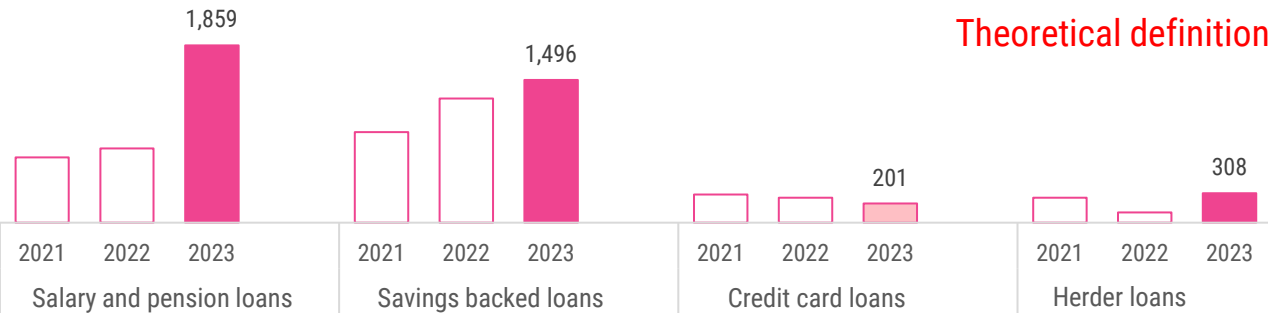


The amount of newly issued loans increased.

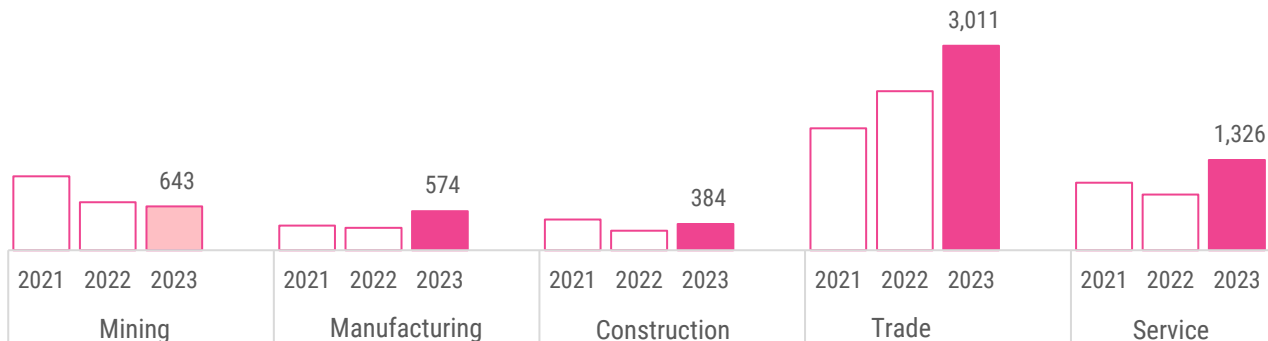
45%



Performance of



Business lending, 3rd quarter of each year



CHANGES AND FUTURE TRENDS IN THE BANKING SECTOR IN THE III QUARTER OF 2023



Banks' loans provided to individuals are increasing. Lending to sectors other than the mining sector increased.



The loan quality of banks is improving.



Sources of banks are increasing.



Systemically important 5 banks financial indicator is growing.



Systemically important banks have doubled their stock market value by issuing shares.



MNT deposits have overtaken foreign currency deposits.

FINANCIAL INDICATORS OF THE BANKING SECTOR

The performance of the 3rd quarter of 2023

Banks' loan portfolio

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

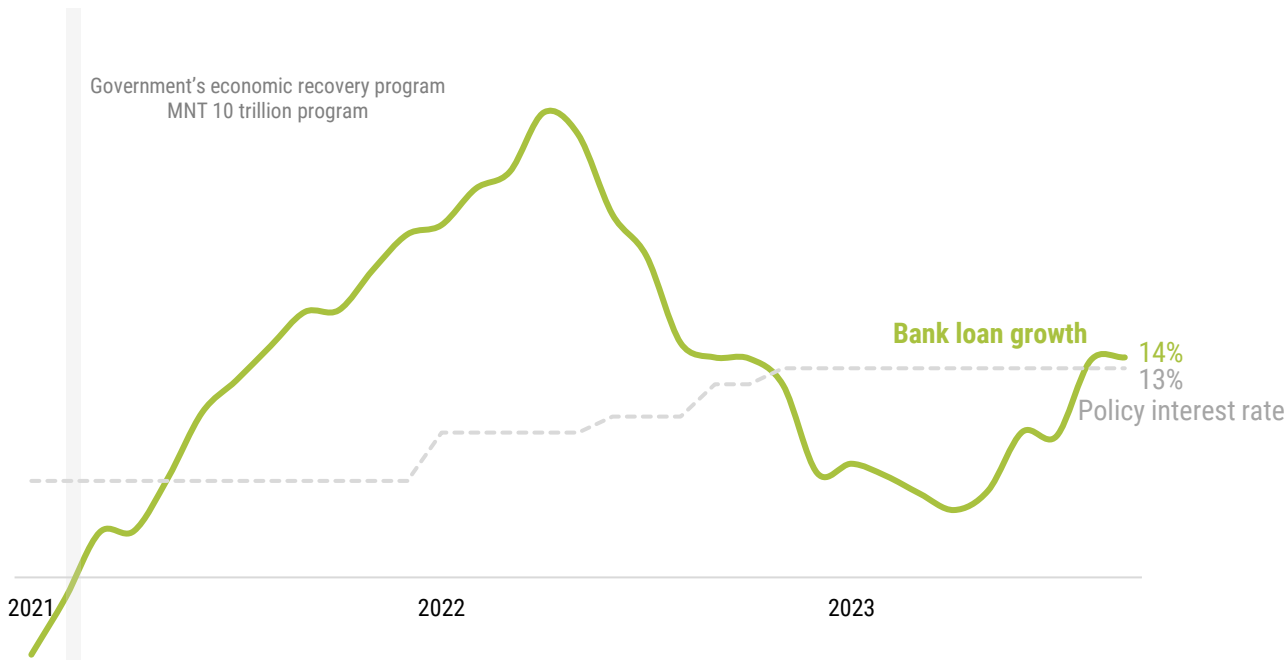
+ 14%

Loan balance increased.

Source : Bank of Mongolia
National Statistics Office of Mongolia

Loan growth in the banking sector continues.

Despite the high policy interest rate, the increase in the amount of loans provided to individuals is important for the growth of banks' loans had an effect.



