



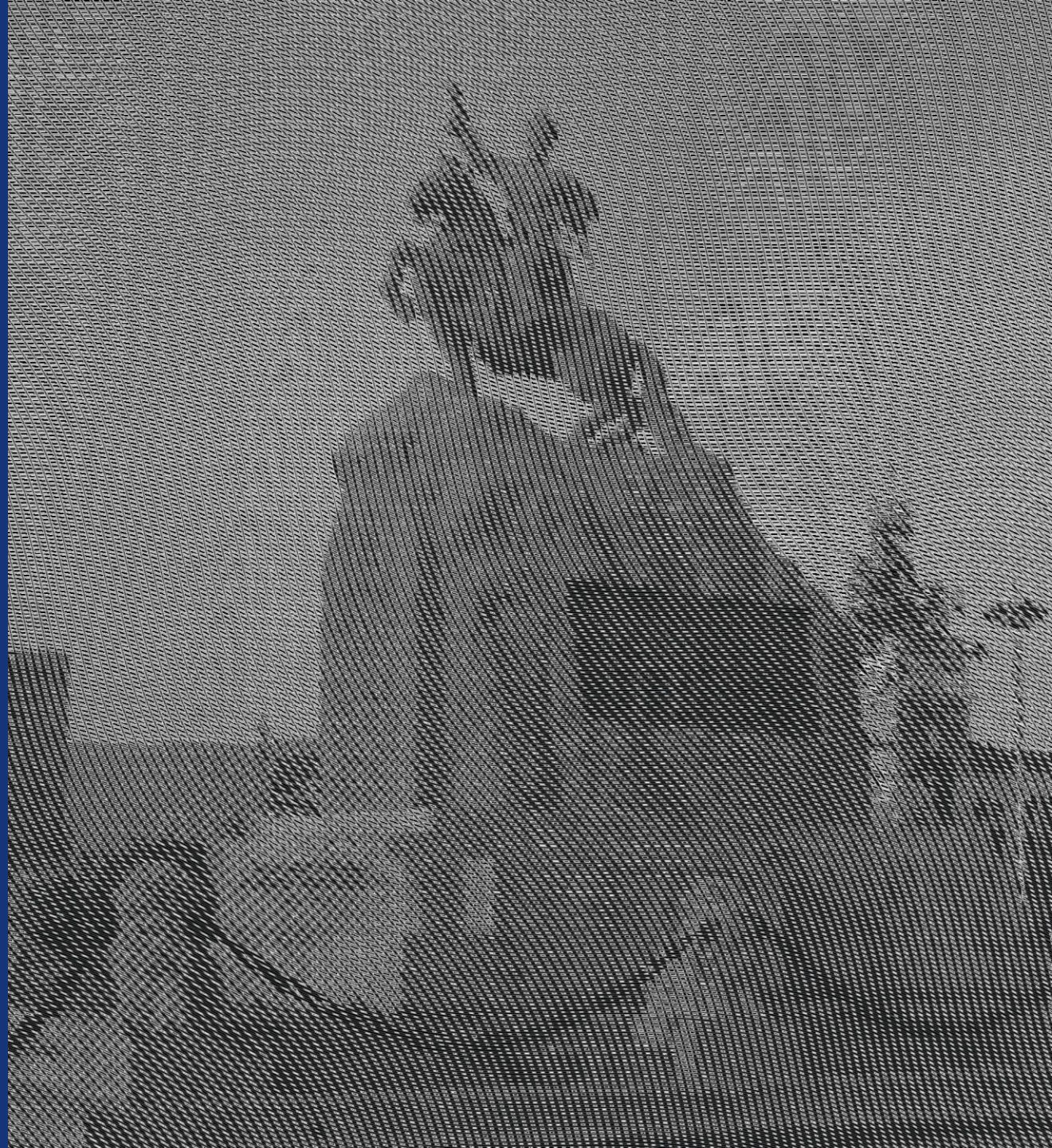
BANKING SECTOR REFORM

— *and* —

FOREIGN INVESTMENT

GOVERNOR OF THE BANK OF MONGOLIA

MR. LKHAGVASUREN BYADRAN



ECONOMIC OUTLOOK IS PROMISING AFTER STRONG RECOVERY

Economic outlook



- ✓ Inflation is expected to be under the target
- ✓ Maintaining economic growth
- ✓ Strong export growth

