



"Mongolian Banking industry"

2014 performance of financial sector and banking industry of Mongolia

As the economy growth slows down, International financial institutions started cautioning Mongolia, to provide the prudential policy of financial sector, in order to prevent from the banking sector crisis. The Mongolian major banks has just released the financial statements of 2014, therefore, we studied the performance of financial sector, namely the banking industry in 2014.

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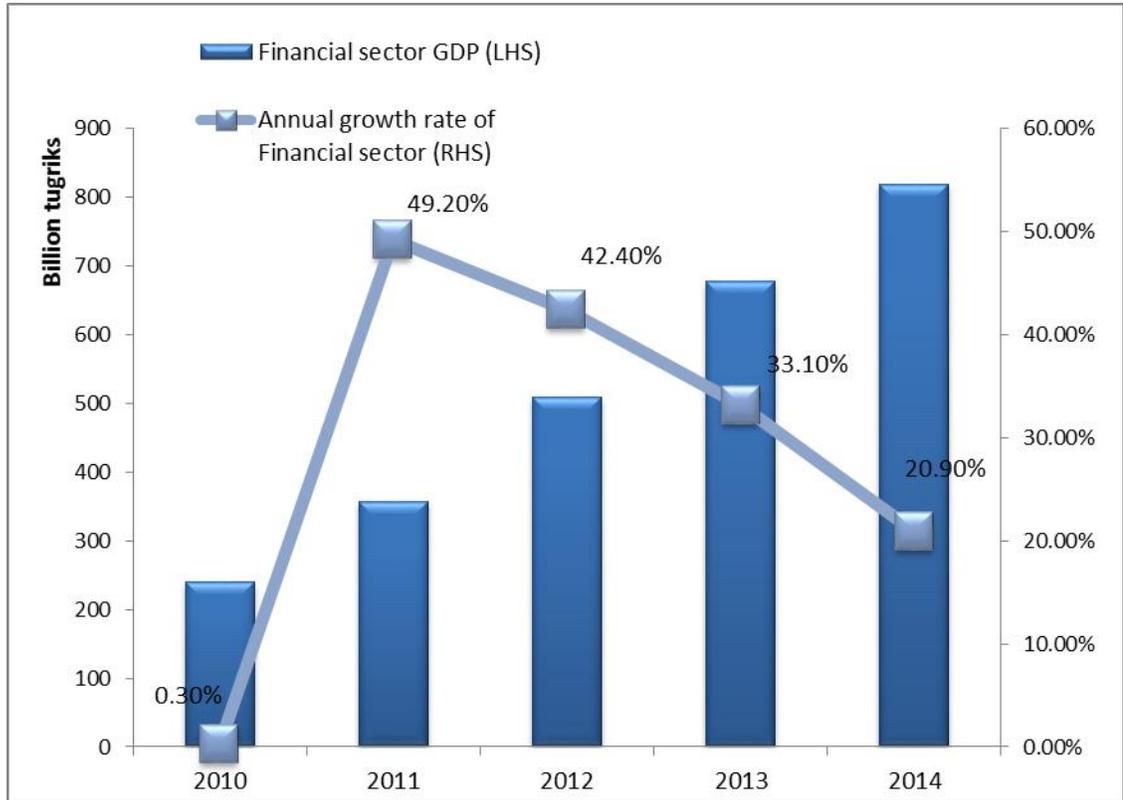
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Financial sector has been and is the fastest growing sector of Mongolia since 2010. It has grown 20% in 2014 and accounts for 5% of total GDP of 2014.

