



THE BANK OF MONGOLIA

# **FINANCIAL SYSTEM** **MONGOLIA**

**By Bulgamaa Bayaraa**

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مجلس  
البنوك  
والمصارف

I.

# Mongolian Financial System Overview

# Mongolian financial system at glance



## Regulators:



BANK OF MONGOLIA



FINANCIAL  
REGULATORY  
COMMISSION



MINISTRY OF  
FINANCE MONGOLIA

Financial Stability Council

Market participants	Number of Entities
Commercial banks:	14
Development bank:	1
Non-Bank Financial Institutions (NBFIs):	529
Savings and Credit unions:	282
Insurance companies:	17
Securities market:	
Listed companies:	302
Trading companies:	2
Securities clearing and settlement:	1
Central securities depository:	1
Custodian banking service:	3
Investment management:	14

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# Financial system structure: **Dominated by Banking sector**



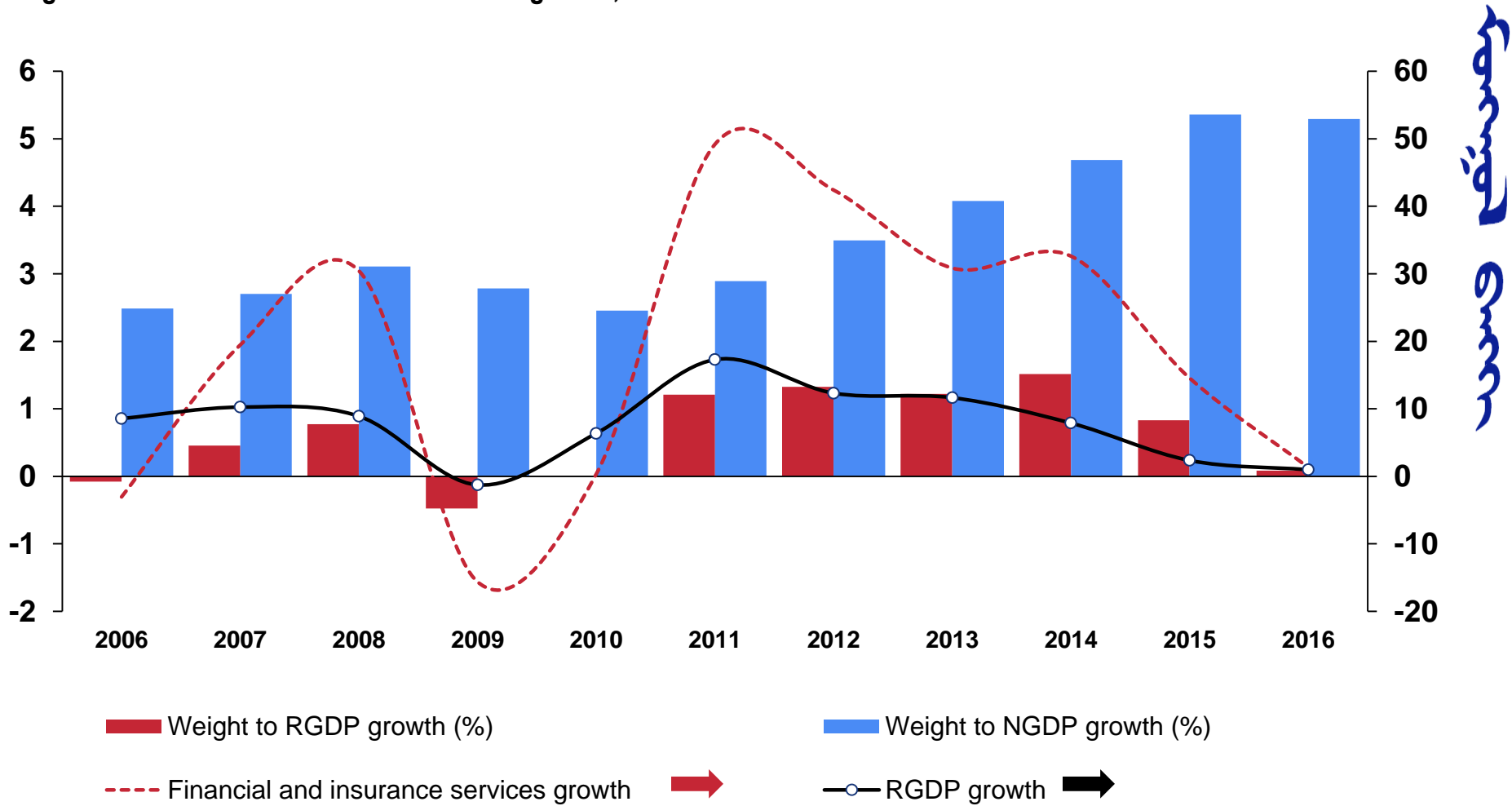
Table 1. Financial sector structure, MNT Billion

	Assets		Profits		Equity	
	Amount	% of	Amount	% of	Amount	% of
	<b>2018Q1</b>					
<b>Banks</b>	<b>28,883</b>	<b>95.5%</b>	<b>56</b>	<b>70.1%</b>	<b>3,297</b>	<b>79.1%</b>
NBFIs	787	3.0%	59	23.5%	578	19.1%
Insurance	208	0.8%	11.4	4.5%	105.8	3.5%
Savings & Credit union	113	0.4%	3.8	1.5%	24.3	0.8%
Securities participant	91	0.3%	1.0	0.4%	66.8	2.2%
	<b>2017</b>					
<b>Banks</b>	<b>28,716</b>	<b>95.7%</b>	<b>200</b>	<b>79.9%</b>	<b>3,277</b>	<b>80.1%</b>
NBFIs	623	2.8%	46	17.0%	424	14.0%
Insurance	173	0.8%	7.1	2.6%	94	3.1%
Savings & Credit union	98	0.4%	2.2	0.8%	21	0.7%
Securities participant	68	0.3%	-0.7	-0.3%	62	2.0%

2018Q1  
 2017

# Financial and insurance services growth

Figure 1. Financial and insurance services growth, in GDP



II.

