FINANCIAL REGULATORY COMMISSION

# ANNUAL REPORT 2017

# CONTENT

# KEY INDICATORS

## SECURITIES

| | |
|---|---|
| Market capitalisation (MNT, billions) | 2,440 |
| Trading (MNT, billions) | 861 |
| Top–20 index | 20,737 |
| Mongolian Agricultural Commodity Exchange trading (MNT, billions) | 573 |
| Asset–backed securities (MNT, billions) | 3,318 |
| Joint stock companies (number) | 300 |
| Professionals (number) | 67 |
| Issuers of asset–backed securities (number) | 14 |

## INSURANCE

| | |
|---|---|
| Total assets (MNT, billions) | 245 |
| Insurance premiums income (MNT, billions) | 144 |
| Damage ratio (%) | 55.0 |
| Insurance indemnity (MNT, billions) | 45 |
| Total net profit (MNT, billions) | 13 |
| Reinsurance companies (number) | 1 |
| Insurance companies (number) | 16 |
| Insurance loss–adjusters (number) | 29 |
| Insurance intermediaries (number) | 42 |
| Insurance agents (number) | 2,893 |

## NON–BANK FINANCIAL INSTITUTIONS[1]

| | |
|---|---|
| Total assets (MNT, billions) | 969 |
| Total loans (MNT, billions) | 638 |
| Total net profit (MNT, billions) | 67 |
| Annual weighted average interest rate (%) | 3.4 |
| Non–bank financial institutions (number) | 534 |
| Branches and representative offices (number) | 172 |

## SAVINGS AND CREDIT COOPERATIVES

| | |
|---|---|
| Total assets (MNT, billions) | 153 |
| Total loans (MNT, billions) | 105 |
| Total net profit (MNT, billions) | 5.5 |
| Total savings (MNT, billions) | 99 |
| Savings and credit cooperatives (number) | 290 |
| Branches (number) | 22 |
| Members (number) | 55,624 |

1. NBFIs are defined by the FRC as microfinance companies; they do not include securities companies, insurance companies, or pension funds.

# ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| **A2ii** | Access to Insurance Initiative |
| **ACI** | Association of Compulsory Insurers |
| **ADB** | Asian Development Bank |
| **AFI** | Alliance of Financial Inclusion |
| **BaFin** | Bundesanstalt fьr Finanzdienstleistungsaufsicht. (Federal Financial Supervisory Authority, of Germany). |
| **FRC** | Financial Regulatory Commission |
| **FSS** | Financial Supervisory Services of Korea |
| **GDP** | Gross domestic product |
| **GIZ** | Gesellschaft fьr Internationale Zusammenarbeit. (The International Cooperation Agency, of Germany. |
| **IIB** | International Investment Bank |
| **IMF** | International Monetary Fund |
| **IPO** | Initial public offering |
| **JSC** | Joint stock company |
| **LLC** | Limited liability company |
| **MACE** | Mongolian Agricultural Commodity Exchange |
| **MCSD** | Mongolian Central Securities Depository |
| **MSCH** | Mongolian Securities Clearing House |
| **MNT** | Mongolian tugrik |
| **MoF** | Ministry of Finance |
| **MoU** | Memorandum of understanding |
| **MSE** | Mongolian Stock Exchange |
| **MSX** | Mongolian Securities Exchange |
| **NBFI** | Non–bank financial institution |
| **SCC** | Savings and credit cooperative |
| **SFFS** | Supporting Financial Sector Development and Stability project |

# FOREWORD

The Financial Regulatory Commission's (FRC) objective for 2017 was to restore economic growth by providing for: sustainable growth in the non–bank financial sector, revitalisation of stagnant business activity, stimulation of financial activity and increased financial inclusion.

Despite unfavourable circumstances, the FRC overcame difficulties by implementing sound policies, designed to enhance capacity of market components and increase financial resources.

The FRC gradually introduced policy measures to expand the range of financial instruments in the capital market; to improve market competition, and to restore public confidence (through increased returns on investment for customers and investors alike). While the first derivative (derived financial instrument) was traded on the Mongolian Agricultural Commodity Exchange (MACE), private firms raised capital through issuing initial public offerings (IPOs) and corporate bonds. Additionally, the mergers of some large, publicly traded companies, further stimulated the growth of the securities market; with market capitalization reaching MNT2.4 trillion. Market capitalisation in 2017 rose by 65.5% since 2016 reaching its highest level to–date.