Banks' loan quality

Note : If the loan is not paid for more than 90 days, it is transferred to non-performing loans.

Sector-wide non-performing loan

8.5%

Source : Bank of Mongolia
National Statistics Office of Mongolia

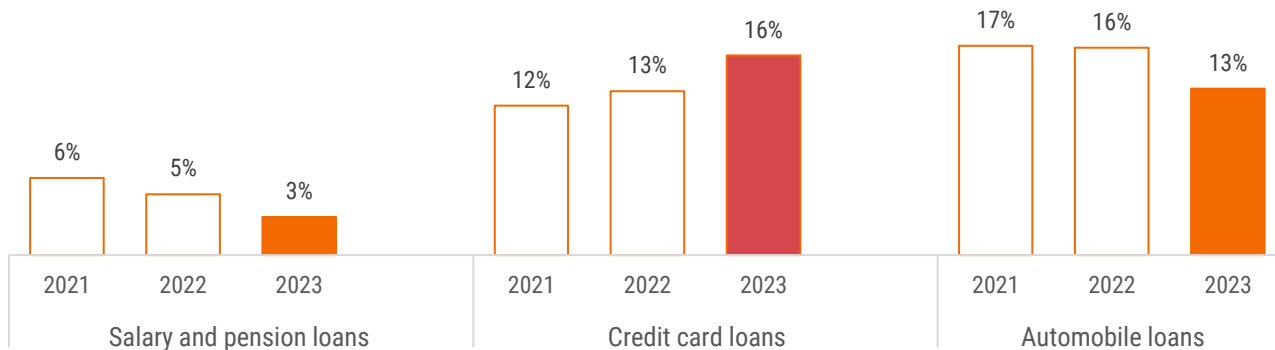
The quality of the loan portfolio has improved across the sector.

1 out of 10 consumer loans is non-performing.

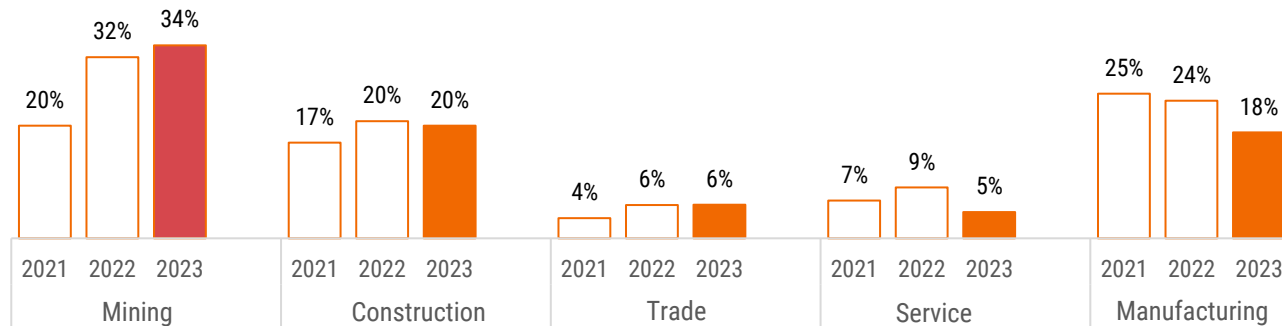
The increased economic activity of the sectors had a significant impact on the reduction of non-performing loans.

Non-performing loans in the mining sector remain high.

Non-performing individuals' loan ratio, III quarter of each year



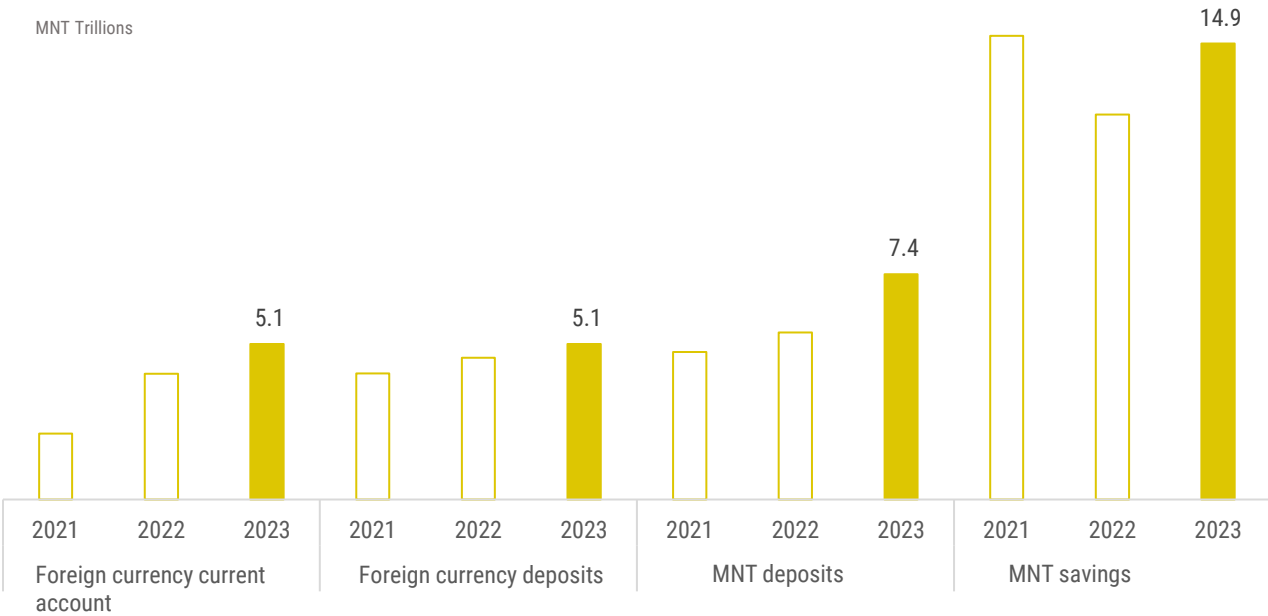
Business non-performing loan ratio, third quarter of each year



The increase in the return on MNT deposits is affected the increase a source funds of MNT.

The introduction of interest on demand deposits had a significant impact on the 35 percent increase in MNT deposits. The increase in interest rates on deposits increases the interest of individuals to save.

Bank source funds, III quarter of each year



Bank source funds

Note: Bank's current account and deposits.

Bank sources increased.

21%

Source : Bank of Mongolia
National Statistics Office of Mongolia

Bank's weighted average interest rate

Note : Banks' interest rate on newly drawn resources and loan interest rate is weighted average interest rate in terms of time and amount.