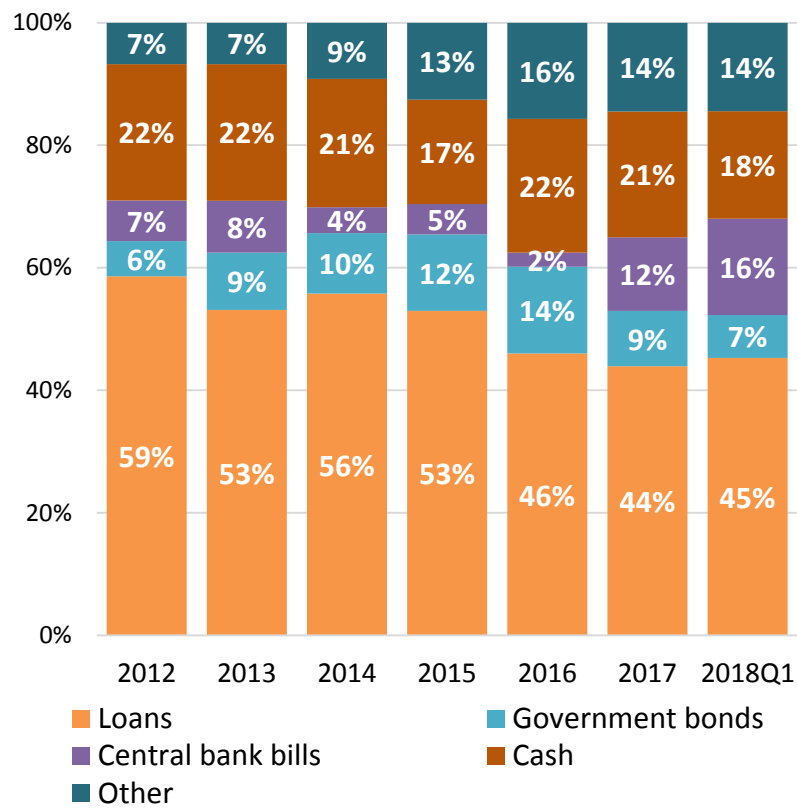
## Banking Sector

# Asset structure

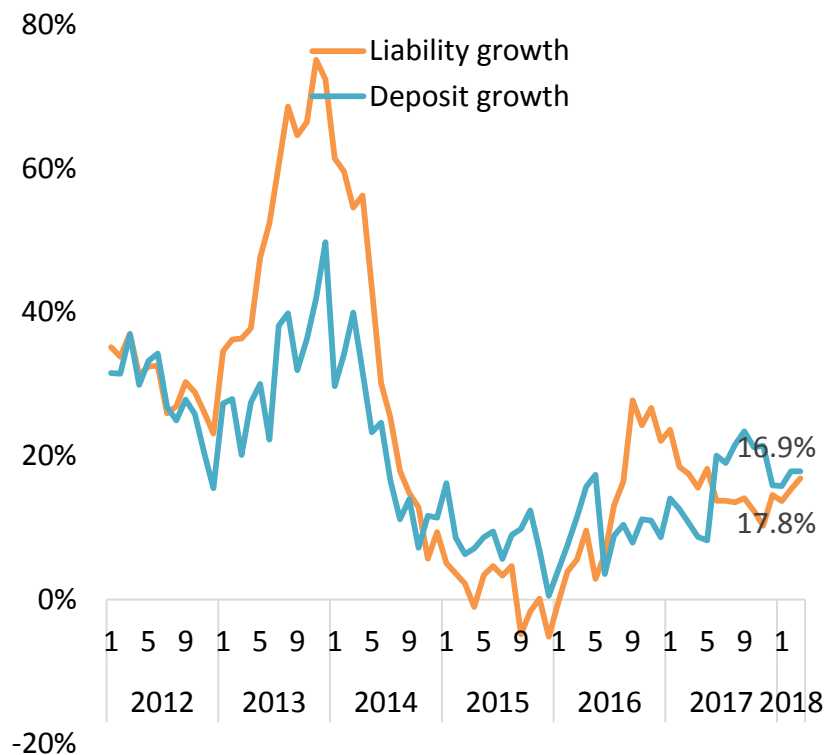


At the end of 2018Q1: **14** banks, **1516** branches, **938,000** bank borrowers, **9.1 million** customers  
 Total assets: **28.9** trillion MNT

**Figure 2. Banking sector assets, 2018Q1**



**Figure 3. Asset and credit growth, 2018Q1**



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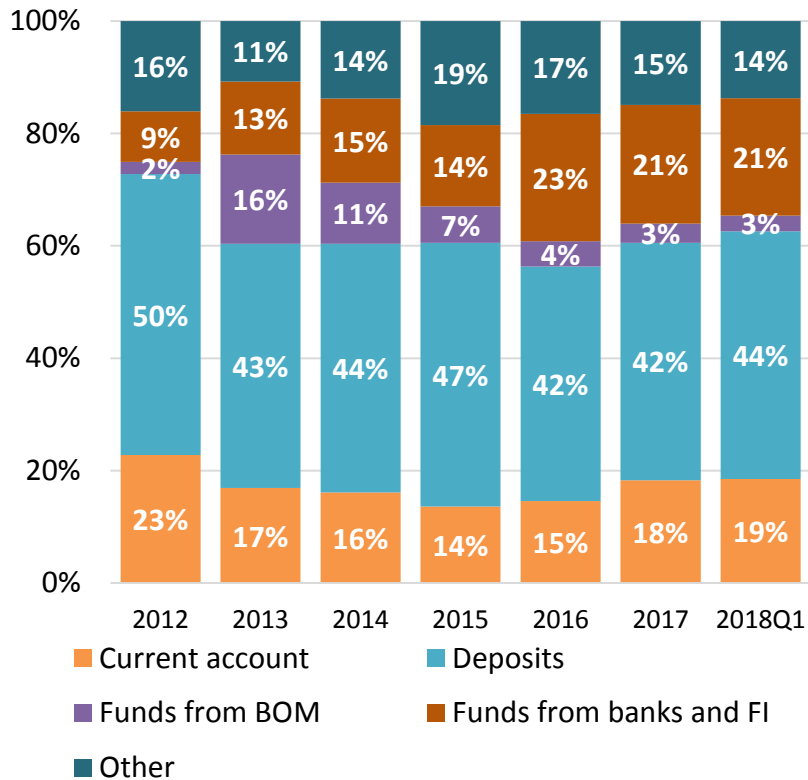
# Liability structure