Figure 1. Financial sector growth



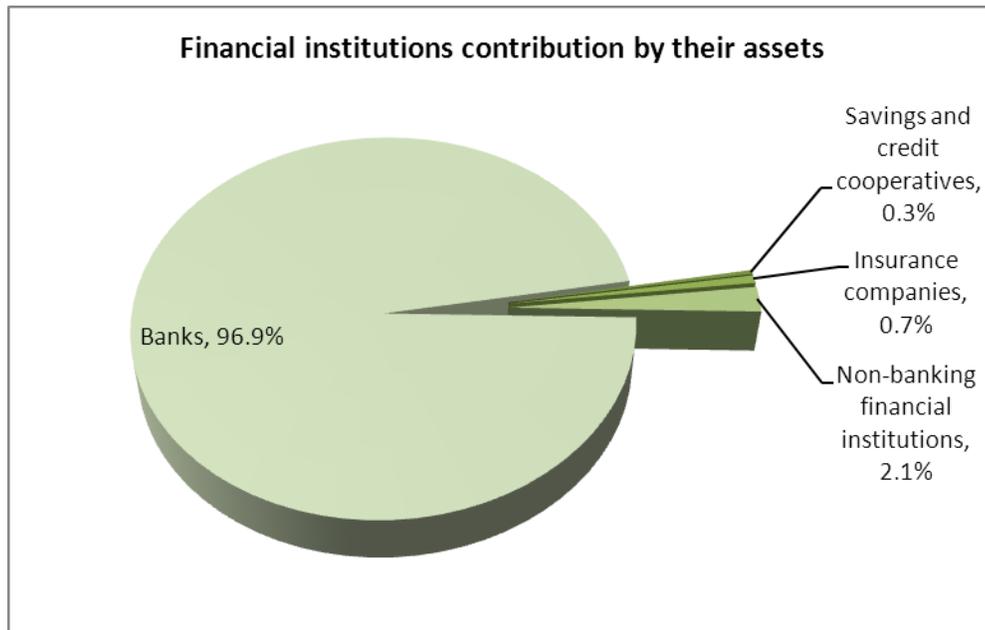
Data source: National Statistics Office of Mongolia

As of December 2014, Mongolian financial sector is consisting of 13 commercial banks, 1 development bank, 195 small NBFIs, 159 savings & credit cooperatives, and 17 insurance companies. More than 96% percent of financial sector assets are held by the commercial banks as of 2014. According to the consolidated balance of the savings and credit cooperatives as of December 2014 (compiled by the FRC) total asset of the savings and credit cooperatives 80,527.8 mill Tugriks, which accounts for only 3% of total bank assets. Total profit of the total savings and credit cooperatives was 3,968.9 million tugriks in 2014, 2.5% lower than the previous year.

There are totally 17 insurance companies are operating in Mongolia, and the total assets of these companies reached to 152,522.8 million in 2014, which increased by 40.4% from 2013 level.

Financial Regulatory Committee has informed that by the end of 3rd quarter of 2014, there were 351 non-banking financial institutions are operating in Mongolia with an assets worth of 489 991.1 million tugriks. New non-banking services licenses have been issued to the 91 companies in only 3rd quarter of 2014. Out of total 351 non-banking financial institutions, 124 companies run foreign exchange trade and 296 institutions grant a loan. By the end of Q32014, totally 293,922 million tugriks loan issued by these institutions, which accounts for 2.4% of the total loans issued by the commercial banks by the Q32014.