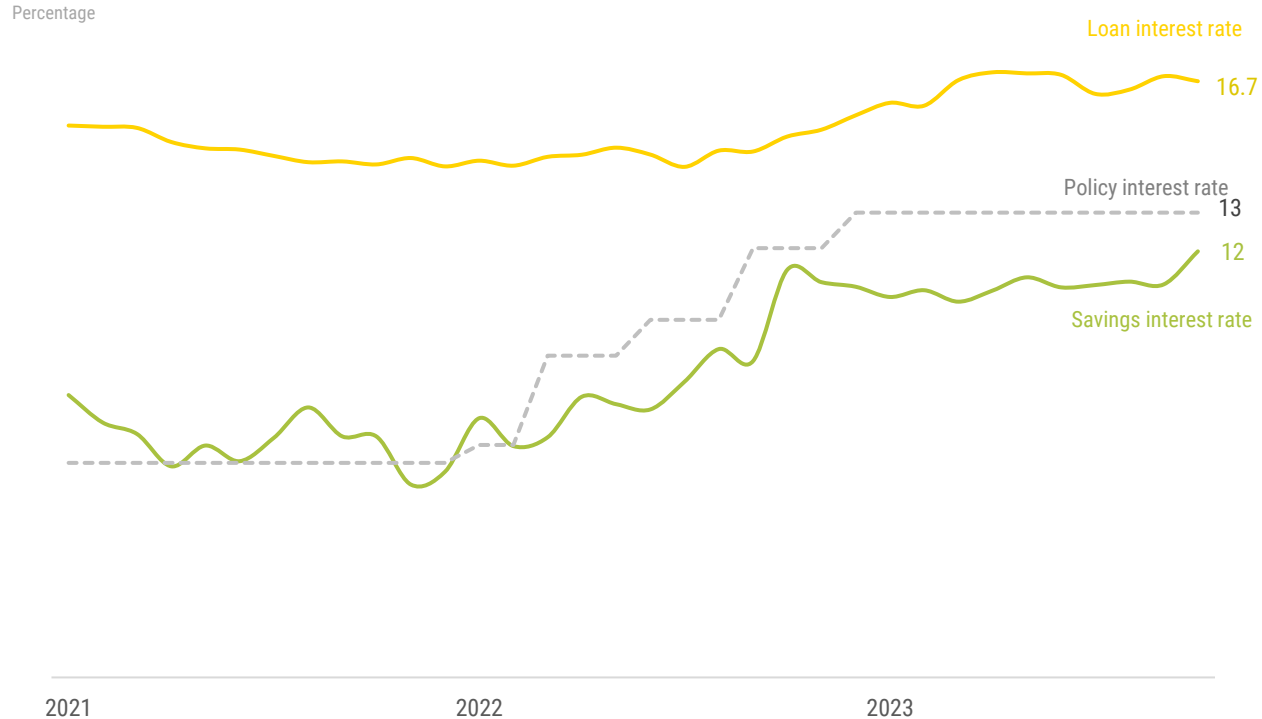
Savings interest

12%

Source : Bank of Mongolia

Savings interest rates continue to rise.

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 savings rate.



MAIN FINANCIAL INDICATORS OF THE BANKS

The performance of the 3rd quarter of 2023

Bank assets

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

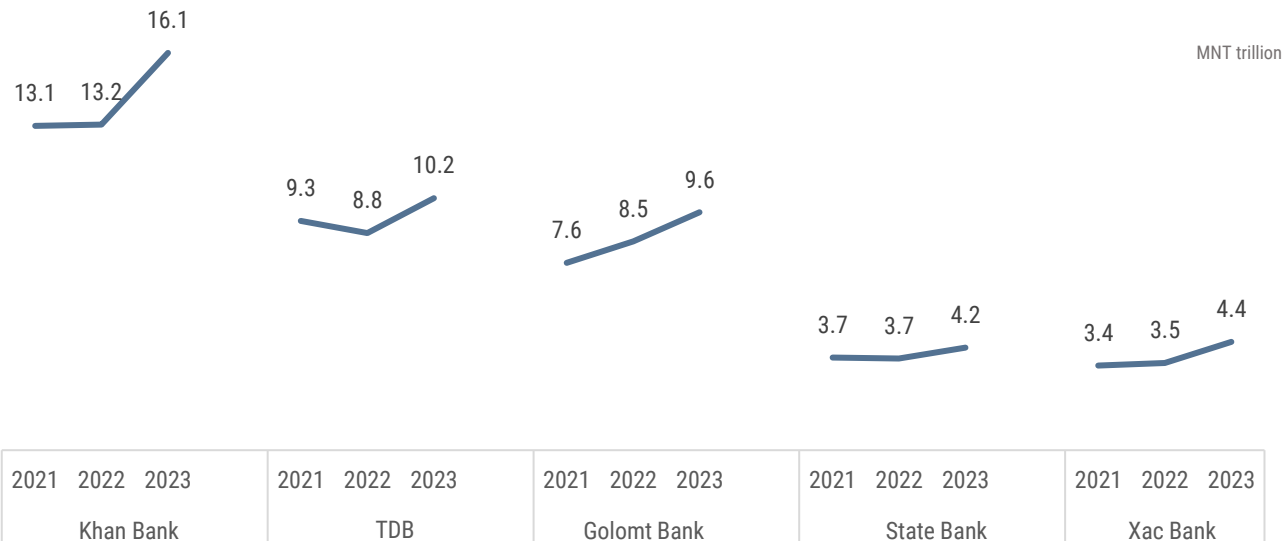
Assets of systemically important banks have increased by

18%

The total assets of the banking system increased by 6.8 trillion MNT from the same period last year.

Xac Bank's assets increased by 24%, Khan Bank's assets by 22%, and TDB's assets by 16%, which had a significant impact on the growth of banking sector assets.

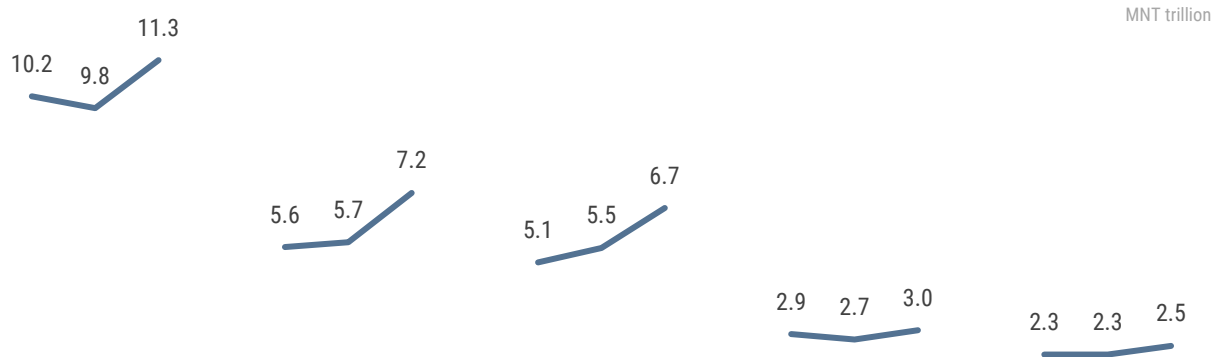
Banks assets , shown in III quarter of each year



The total liabilities of the banking sector increased by MNT 4.8 trillion compared to the same period of the previous year.