The insurance industry exhibited asset growth, reaching MNT245 billion; a 17.4% increase compared to 2016. The FRC introduced several measures to:

- protect the interests of policyholders,
- increase the risk–bearing capacity of insurance companies,
- foster market expansion through support of new products and services,
- expand cooperation with international standard–setting (and regulatory) bodies, and
- improve the overall efficiency of the FRC.

FRC's policy interventions enabled:

- greater access to microfinance services,
- lower interest rates, and
- increased returns on products and services.

The total assets of non–bank financial institutions (NBFIs) reached close to MNT1 trillion, as the adoption of innovative FinTech solutions allowed development of cost–effective, financial products and services. And 2017 was also a successful year for Savings and Credit Cooperatives (SCCs) as the network of members expanded significantly, along with improved financial performance. There was growing interest among people with common economic interests; to invest and manage financial resources wisely, and work together as a team towards a shared goal.

The FRC worked to determine professional policies for the regulation of financial markets; to implement risk–based oversight and regulatory practices, and integrate into regional – and international – markets. Additionally, the Chairman of the FRC was elected to the Board of Directors of the Alliance of Financial Inclusion (AFI), the largest financial market in developing countries. This was an important step towards improving the quality and diversification of financial products and services in Mongolia.

Staff of FRC worked closely with market participants and enforced research–backed decisions directed to improving the Law on the Legal Status of the Financial Regulatory Commission, along with other relevant laws, rules and regulations. Great emphasis was placed on enhancing ethics and work performance; and building trust within the organization (to strengthen institutional and human capacity).

Despite the year's substantial – 25% – growth of the non–bank financial sector, a lot of work remains to be done to accomplish a sound and diversified financial market. The FRC has – as part of the Financial Sector Development Program 2025 and its medium–term strategic goals – targeted stimulation of the financial sector and hence, stimulation of the economy.

For the future, the FRC will continue progress towards its goal to develop a diversified financial system; by fostering continuous growth of the banking sector, and capital markets, as well as insurance and microfinance sectors alike.

C. Davaasuren
Chairman, FRC

# STRATEGY

**OUR VISION** is to create a diversified, sustainable and inclusive financial market – where fair competition is promoted and consumer protection is secured – for fostering economic growth and development.

**OUR CORE MISSION** is to develop a diversified and sustainable financial market that ensures the rights of consumers and builds trust in the marketplace; through implementation of sound financial policies and regulation, and an effective supervision system.

## OUR VALUES ARE:

1. **Integrity.** The quality of being compassionate, loyal, honest and trustworthy; and having high ethical and moral principles.
2. **Accountability.** The quality of being responsible, dutiful, dedicated and well–organized; with strong organizational skills.
3. **Professionalism.** The quality of being skilled, competent and having sound ethics and good judgment.
4. **Independence.** To act lawfully, and free from conflicts of interest, and external control or influence.
5. **Leadership and Initiative.** The quality of being creative, proactive and innovative.
6. **Teamwork.** To share information and knowledge for a common purpose. Listen to colleagues – treating them with respect and trust – to support, help and cooperate, efficiently and effectively.

**These are our values.**

# SUMMARY


With global economic growth stabilizing, the world economy in 2017 grew more than the International Monetary Fund's (IMF) forecast of 3.2%; reaching 3.7% (a half a percentage point more than 2016). This, and the economic recovery in Europe and Asia, had significant impacts. With escalating growth of the world economy – and positive speculation on US tax policy – global economic growth in 2018 and 2019 are expected to be 20 basis points higher (at 3.9%).

Mongolia's economy recovered in 2017, and real gross domestic product (GDP) growth reached 5.1%; with 35% generated by the mining sector and 19% by manufacturing. Throughout 2017, imports decreased (due to reduced purchasing power of the Mongolian tugrik, MNT) and the value of Mongolia's exports grew by 26% – as global raw materials prices rose – contributing to a 27% increase in foreign trade. Inflation fell below the targeted level of 6.9%, and the previous decline in foreign direct investment was reversed; increasing to $1.4 billion.

Financial markets recovered as a result of the favourable macroeconomic conditions; and the policy measures and regulatory reforms that the FRC implemented. The stock market, in particular, reached the highest sector growth rate of 65.5%; with a market capitalization of MNT2.4 billion; which constituted 9% of Mongolia's GDP. The total assets of insurance companies, NBFIs and SCCs grew by 23.3% to reach MNT1.4 trillion. FRC's newly–increased minimum capital requirement (on NBFIs) directly impacted their asset growth, which accounted for 70% of the sectors' growth. The market share of the non–bank financial sector reached 14% of GDP, compared to the previous year's (2016) growth of 10.8%.