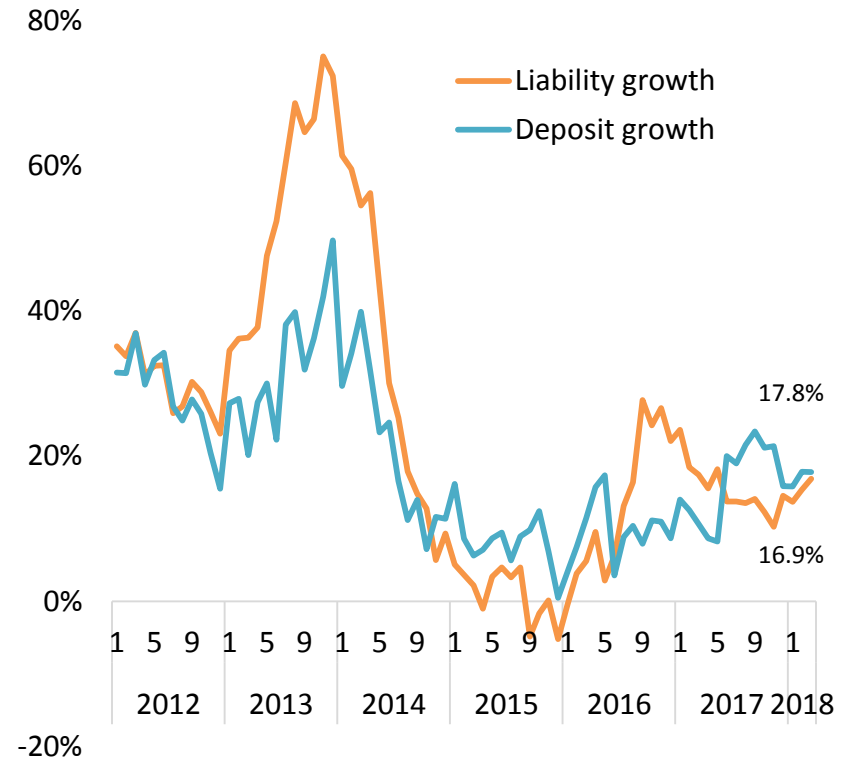
Total liabilities: **25.6** trillion MNT

Total equity: **3.3** trillion MNT

**Figure 4. Banking sector liabilities, 2018Q1**



**Figure 5. Liability and deposit growth, 2018Q1**



Banking Sector Liabilities

# Profitability



Figure 6. Banking sector's net profit

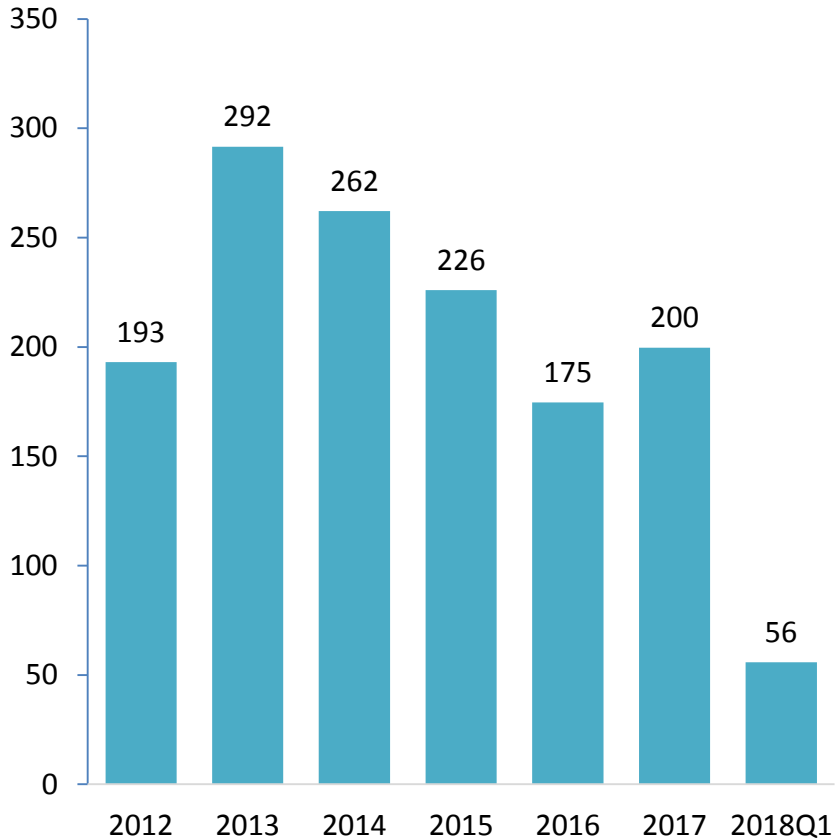
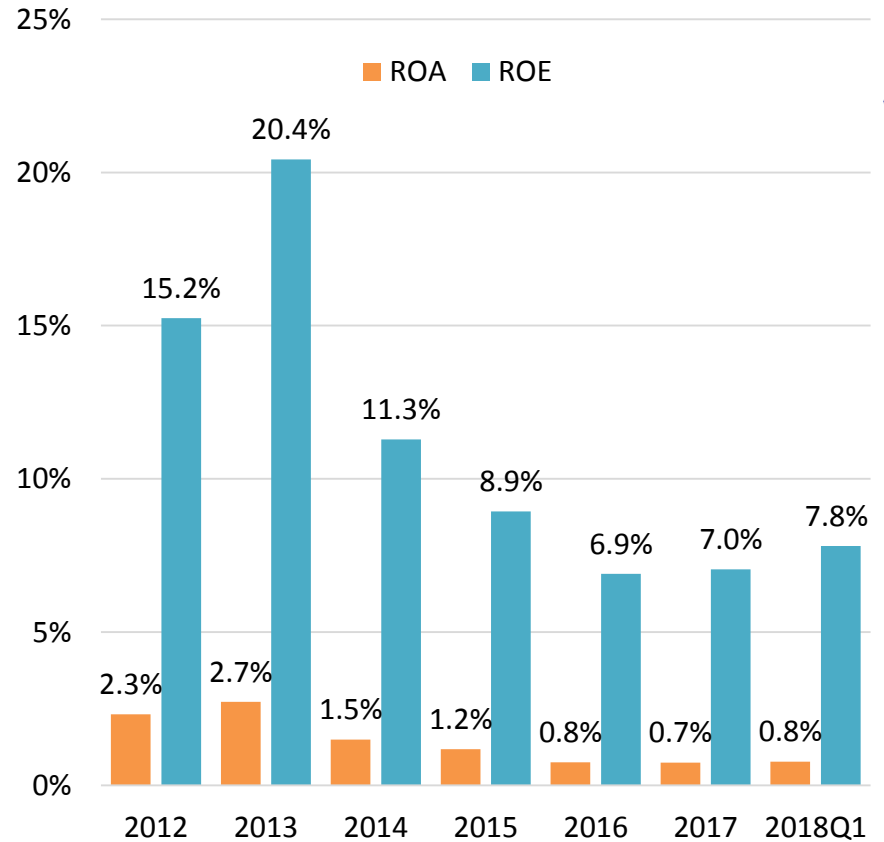