The liabilities of TDB and Khan Bank increased by MNT 1.5 trillion, and the liabilities of Golomt Bank increased by MNT 1.2 trillion.

Banks' liabilities, III quarter of each year



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

Bank liabilities

Note : The amount of liabilities taken from individuals, organizations and investors.

Banks' liabilities increased by

18%

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

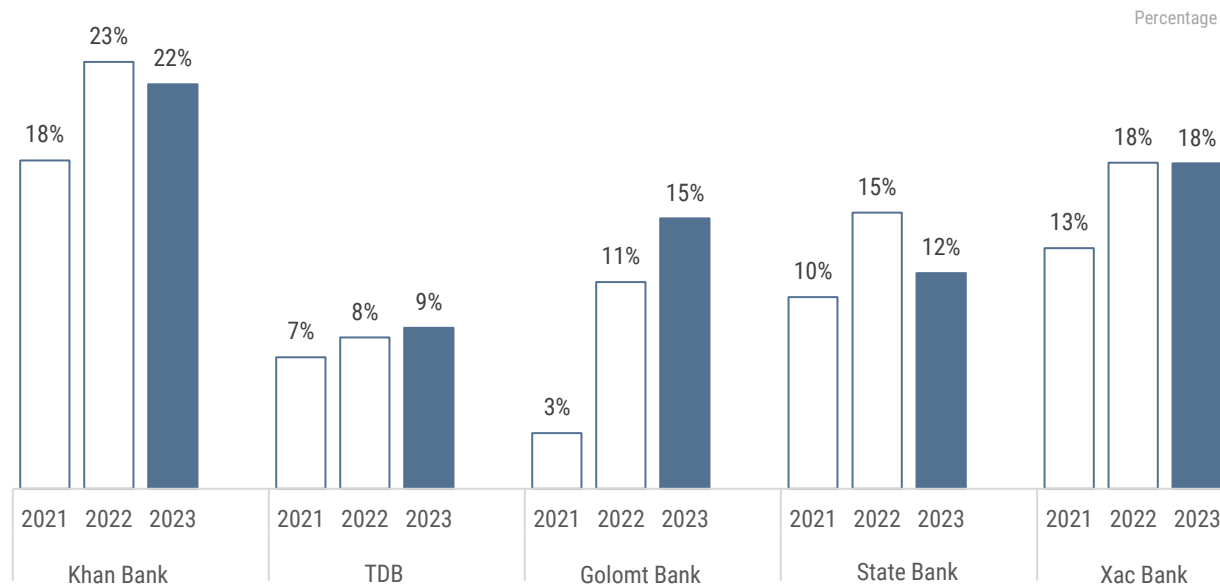
14.8%

Source : Banks' unaudited financial reports

Some banks' return on equity is higher than return on deposits.

The equity of systemically important banks reached MNT 4.6 trillion, an increase of 10 percent from the same period last year. Return on equity remains high.

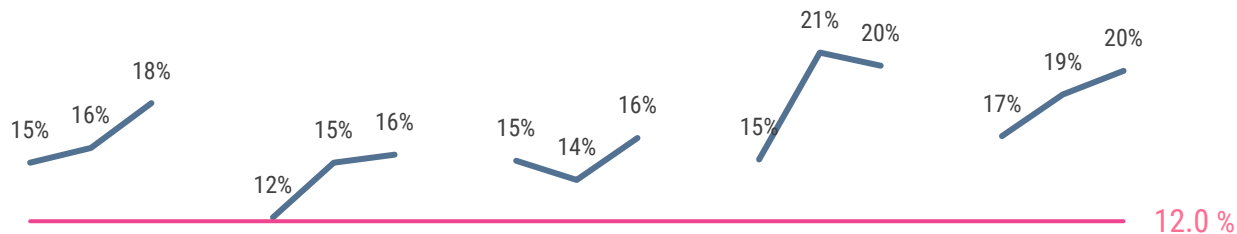
Banks' return on equity, III quarter of each year



Banks' capital adequacy has increased.

Banks have enough capital to support the economy and boost the recovery of key sectors.

Banks capital adequacy, the third quarter of each year



| 2021 | 2022 | 2023 |
|-------------|------|------|
| 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

18%

Liquidity Ratio

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

The average liquidity ratio of systemically important banks

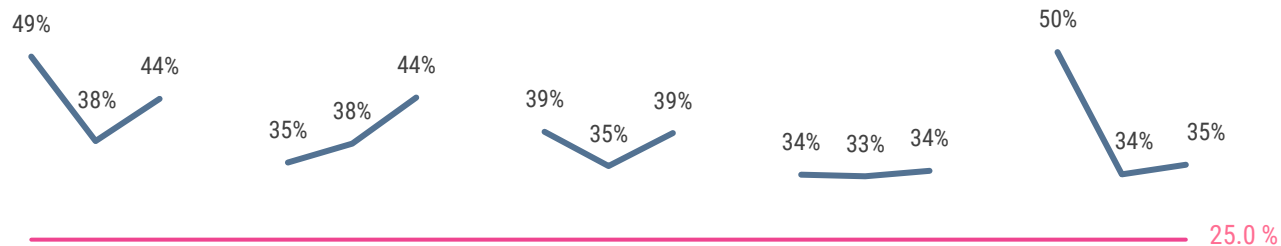
39%

Source : Banks' unaudited financial reports

Liquidity ratios of 5 systemically important banks are high.

Banks have enough capital to support further economic activity.