Economic potential

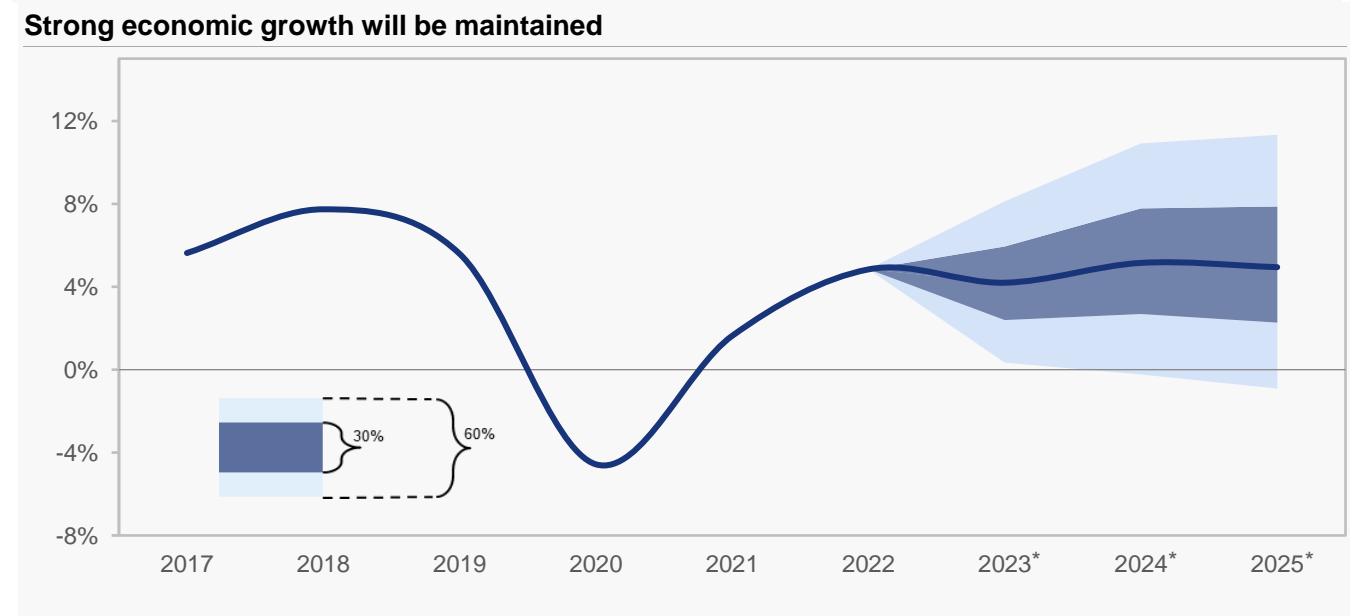
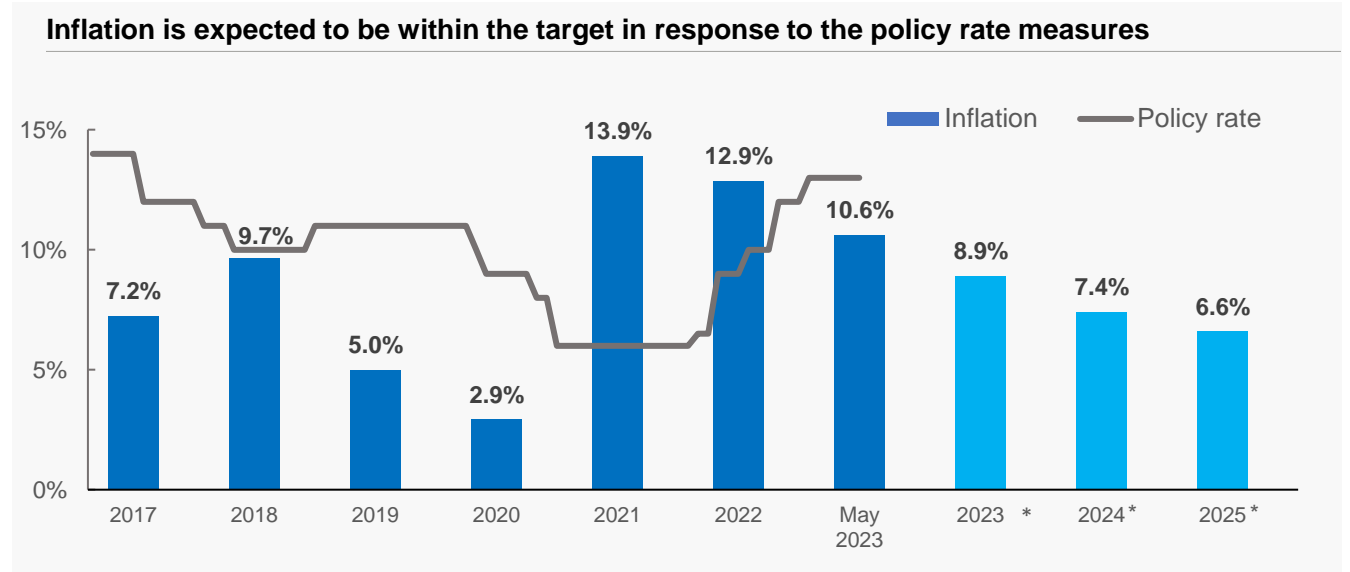