Figure 7. Banking sector's profitability indicators



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# Capital adequacy ratio



Figure 8. Banking sector's capital ratios

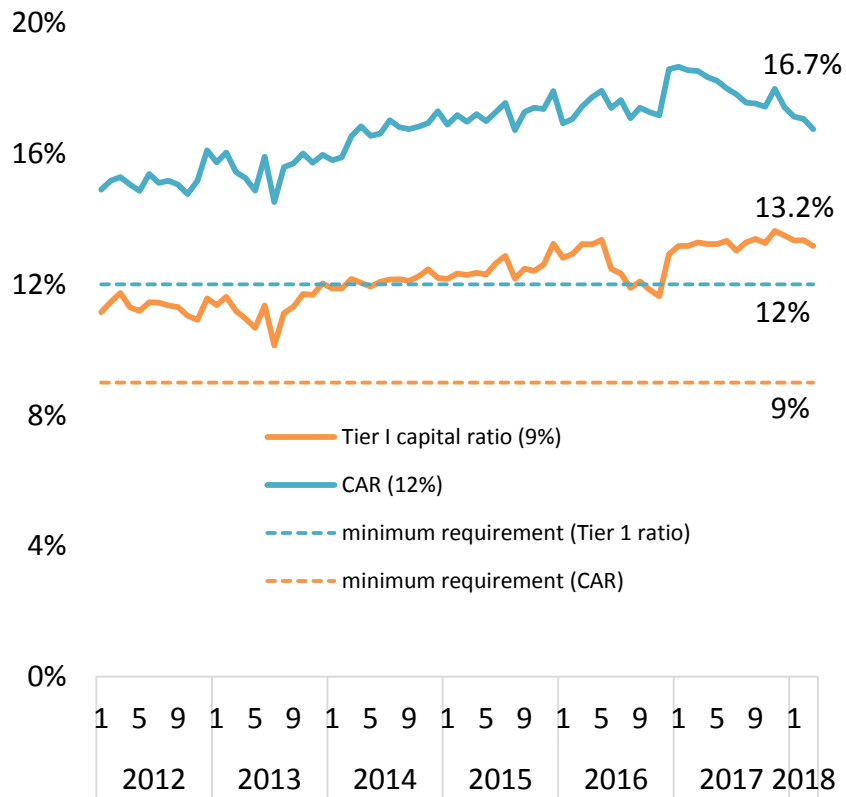
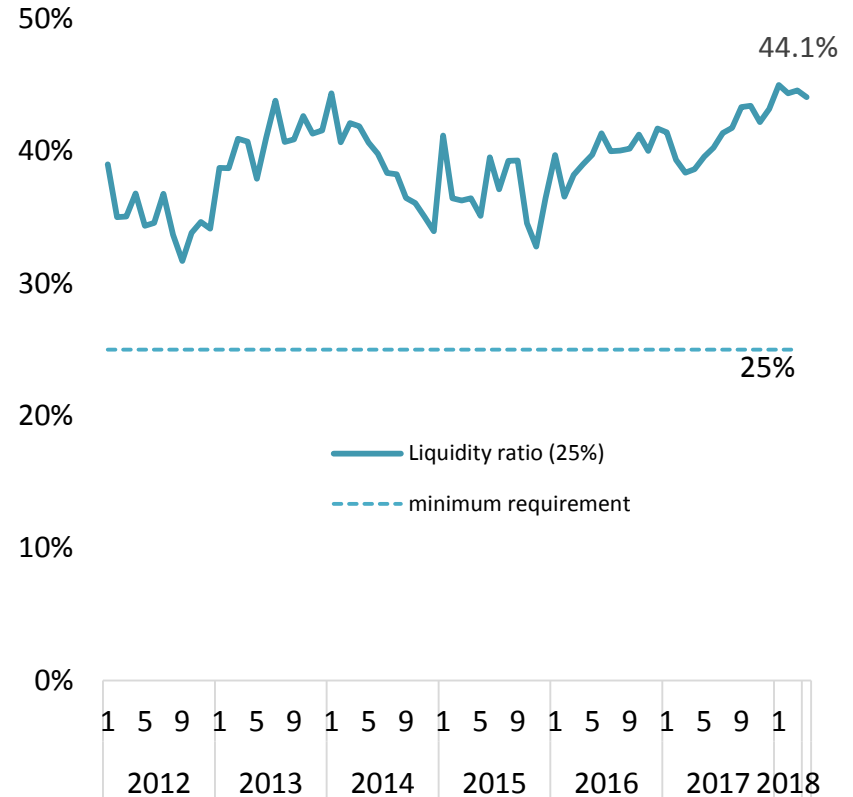