Banks' liquidity ratio , III 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 | | |

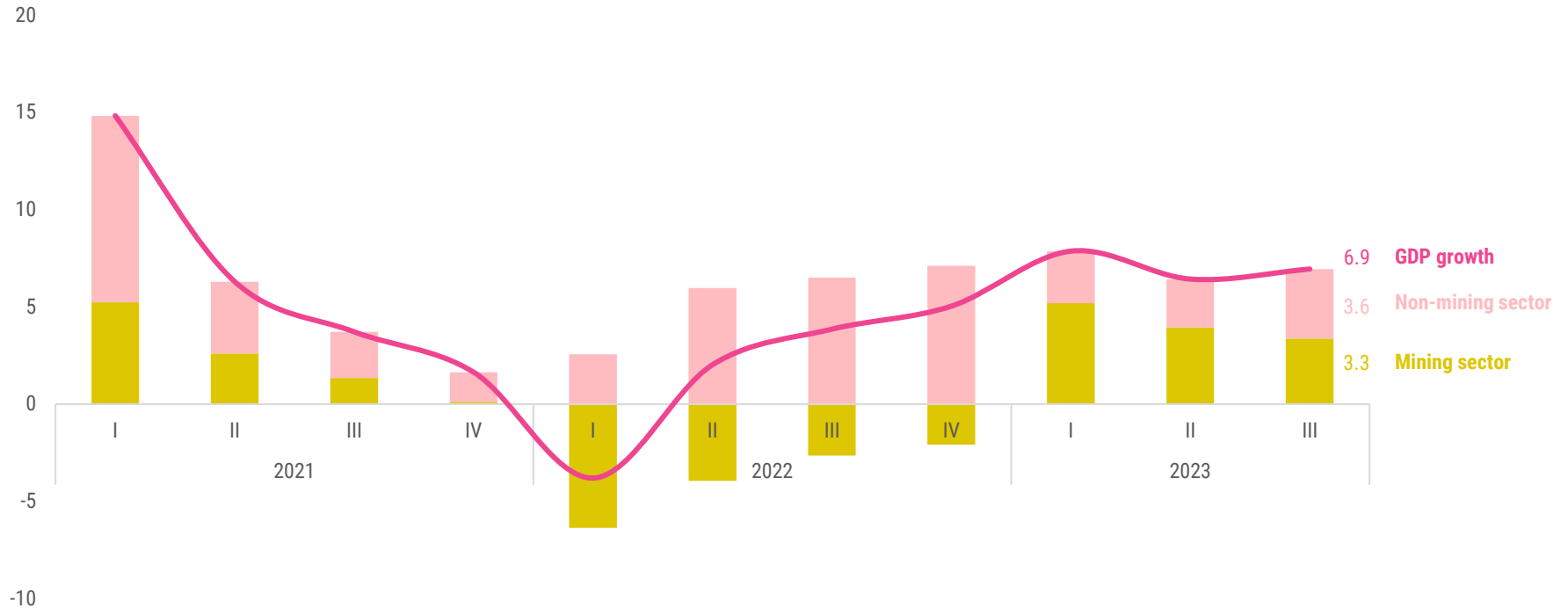
MACRO-ECONOMIC ENVIRONMENT

3rd quarter of 2023: Economic growth was 6.9 percent. From the beginning of the year, the recovery of the mining sector, followed by the transportation and storage sectors was relatively fast, which had a positive effect on the economic growth. Although there is recovery in manufacturing, energy, and trade and services, this recovery is relatively weak. The agricultural sector has been declining for the last 3 consecutive quarters. From the demand side, increased consumption and exports had a significant impact on economic growth.

Forecast: The tight monetary policy implemented by the world's major central banks is limiting the growth of the global financial market, while expectations about China's economic outlook are not good, increasing the uncertainty that will negatively affect the price outlook for mining products. Therefore, if measures aimed at supporting economic sectors other than the mining sector are not taken in the future, it can be seen that it will be very difficult to maintain economic growth.

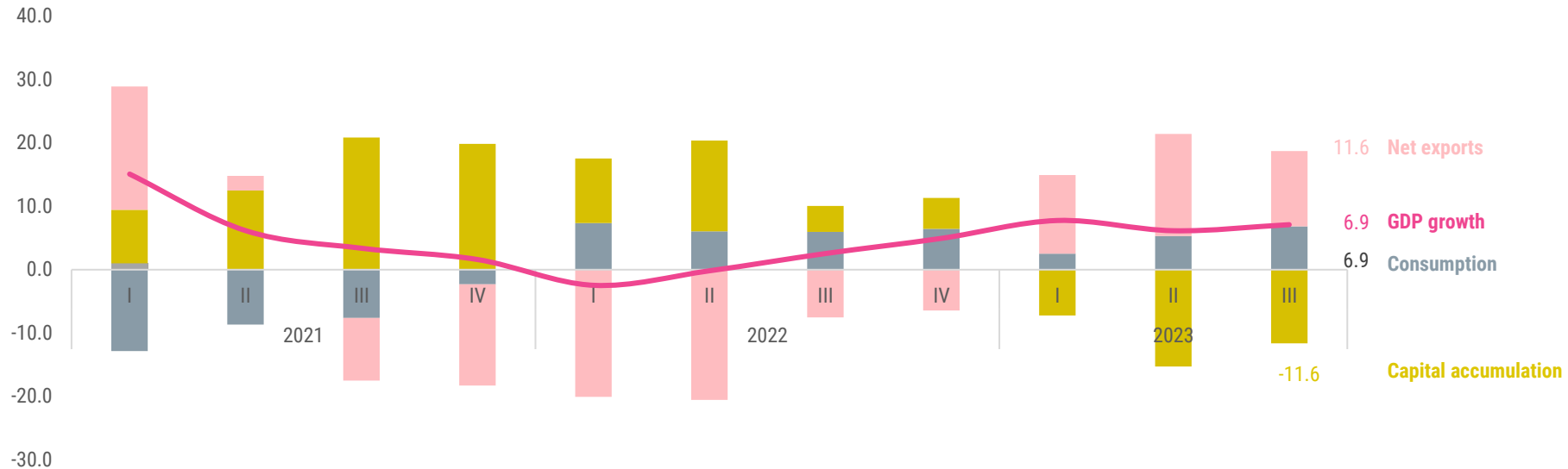
The economy grew by 6.9% as of the III quarter of 2023.

A recovery in the mining sector has contributed to the economic growth by 5.5% with rapid support for the transportation and warehousing sectors. The manufacturing, energy and trade services sectors are recovering, but not at a sufficient level. No growth is observed in the construction sector, while the agricultural sector has declined for the last 3 quarters in a row.



There is a high need and demand for increasing foreign investment.