- ✓ Oyu Tolgoi underground mining operations
- ✓ Railway openings to boost export capacity

Investment opportunity

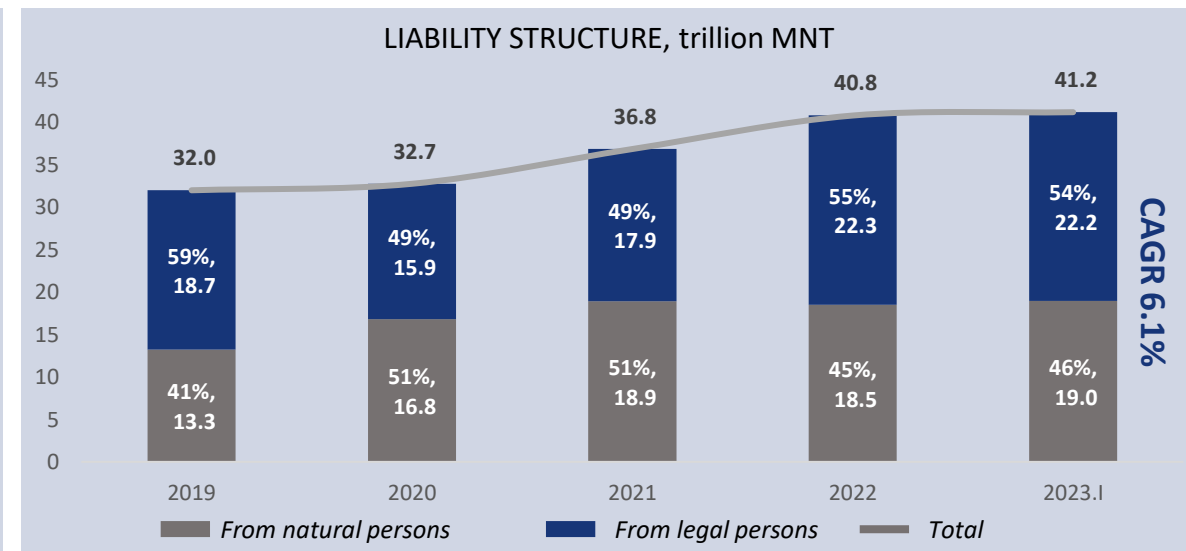