Figure 9. Liquidity ratio



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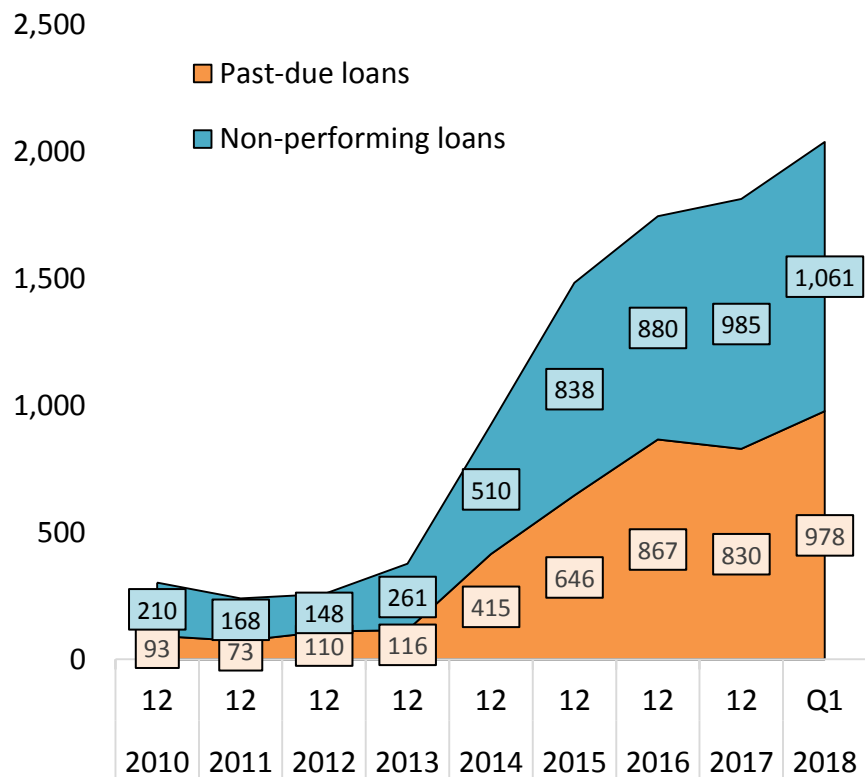
Current issues in banking sector

# Current issues in Banking sector

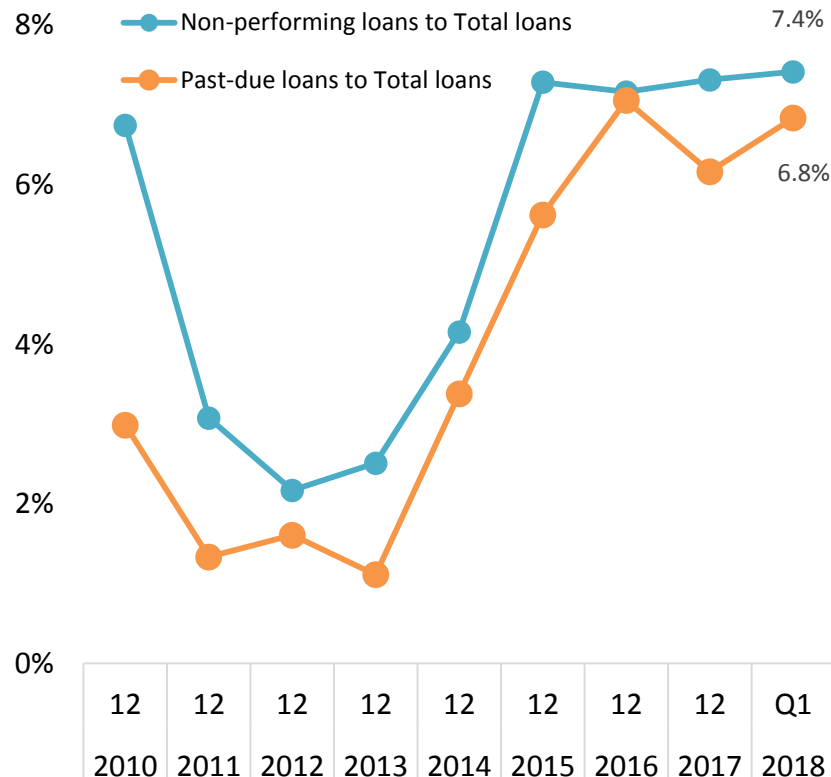


NPL is rising in recent years.