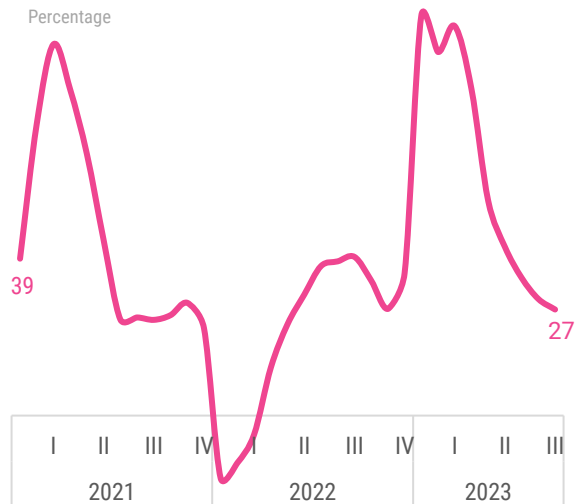
The decrease in the imports and the increase in the exports increased the net exports which had a significant impact on economic growth. Growth in government and household consumption has had a significant impact on the demand-side growth of the economy. Foreign direct investment has halved compared to the previous year.



International trade balance increased by 77% from the same period of previous year.

Coal exports increased by 53% and gold exports increased by 26%, which played an important role in making the international balance profitable. Stabilization of prices on the foreign market moderated the increase in import prices.

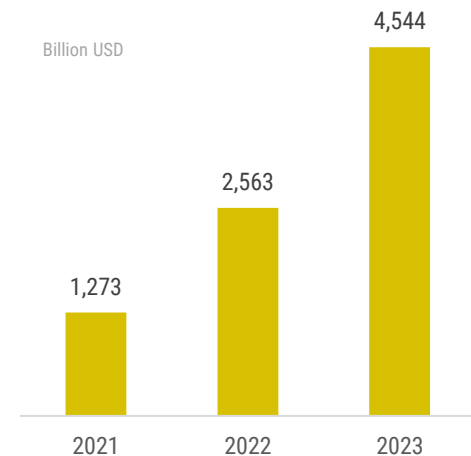
Mining mineral products and agricultural products had a positive effect on export growth.



The stabilization of the economy in the external environment contributed to the decline in import growth.



The export situation has improved and the international balance is profitable.

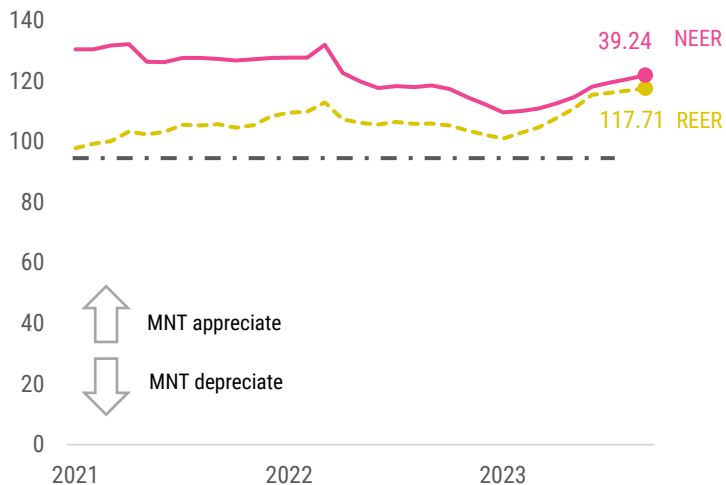


A profitable balance of payments has created conditions for a stable exchange rate.

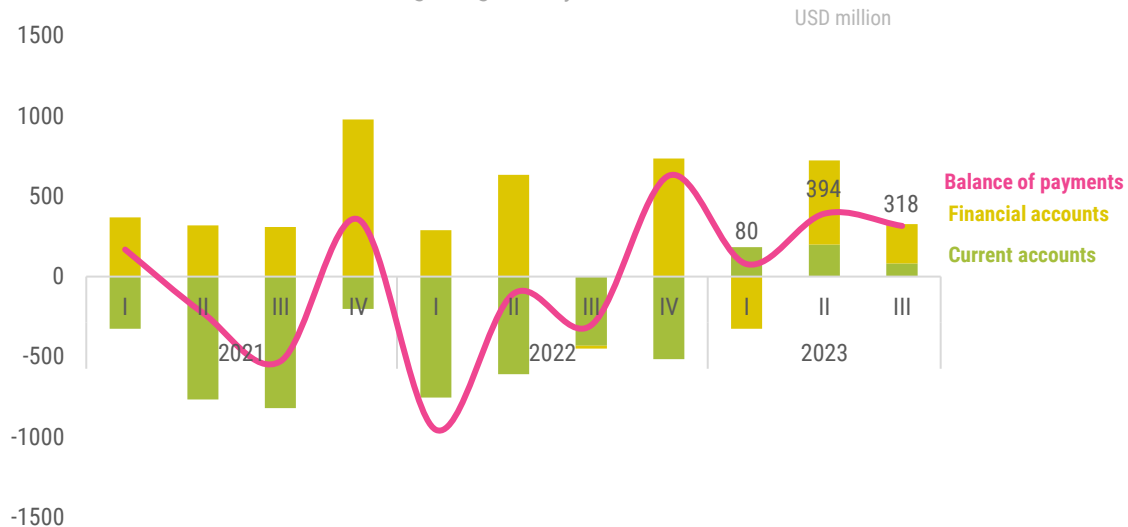
The stabilization of prices in the foreign economy and the increase in exports rather than the increase in imports contributed to a profit of USD 791.4 million in the balance of payments. The outflow of foreign investment continues.

The real exchange rate of the MNT gradually appreciating, the goods and products of our country are becoming more expensive compared to other countries.

Nominal and real exchange rates of the MNT



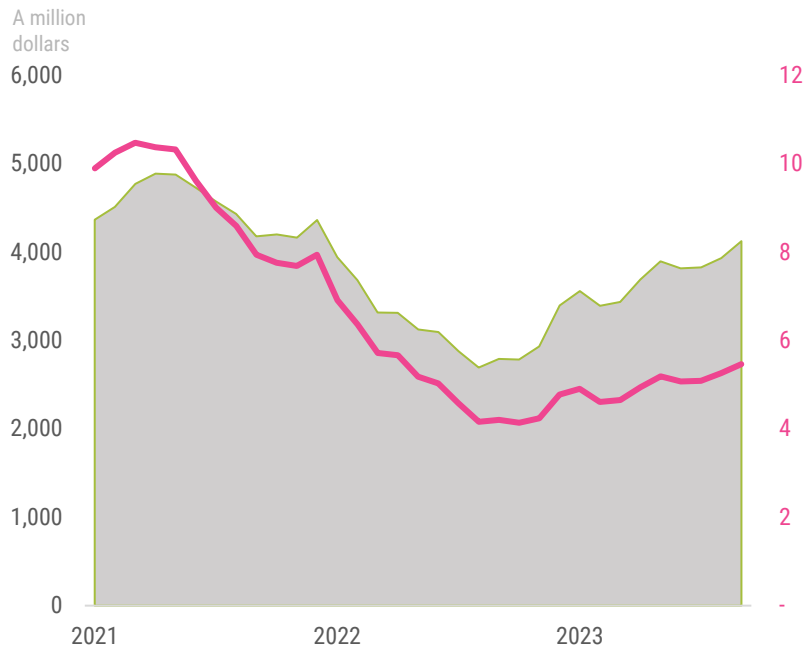
The balance of payments has been profitable since the beginning of the year.