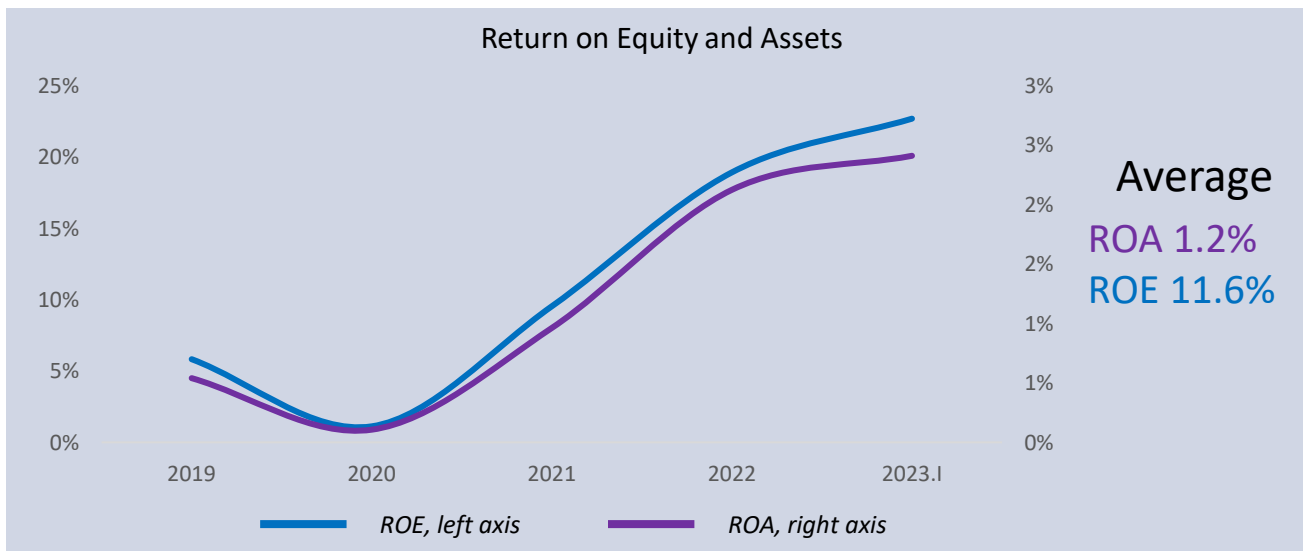
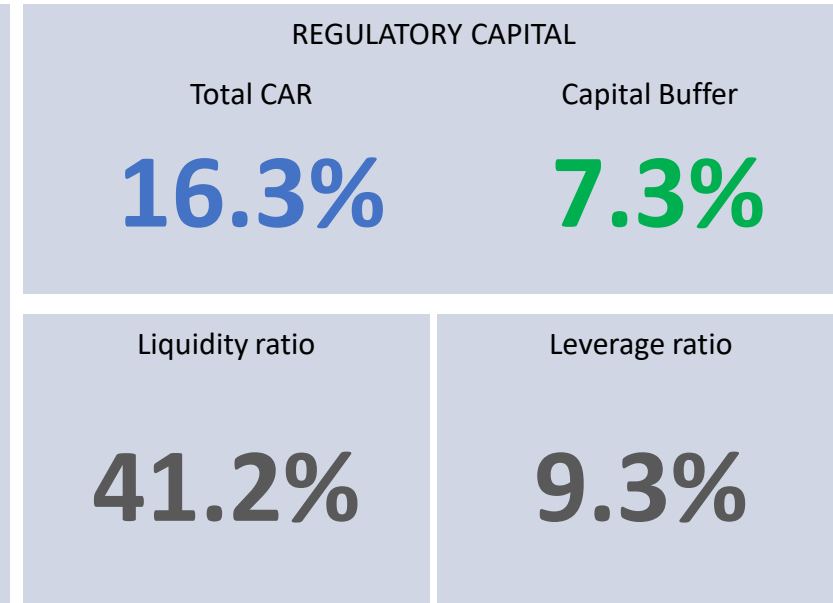
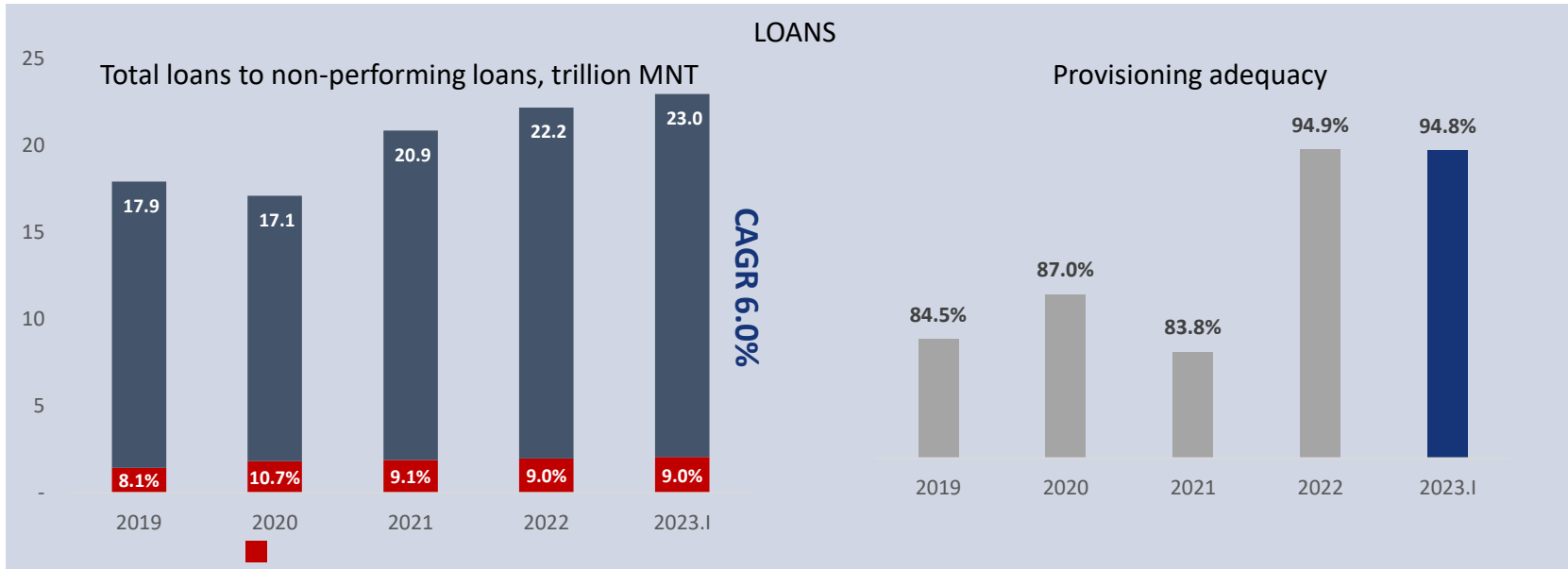