Figure 2. Financial institutions structure by their assets

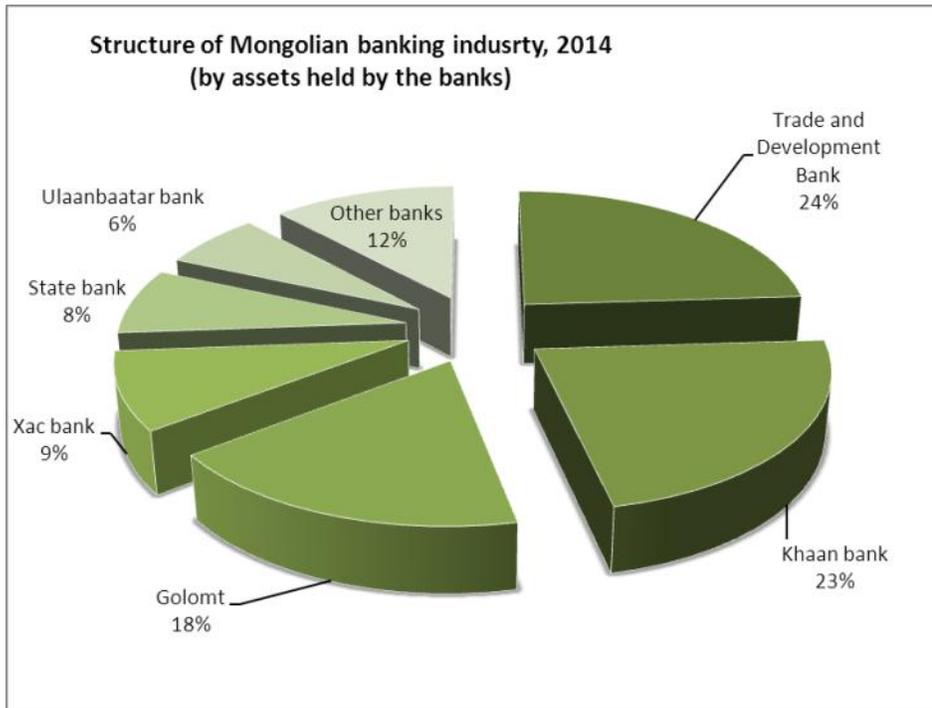


Data source: Financial Regulatory Committee of Mongolia, Bank of Mongolia

Banking industry

According to the consolidated balance sheet of the banks of Mongolia, the total assets of the bank reached to 22,582,376.8 million tugriks at the end of December 2014, which increased by 8.1% year on year level. Only 3 major banks, Trade and Development bank (TDBM), Khan bank and Golomt bank are holding around 65% of the total assets of the banking industry.

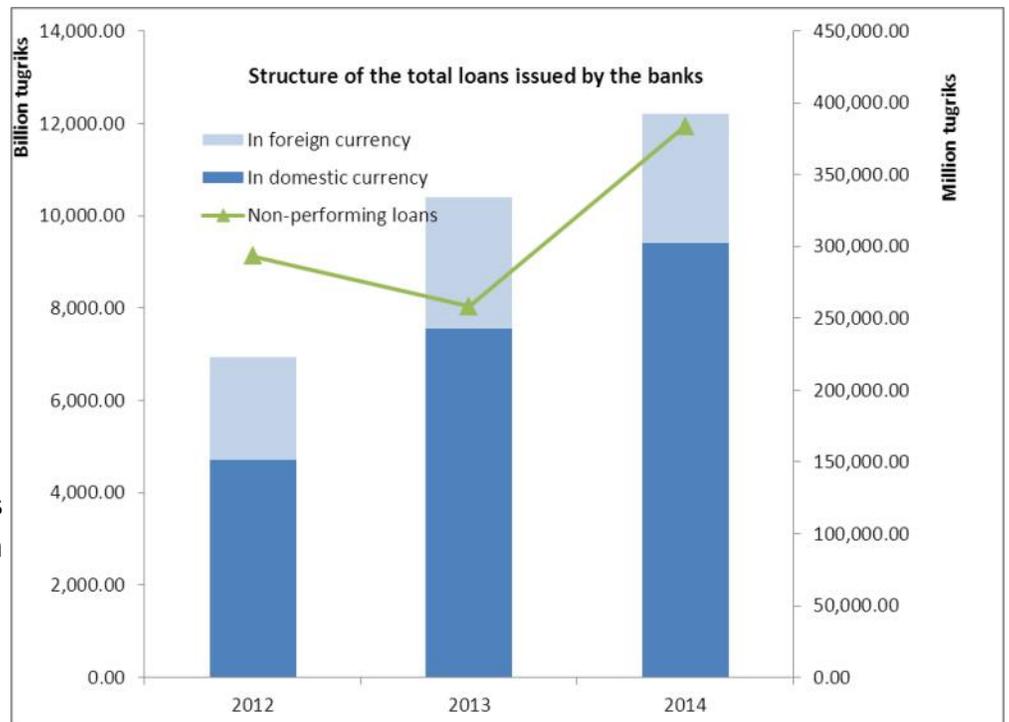
Figure 3. Structure of Mongolian banking industry, 2014