The key development indicators of the securities market – market capitalization and stock trade volume – increased substantially in 2017 (compared to 2016) as investors' confidence and trust in the marketplace was restored. Market capitalization increased as two companies issued new shares, and one corporate bond was successfully traded.

While key performance indicators of the insurance industry increased steadily in previous years, key growth indicators – such as insurance coverage and density – were lower than the international average; and industry growth declined. This highlighted the need to:

- improve public financial literacy,
- increase access to insurance, and
- develop new products and services.

At the end of 2017, the total assets of NBFIs' reached MNT969 billion – reflecting the new minimum capital requirement – which exceeded FRC's forecast of 2016. As a result of this decision, capital adequacy of market participants improved; enhancing capital flow throughout the economy, and increasing the sources of funding for firms, households, and individuals. Furthermore – due to an increase in credit supply of the sector – financial inclusion of the non–bank financial services improved, and a decrease in interest rates was observed, as the weighted average rate of 4.0% decreased to 3.4%.

2017 was also a good year for SCCs, as the sector recorded its highest growth rate – of 35% – since 2008. Increased growth in savings deposits was the major factor accounting for the rise, and profitability indices also improved.

The key objectives of globalization are:

- providing affordable cost–efficient financial services,
- developing policies that support new technology applications,
- enhancing regulatory frameworks that support sustainable and inclusive financial markets,
- enhancing access to financial services for low and middle–income individuals (while protecting their rights), and
- developing policies that enable innovation trends in financial inclusion, based on information collection and analysis

Within its regulatory and supervisory mandate – covering the non–bank financial sector – the FRC was required to implement and enforce a set of 18 laws. The FRC undertook inspections (on–site and off–site) of the activities of 2,125 institutions; monitoring their compliance with statutory obligations and prudential requirements. FRC also enforced sanctions – when necessary – as part of its statutory obligation to:

- protect the rights of investors and consumers,
- adopt a risk–based approach, and
- perform regulatory and supervisory functions across all markets under its regulation.

The institutions supervised by the FRC included:

- 534 NBFIs,
- 300 joint stock companies (JSCs),
- 290 SCCs.
- 52 securities firms,
- 42 Insurance brokers/intermediaries,
- 29 Insurance loss–adjusters,
- 22 underwriters,
- 17 insurance companies,
- 9 investment funds, and
- 3 custodian banks.

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# OPERATIONS

## 1.1. ORGANIZATIONAL STRUCTURE

In 2017, he FRC consisted of seven departments, four divisions, and two units; with a staff of 140.