**Figure 10. Loan quality (outstanding amount, billion MNT)**



**Figure 11. Loan quality (Percentage of total loan)**



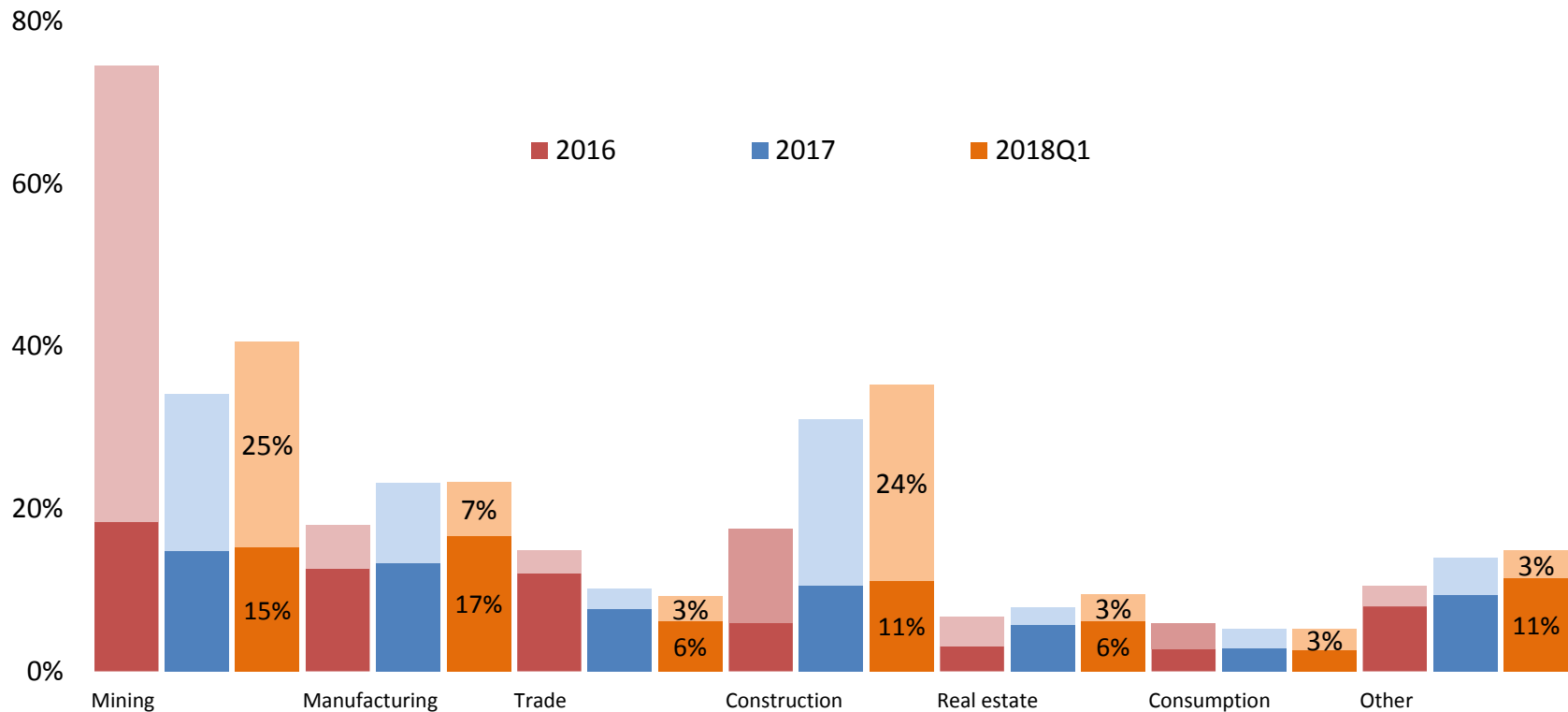
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# Current issues in Banking sector



NPL is rising, especially in following economic sectors.

Figure 12. Loan quality (outstanding amount, billion MNT)



Banking Sector

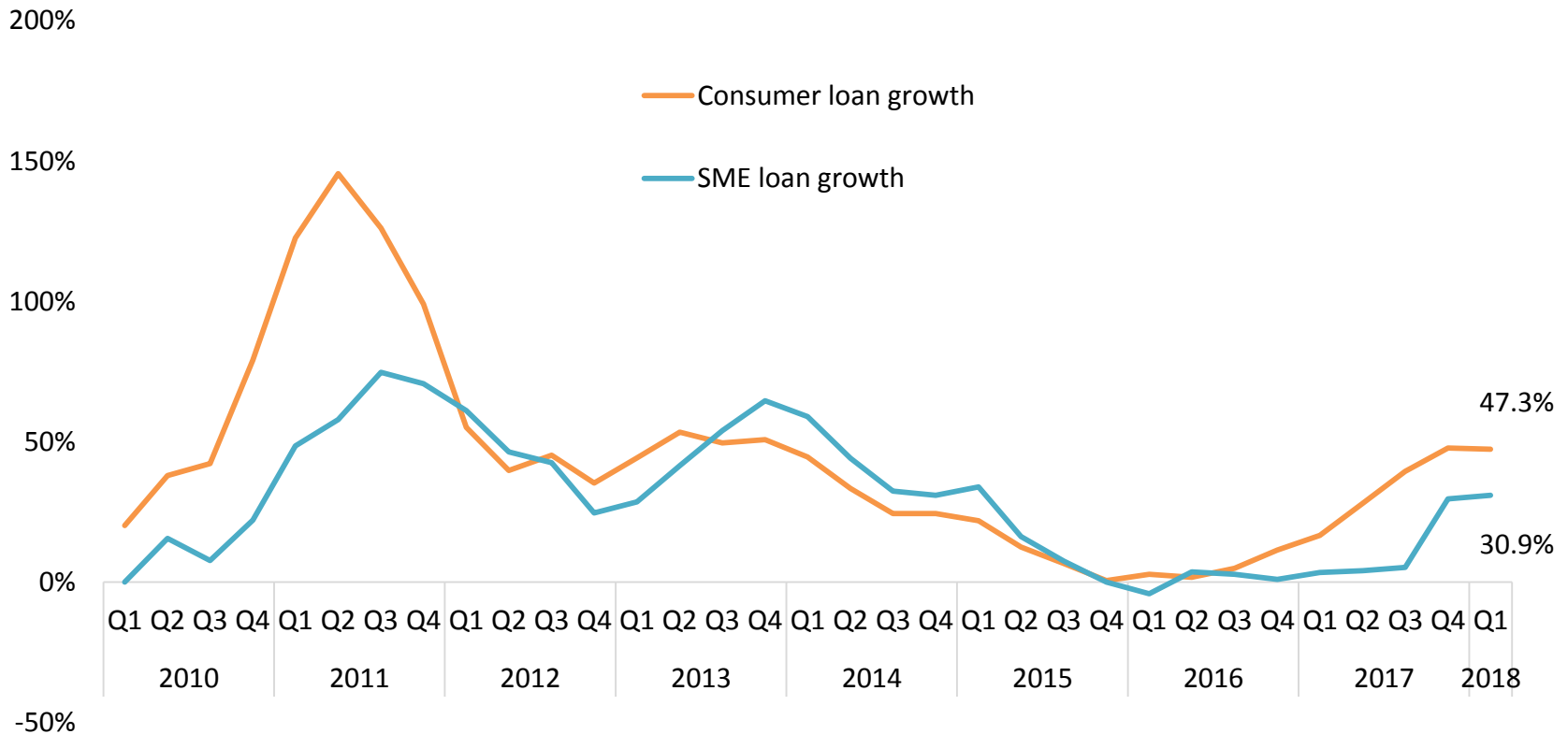
# Current issues in Banking sector



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Consumer lending is growing at 47.3 percent, which indicates its highest growth in the last 4 years. It could be a sign of excessive lending, which can result in higher NPL and financial instability.