Data source: Bank of Mongolia

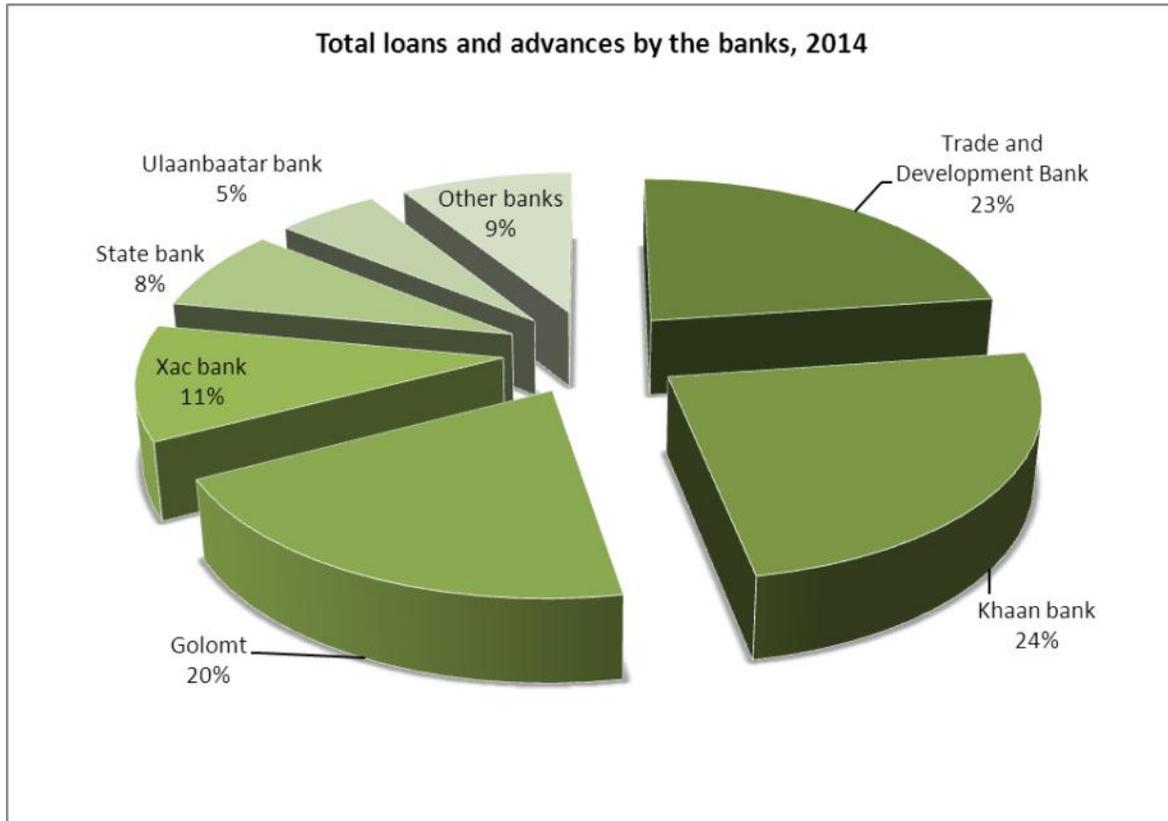
Total loans and advances issued by the banks reached to 12,199,983.8 million tugriks in 2014, increased by 17.2% from the previous year. Non-performing loans have reached to 383,777 million tugriks in 2014, increased by almost 50% from the 2013 level. However, the non-performing loans as a percentage of total outstanding loans, is quite low, stayed around 3% in 2014.