- ✓ Agriculture
- ✓ Tourism
- ✓ Renewable power



SOME FIGURES OF THE BANKING SECTOR

As of the 1st Quarter of 2023



CHRONOLOGY OF THE MODERN MONGOLIAN BANKING SECTOR

Creation of a two-tiered banking system

1990 First commercial banks were established

1991 Two separate institutions with distinct functions, central bank as the monetary policy maker and commercial bank as the financial intermediary, recognized with the ratification of the Banking Law

1992-1994 Creation and implementation of the clearing house and revision of accounting standards

1996-1998 Multiple banks became insolvent due to over-leveraging and high NPEs; as a result, the sector went into a recession

1996-1999 Introduction of ratios such as CAR and liquidity

1990

Privatization of public banks and increased supervision

2001 Market limits were incorporated into the capital framework of banks

2003-2006 Agricultural, Trade and Development, and Savings banks were privatized

2007-2009 Several banks were liquidated due to an external shock caused by the subprime mortgage crisis of the US

2000

Improvement of the banking sector regulatory framework

2010 The Banking Law was revised to improve governance and supervision practices

2011-2017 Minimum paid-up capital was increased to 16, 50, 100 billion MNT

2013 Deposit insurance scheme was established with the ratification of the Law on Deposit Insurance

2017 Extension of credit from the IMF under the Extended Funding Facility; several requisites were fulfilled in connection