**Figure 13. Consumer and SME loan growth(y-o-y growth)**



# Financial Soundness Indicators



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FINANCIAL SOUNDNESS INDICATORS	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018Q1	Trend
<b>Capital Adequacy</b>											
Risk Weighted CAR	5.5%	16.2%	14.9%	16.1%	16.0%	17.5%	17.9%	18.6%	17.4%	16.7%	
Tier I ratio	2.3%	11.9%	11.0%	11.6%	12.0%	12.4%	13.2%	12.9%	13.5%	13.2%	
Total Capital	177.45	631.66	945.49	1,266.45	1,713.78	2,321.26	2,528.21	3,110.43	3,276.80	3,297.28	
<b>Asset quality</b>											
Asset Growth	19.7%	43.0%	48.3%	24.2%	68.2%	11.7%	-3.7%	21.3%	13.4%	0.6%	
Loan Growth (Net)	-8.3%	26.4%	79.0%	25.9%	52.4%	17.5%	-8.7%	4.7%	8.3%	3.8%	
Loan share in total assets	54.2%	47.9%	57.8%	58.6%	53.1%	55.9%	53.0%	46.0%	43.9%	45.3%	
NPL*	544.05	209.62	167.59	147.96	261.36	386.87	837.58	879.63	984.62	1,065.62	
NPL(old)	666.90	302.42	240.23	257.60	376.95	653.89	1,483.90	1,746.18	1,814.18	2,004.34	
NPL* to gross loans	20.0%	6.7%	3.1%	2.2%	2.5%	3.1%	7.3%	7.2%	7.3%	7.6%	
NPL(old) to gross loans	24.5%	9.7%	4.4%	3.8%	3.6%	5.3%	12.9%	14.2%	13.5%	14.3%	
Provision	366.96	130.80	120.07	111.33	187.18	271.45	521.93	635.27	849.29	899.89	
Provision/NPL*s	67.4%	62.4%	71.6%	75.2%	71.6%	70.2%	62.3%	72.2%	86.3%	84.4%	
Provision/NPL(old)s	55.0%	43.2%	50.0%	43.2%	49.7%	41.5%	35.2%	36.4%	46.8%	44.9%	
NPL*s net of provision /Capital	99.8%	12.5%	5.0%	2.9%	4.3%	5.0%	12.5%	7.9%	4.1%	5.0%	
NPL(old) net of provision /Capital	169.0%	27.2%	12.7%	11.5%	11.1%	16.5%	38.0%	35.7%	29.4%	33.5%	
FX loans to total loans	38.6%	33.7%	32.3%	32.6%	27.5%	23.5%	24.5%	20.2%	22.3%	22.5%	
Average lending rate	17.2%	17.5%	15.3%	14.9%	14.0%	14.3%	15.2%	0.0%	0.0%	0.0%	
Nominal lending rate (MNT)	20.8%	17.9%	15.5%	18.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
<b>Earnings and Profitability</b>											
Return on assets	-5.6%	1.8%	2.9%	2.3%	2.7%	1.5%	1.2%	0.8%	0.7%	0.8%	
Return on equity	-131.9%	11.2%	18.6%	15.2%	20.4%	11.3%	8.9%	6.9%	7.0%	7.8%	
Interest income to gross income	48.6%	34.2%	28.0%	31.6%	49.3%	54.6%	64.5%	60.9%	85.5%	87.5%	
Interest expenses to gross income	34.0%	21.3%	16.8%	19.5%	30.2%	34.7%	41.1%	42.2%	59.3%	62.5%	
Non-interest expenses to gross income	90.0%	72.7%	75.2%	73.2%	57.9%	56.9%	51.6%	53.3%	34.2%	30.1%	
Personal expenses to Non-interest expenses	9.1%	7.2%	5.6%	6.5%	10.2%	10.9%	13.9%	11.8%	22.9%	25.8%	
Interest margin to gross income	14.6%	12.9%	11.2%	12.2%	19.1%	0.0%	0.0%	0.0%	0.0%	0.0%	
<b>Liquidity</b>											
Liquid assets to Total assets	n/a	n/a	32.16%	29.17%	30.87%	25.23%	22.03%	24.01%	30.14%	32.80%	
Liquid assets to Short-term liabilities	n/a	n/a	37.60%	34.21%	32.03%	29.74%	30.57%	35.81%	41.69%	45.27%	
FX deposit to total Deposits	0.00%	0.00%	27.06%	29.32%	21.62%	26.82%	26.11%	31.67%	24.77%	24.19%	



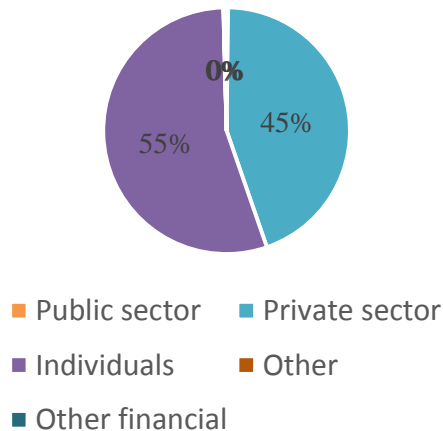
# Current risk in financial system



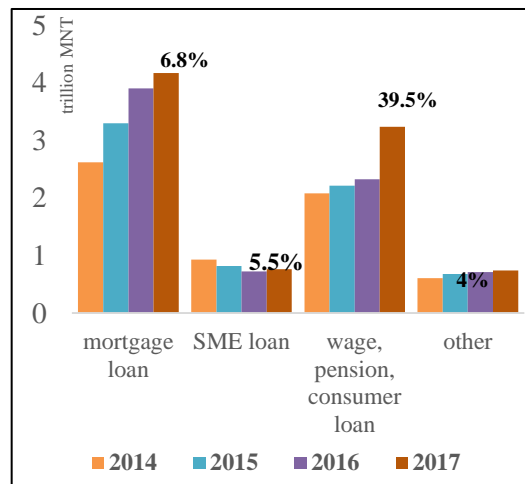
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- Credit growth remains moderate, yet consumer loans are growing rapidly and reached 65 percent of total individual loans in 2017.
- Credit dollarization is low by historical standards, but FX credit to unhedged borrowers are high and thus weakens monetary policy transmission.
- There is pressing need to establish the macroprudential policy framework and initiate the policy actions.