Figure 4. Structure of total loans issued by the banks, 2014



More than 67% of total loans issued by the TDBM, Khan bank and Golomt bank.

Figure 5. Structure of loans 2014, by the sources



Data source: Bank of Mongolia

For the month of December 2014, a total amount of MNT 108.6 billion mortgage loan was issued to 1963 borrowers, with the total outstanding mortgage loan reaching MNT 2844.61 billion and the total number of borrowers reaching 66334. 70% of the total mortgage loan has been provided by the “Housing Mortgage Program”.

Table 1. Mongolian major banks performance of 2014

	Total assets (million tugriks)	Loans and advances (million tu- griks)	Net profit after tax (million tu- griks)	ROA	ROE	Prudential ratios				
						Capital Adequacy Ratio >14%	Liquidity Ratio >25%	The loan and guar- antee given to one borrower <20%	The loan and guar- antee given to the single related party <5%	Total loans and guaran- tees given to the related parties <20%
Trade and Devel- opment Bank	5,413,180	2,777,188	93,507 ↓	1.7%	16.8%	19.17% ↑	41.3% ↓	16.26% ↓	1.75% ↓	3.17% ↓
Khan bank	5,116,074	2,971,657	108,024 ↑	2.1%	16.4%	17.20% ↑	45.4% ↓			
Golomt	4,053,153	2,461,920	49,828 ↓	1.2%	15.2%	17.1% ↑	38.2% ↓	15.8% ↓	4.6% ↑	15.8% ↑
Xac bank	2,072,815	1,313,698	11,635 ↓	0.6%	8.6%	17% ↑	37.2% ↓	11.3% ↓	4.2% ↑	
State bank	1,752,184	942,183	19,323 ↑	1.1%	12.8%	15.14% ↑	42.29 ↓	4.47% ↓		
Ulaanbaatar city bank	1,471,836	645,811	16,827 ↑	1.1%	23.8%	18.80%	60.00%	19.50%	0.30%	4.70%
Other banks	2,683,360	1,087,526	29,714 ↑	1.1%	6.8%					
Total	22,562,602 ↑	12,199,983 ↑	328,857 ↑	1.5%	14.1%					

Data source: Bank of Mongolia, Websites of the commercial banks, Daily news

Note: ↑ ↓ - increase of decrease from the level of 2013

We reviewed selected indicators of the banking industry and the prudential ratios of the major banks (with total assets more than 1 trillion tugriks) in Mongolia, comparing with the level of previous year. Banking industry total assets, loans to the customers and profit increased in 2014. Performance of individual banks in 2014 however is mixed. Combined net profit earned by TDBM and Khan bank in 2014, accounts for more than 60% of the banking industry.

Capital adequacy ratio has increased for most of the major banks. On the other hand, liquidity ratios for all major banks have decreased, with minor changes. Ulaanbaatar city bank had the highest liquidity ratio as of end of 2014.



Summary

Banking industry of Mongolia still accounts the majority of the financial sector of the country, holding 96% of the total financial sector assets. Despite the economic growth slowdown, the financial sector and banking industry are growing with double digit number for last 3 years. Performance of the banking sector and prudential ratios of major banks in 2014, suggest that the banking sector is surviving the economic growth slowdown quite well.

However, activity and contribution of non-banking financial institutions and stock exchange in the financial sector development is still limited. Although necessity of the structural changes of the financial sector has been addressed for quite sometimes, the visible results could be reached with a great deal of efforts by the Mongolian authority and probably with technical assistance from the advanced economies. We support FRC's 2015 priority: encouraging development and strengthening of non-banking financial industry, and hope the industry could benefit from the cooperation in the financial sector within framework of Japan Mongolia EPA.

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