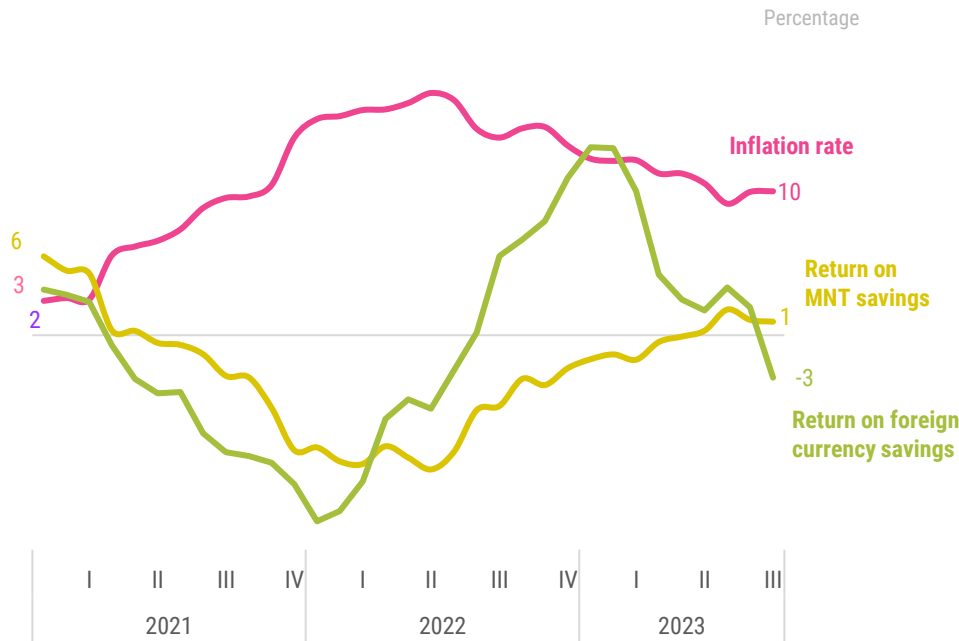
The inflation rate has gradually decreased and the return on MNT savings has started to increase.

As the external environment improves, supply-side inflation is slowly decreasing.
The increase in the prices of food, beverages and water groups makes up about 40% of the consumer price index.

Foreign currency reserves to meet 5 months of import consumption.



The return on MNT savings takes positive turn due to gradual decrease in inflation rates.

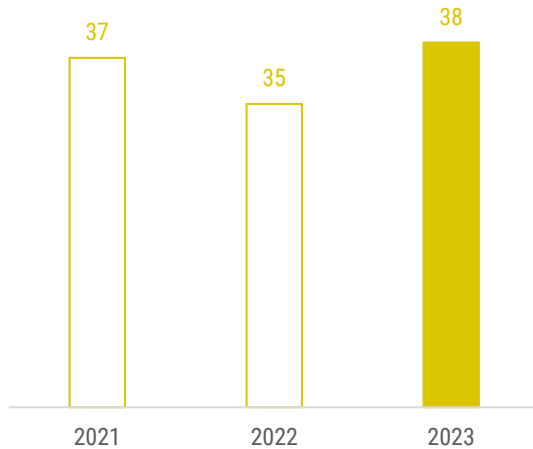


The government budget balance was a surplus of MNT 2.1 trillion.

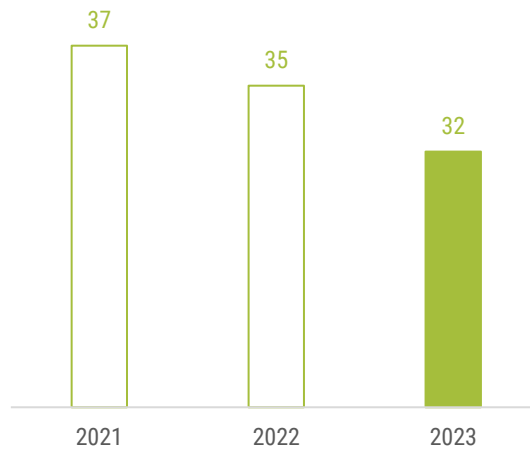
Current expenditures, including wages and other goods, make up the majority of budget expenditures.
Profits in balance of payments have relieved pressure on the government budget deficit.
The revival of the mining sector has had a significant impact on increasing the budget revenue.

Budget revenue increased 40% from the previous year.

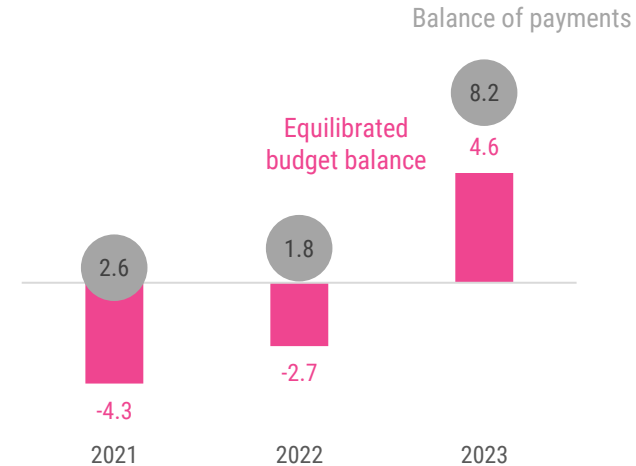
As a percentage of GDP



Budget expenditure has decreased compared to the previous year.