2010

Banking sector reform program

2020 Approval of the first banking sector medium term program, which is being implemented successfully

2021 Legal revisions requiring for re-incorporation of banks as joint-stock companies and dilution of bank ownership down to 20%

2022 Banks are re-incorporating as joint-stock companies

2023 Law on Investment Specialized Banks was ratified, and the relevant regulations are being drafted (very first specialized bank)

2020

REFORM PROGRAM: INVESTMENT OPPORTUNITIES IN THE BANKING SECTOR

THE MEDIUM-TERM REFORM PROGRAM AND LEGAL FRAMEWORK REVISIONS HAVE GREATLY INCREASED INVESTMENT OPPORTUNITIES IN THE BANKING SECTOR , WHICH IS EXPECTED TO GROW RAPIDLY



REPRESENTATIVE OFFICE

Liaison with the Mongolian banking sector

Not subject to prudential regulation



BANKING BRANCH

Conduct banking activities as a non-legal entity

Relatively flexible prudential requirements



EQUITY INVESTMENT

Participation of up to 20%

No managerial involvement necessary


Acquisition of an already functioning business model



SPECIALIZED BANK

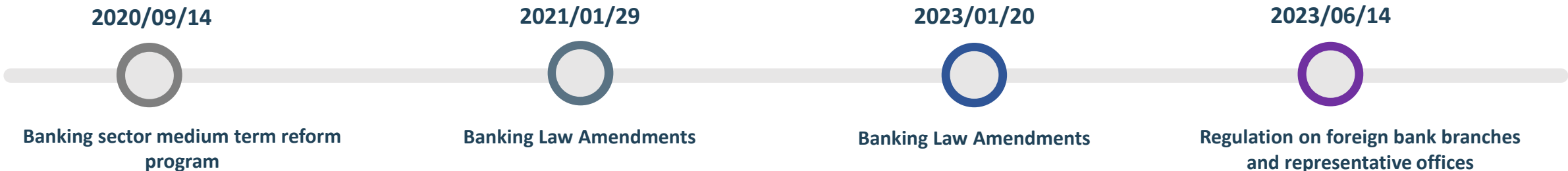
Opportunity to invest in large or mega projects

Relatively flexible prudential requirements



STATS

	2021	2022
ROE	9.6%	18.9%
		▲ 97%
Net income	₮372B	₮921B
		▲ 148%
Assets/GDP	94.1%	87.0%
		▼ -8%



INTERNATIONAL COOPERATION: BANK BRANCH LICENSING

PREVIOUS FRAMEWORK

Licensing of Representative Offices

A financial institution that fulfill the following requirements may establish a representative office:

- Ranked in top 150 by asset size per the “Banker’s Almanac”
- Rated no lower than “A” by S&P, Moody’s, Fitch, etc.
- Has operated for more than 3 years in a country other than its incorporation
- Has no record of serious violation of a law that resulted in the insolvency of the institution in the past 3 years
- No history of involvement in money laundering or terrorism financing activities
- Capable of complying with domestic regulatory framework
- Others deemed necessary

Regulatory framework for branch licensing unclear.

REVISED FRAMEWORK

Licensing of Representative Offices and Bank Branches

A financial institution that fulfill the following requirements may establish a representative office:

- Produces audited financial statements, its operations are supervised and regulated, etc.
- Has been operating for at least 3 years and complying with prudential requirements for the past 1 year
- With satisfactory corporate governance rating
- No previous records of involvement in money laundering and terrorism financing-related activities or economic crimes, or such previous convictions have been nullified
- Cross-border surveillance is possible between regulators
- State owned enterprises have been approved to invest by the Government
- Typical fit and proper criteria for the Management

INTERNATIONAL COOPERATION: SPECIALIZED BANK LICENSING

REFERENCE

Articles 15-22 of the Law on Investments Specialized Bank

Articles 3, 19, 20, 23, 36 of the Banking Law

Law on Investments Specialized Bank and auxiliary regulations

REGULATORY FRAMEWORK

Eligible entity to establish: Bank and other financial institutions

Form of incorporation: Subsidiary LLC or a privately held joint-stock company

Fit-and-proper requirements for founders: Same as universal banks and able to comply with domestic regulations