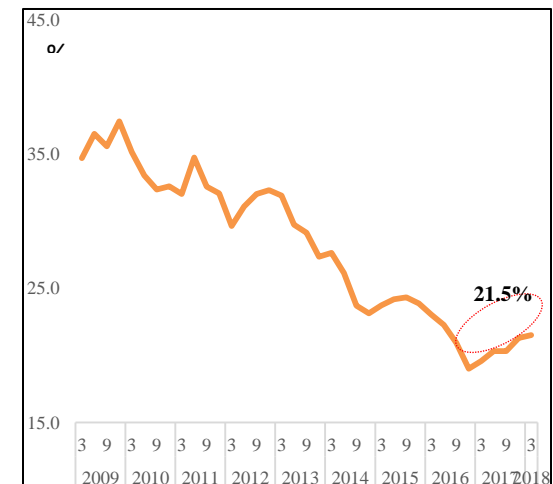
Loan by sectors



Growth of loan to individuals



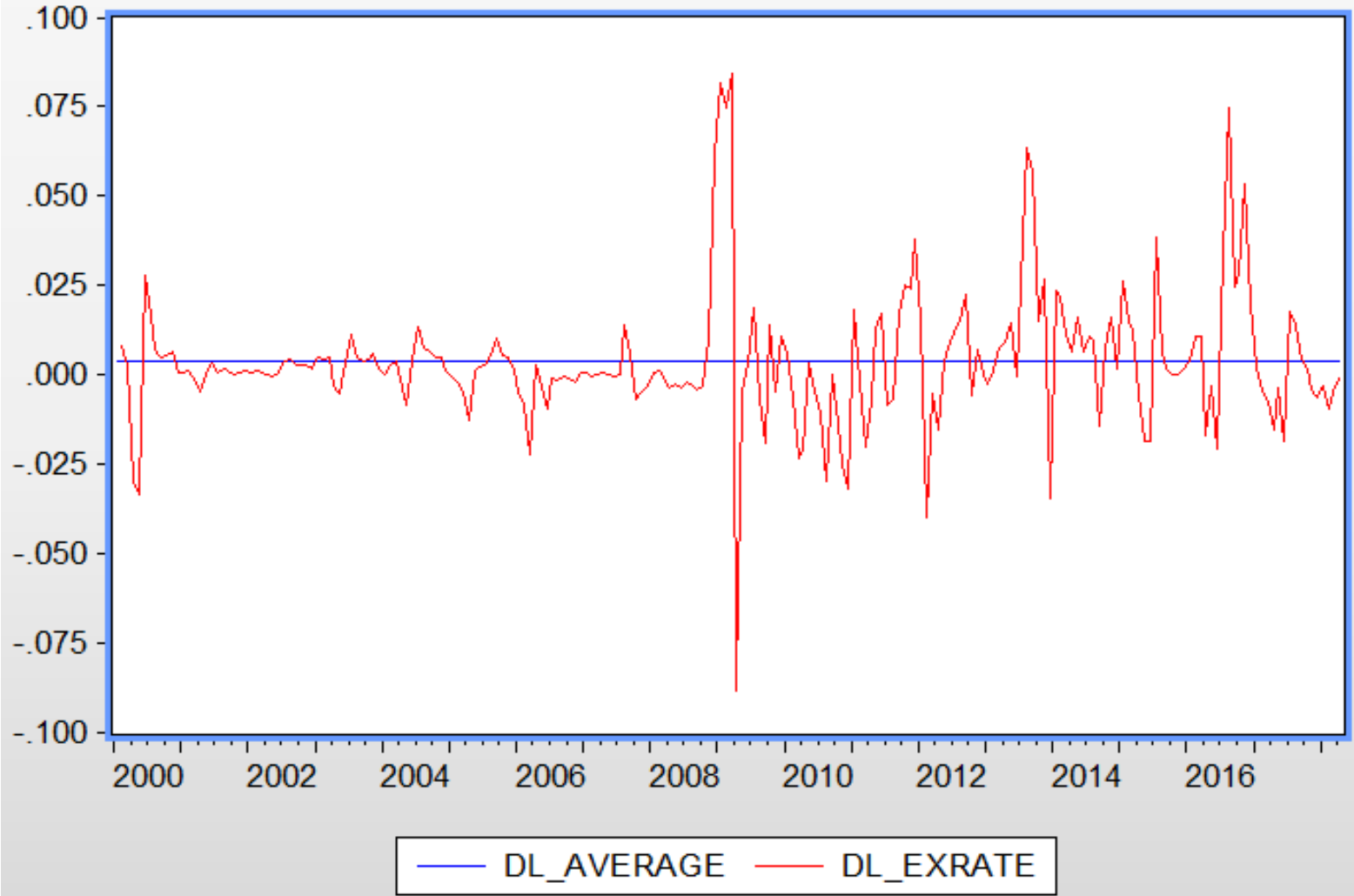
Credit dollarization



# FX market became less stable recently



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العموم



# IV. Challenges Ahead



## ➤ Remaining challenges:

- ✓ Efforts to stabilize domestic macro economies and financial system
- ✓ How to best coordinate with monetary policy
- ✓ Improve policy framework (better coordinated policy responses among authorities)
- (In line with high consumer loan, the Monetary Policy Committee on June 15<sup>th</sup>, 2018 has decided to set a ceiling of 70% for DTI ratio)
- (To mitigate risks related to high NPLs, “Asset Management Company law” draft is pending to be approved by the Parliament, also concluded performing “Asset Quality Review”)

Thank you for your attention



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