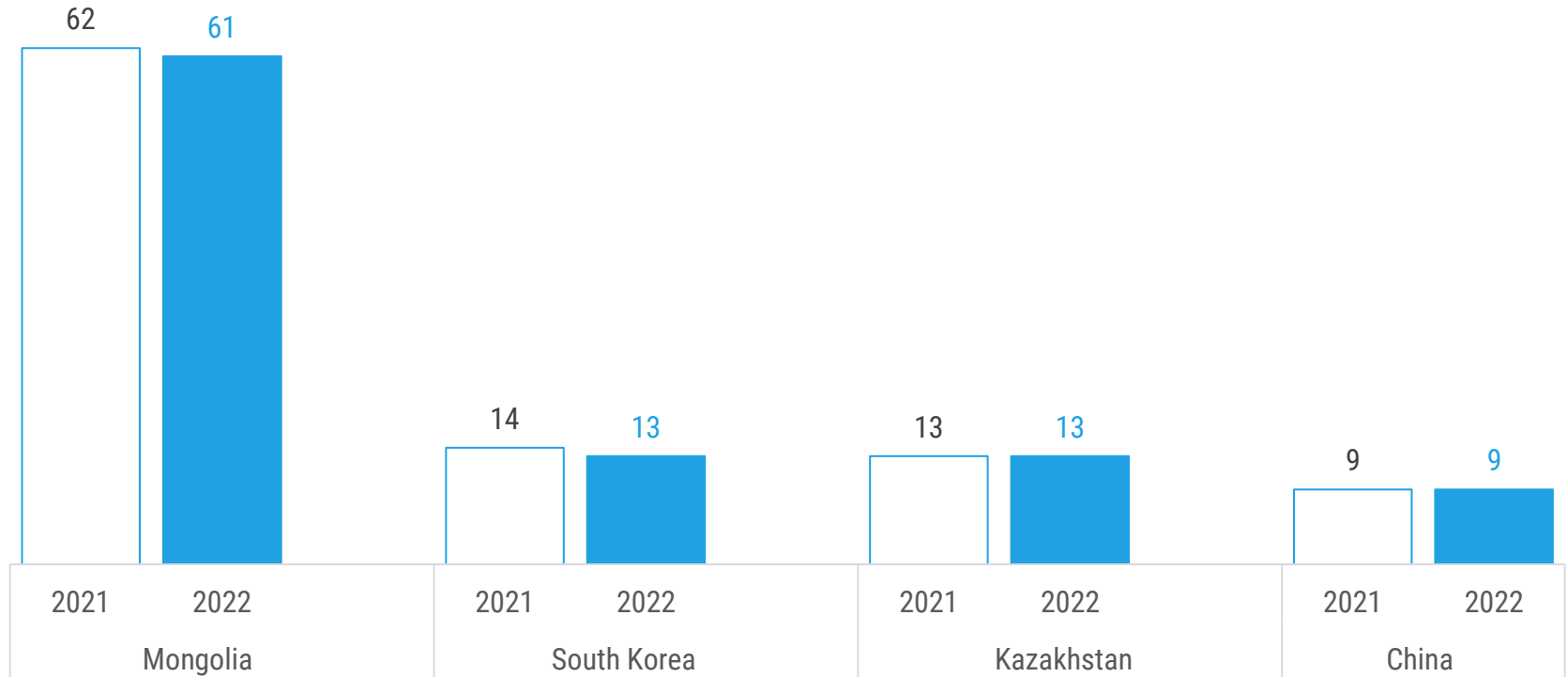
The budget was profitable due to decrease in budget expenditure and increase in revenue.



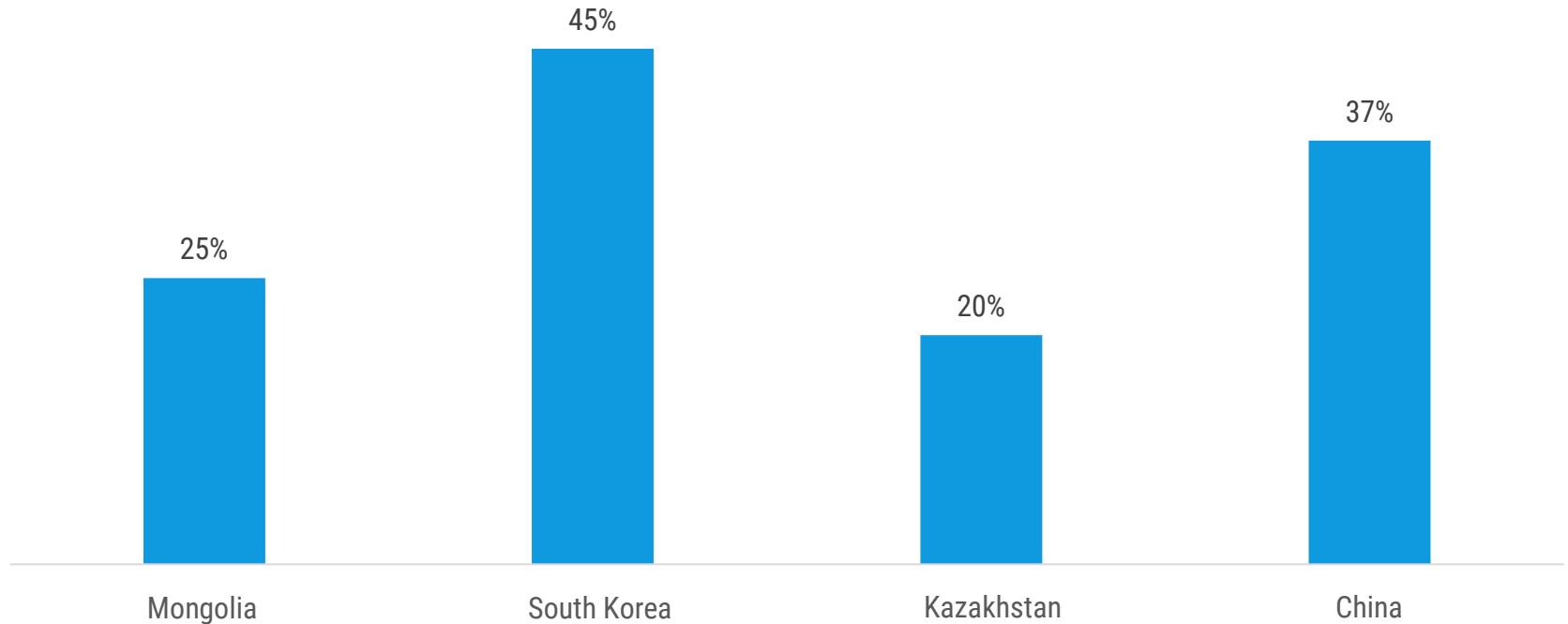
Accessibility indicators of the banking sector



The number of bank branches and units per 100,000 people is high.



The amount of loans granted to SMEs is at a reasonable level compared to the selected countries.



Source: Data submitted by

Most of the loans are granted to SMEs operating in the trade and service sector.