Ownership limitations: Qualifying shareholders to seek authorization, no other stipulations

Industry: No limitations

Area of specialization: Financing of large/mega projects

Permitted activities: Banking activities except for monetary and other deposit taking, financial leasing and international settlements

LICENSING

OPERATIONS

NATIONAL PAYMENT STRATEGY (2022-2026)

VISION

*By 2026, payments in Mongolia will be increasingly **DIGITAL**, processed by a **RESILIENT, SAFE, AND SECURE** payments system infrastructure, and supported by institutions that promote **COMPETITION, INNOVATION, AND INCLUSIVENESS** while minimizing risks*

HIGH LEVEL OBJECTIVES

All economic agents (government , businesses, individuals, financial institutions) enjoy fast, safe and reliable payment services

Mongolia migrates to a cash-light society by spreading the usage of digital payment instruments and fintech

Payment and settlement infrastructure is efficient, safe, interoperable, meet users' needs and is operationally resilient

The legislation and regulations are balanced, promote competition and innovations in payment services while safeguarding payment systems and protecting users

Payment systems, services and instruments are effectively overseen by the authorities

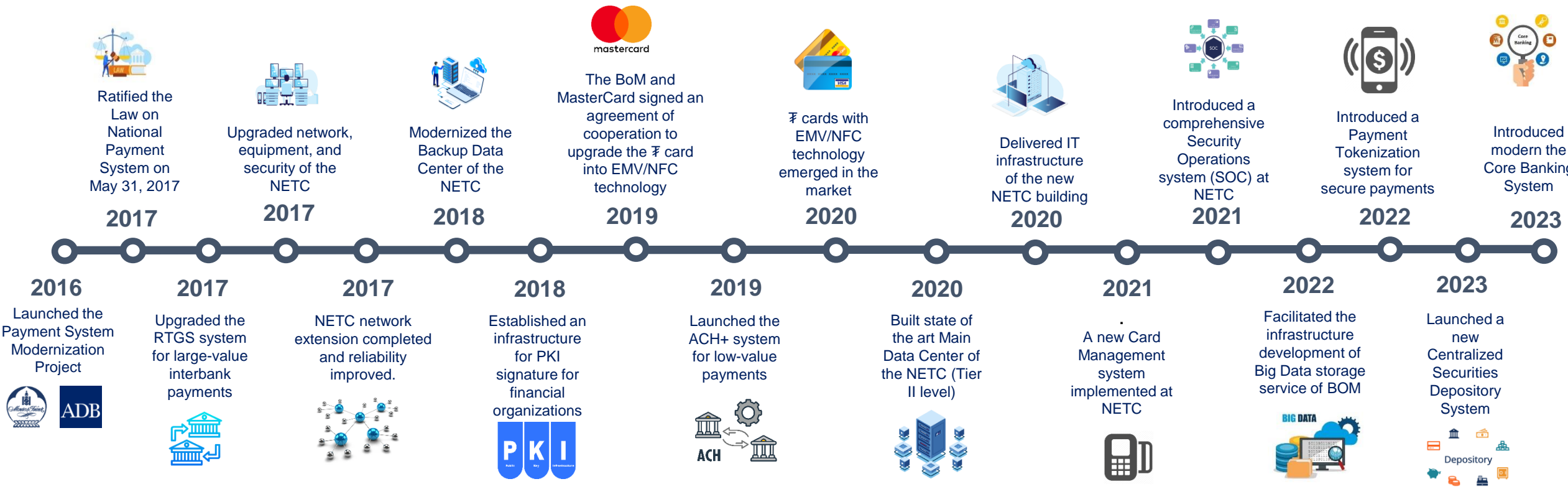
All stakeholders in the payment ecosystem cooperate to drive reforms

REGULATORY INNOVATION INITIATIVES ON PROMOTING FINTECH

Regulatory Sandbox-2021 *revised in 2023*

Innovation Office at the Central bank of Mongolia 2021

PAYMENT SYSTEM MODERNIZATION PROJECT TIMELINE





**THANK YOU FOR YOUR
ATTENTION**