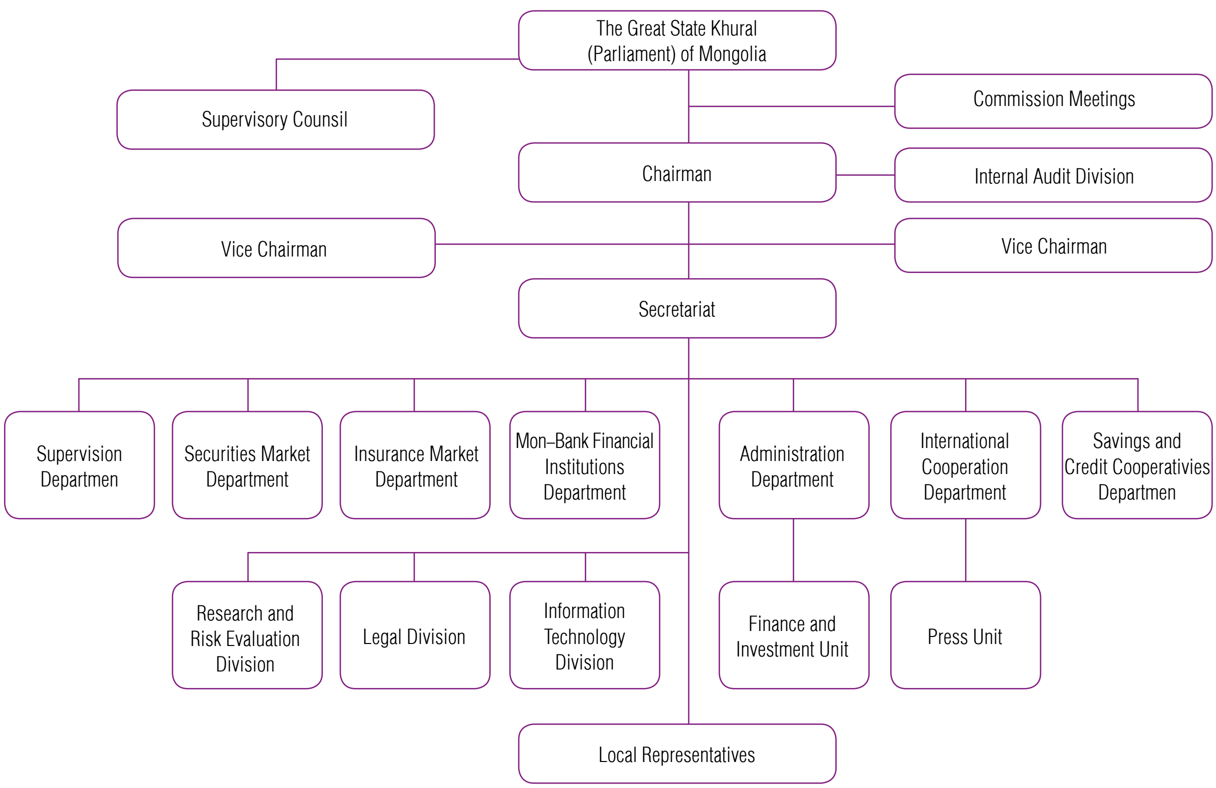



**Figure 1.** FRC; Organisational Structure.

There was also a total of 63 local representatives – charged with supervisory duties, to maintain records of regulated institutions, and enforce and promote FRC's decisions – operating across all 21 provinces of the country, and the nine districts of the capital.

## 1.2. INTERNAL OPERATIONS

**Implementation and enforcement of FRC's work plan, resolutions and management's decisions.** The FRC completed 194 tasks spread over four groups in 2017. During the year, 787 decrees were issued; 540 by the Chairman, 237 by the Chief of Secretariat, and 10 by National General Inspectors. Four orders were also issued by the Chairman. The FRC enforced:

- 352 laws,
- 80 resolutions issued by Parliament,

- 2 resolutions issued by the Government of Mongolia, and
- 1 resolution issued by the Parliament's Economic Standing Committee.

All of which were indirectly related to the mandate of the FRC.

Enforcements of 100 provisions, related to nine policy documents of the FRC's activities, were delivered to corresponding organizations. The 2016 Annual Report of the FRC was presented for discussion to the Press Office of the Office of the President, and thereafter submitted to Parliament's Economic Standing Committee.

The Monitoring Commission, Asset Protection Council, and Ethics Committee (working under the FRC's Secretariat) successfully monitored archives and documents. They also took relevant measures; to protect the property of individuals, and their own staff from the threat of misconduct within the workplace.

In addition, the FRC participated in 11 working groups (consisting of members of Parliament, the Government, and government organization) related to implementing recommendations; on state financial policy, drafting of legislation, and the conduct of research.

During the year, FRC management participated 16 times in bi–monthly meetings; during which 274 issues were discussed/raised and 253 decisions made. For example, the FRC approved three new regulations, one application guideline, one list; and one amended regulation; relating to: enabling the development of new financial products and services, raising the requirements imposed on market participants, protecting the interests of investors and consumers, mitigating risks, and enabling a favourable environment for attracting foreign and domestic investors.

**Records of archives:** In accordance with the *General Guidance on Public Records, National Standard on Documents and General Instruction on Archives of Public Institutions,* 11,740 official documents and 362 requests were received. Meanwhile 1,378 requests were monitored (to ensure timely responses) and 3,798 letters were sent. The total circulation of documents stood at 15,900 with a daily turnover rate of 66.2.

The archive increased by 1,842 documents, and 13,758 registered accounts, from 2006–2016. 1,265 copies of documents were issued to third parties upon request of individuals and corporations, while 1,824 documents were used for internal/official use.

**Table 1.** Turnover of Documents (number).

| | | |
|---|---|---|
| Total turnover | 2017 | 15,900 |
| | 2016 | 14,454 |
| Daily turnover (average) | 2017 | 66.2 |
| | 2016 | 57.4 |
| Depository units in archive | 2017 | 13,758 |
| | 2016 | 12,353 |
| Copies provided | 2017 | 3,089 |
| | 2016 | 8,662 |

## 1.3. INTERNATIONAL COOPERATION

The FRC – in cooperation with the AFI – contributed to the Alliance's effort to promote leadership; taking part in all working groups and exchanging experiences with emerging nations. In September 2017, Dr Davaasuren Sodnomdarjaa (Chairman, FRC) was appointed to AFI's Board of Directors; enabling the FRC to contribute to the development of global policies to enhance financial inclusion. Also with the support of the AFI, the FRC agreed to undertake a pilot study assessing gender disparities in financial inclusion in Mongolia.

The FRC updated the memorandum of understanding (MoU) with Japan's Financial Services Agency, to extend existing cooperation in the development of capital markets, insurance, and the microfinance sector. The two, agreed to work in partnership to increase foreign direct investment in the securities market, and enhance cross–border financial supervision.

The FRC signed an MoU with the International Investment Bank (IIB) initiating a technical assistance project to improve the legal framework for combating money laundering and terrorist financing in Mongolia. The Project will be funded by the Government of the Republic of Slovakia and the IIB, and Ernst & Young was selected to implement it.

In collaboration with the German International Cooperation Agency (GIZ), the FRC successfully organized the:

- Steering Committee Meeting of the Regulatory Framework Promotion of Pro–poor Insurance Markets in Asia (RPFI Asia) programme, and
- the third Public and Private Dialogue on Inclusive Insurance for SMEs in Ulaanbaatar.

Mongolia was selected as a beneficiary of the Inclusive Insurance Innovation Lab, co–implemented by the GIZ, the Global Leadership Academy, and the Access to Insurance Initiative (A2ii). The FRC cooperated with other organizations on this project, establishing a supportive regulatory framework fostering innovative solutions (to promote the development of an inclusive insurance sector though the development of new products).

The FRC established a cooperation agreement with the Financial Supervisory Authority of Germany (BaFin) to strengthen the capacity of FRC personnel. And, as part of the High–level Technical Co–operation, successfully organized the first training on insurance and insurance supervision for FRC officers (at BaFin's headquarters in Bonn). This was part of a series of trainings to be organized by BaFin. The FRC worked towards expanding cooperation with BaFin, and agreed to sign (in the near future) an MoU concerning cross–border financial supervision and market oversight.

The FRC and the Financial Supervisory Services of Korea (FSS) mutually agreed to establish a technical co–operation agreement, under which the FSS would organize a comprehensive training programme for FRC personnel – as part of the Financial Supervisory Partnership Program – to strengthen FRC's institutional capacity.

The FRC also:

- expanded cooperation with international donor organizations, development agencies, standard–setting bodies, and foreign regulatory authorities; to develop Mongolia's financial sector,
- contributed to regional financial integration, and
- engaged in capacity–building of staff and the institution.

Other, associated achievements, included:

- negotiation to increase funding on existing projects, and
- agreement on new project initiatives, to be implemented by international organizations such as: the Asian Development Bank (ADB), the IIB and the Japan International Cooperation Agency (JICA) and the World Bank.

Among other things, the FRC discussed establishment of cooperation with BaFin, FSS and the Australian Securities and Investments Commission; to enhance FRC's leadership and role in standard–setting organisations, and reinforce relations with other institutions.

## 1.4. BUDGET, FINANCE

According to the annual *Budget Law,* MNT2.5 billion was approved in the budget package of the Chairman of the Commission. However, the Commission faced financial difficulties – to maintain functions stated in the *Law on the Legal Status of the Financial Regulatory Commission* – and requested assistance from the Ministry of Finance (MoF), the Standing Committee on the Economy, and the Standing Committee on the Budget. As a result, according to the *Law on Amendments to the Law on Budget,* the FRC's budget was increased by MNT31.2 million and MNT2.5 billion was ultimately approved. Investments and loans of foreign projects and grants were not included.

The FRC planned to finance 67.3% (MNT 1.7 billion) of its operations from the state budget, and 32.7% (MNT0.8 billion) from income of regulatory services. Overall, MNT1.8 billion was allocated from the state budget, of which MNT37 million was awarded in performance bonuses and incentives for public servants. At the end of the reporting year, MNT0.5 billion MNT was paid back (returned) as unspent surplus to the state budget.

**Table 2.** Budget Revenues (MNT, billions).

| | | |
|---|---|---|
| State budget financing | 2017 | 1.7 |
| | 2016 | 1.7 |
| Income from operations | 2017 | 1.9 |
| | 2016 | 1.2 |
| Income from aid fund | 2017 | – |
| | 2016 | 0.2 |
| Total revenue | 2017 | 3.7 |
| | 2016 | 3.1 |
| Approved budget | 2017 | 2.5 |
| | 2016 | 2.8 |

The projected MNT0.8 billion income from operations, turned out to be MNT1.9 billion; a MNT1.1 billion (33%) surplus. The MNT1.9 billion revenues from FRC's regulatory service fees consisted of:

- MNT0.7 billion, 38.0%, from NBFIs,
- MNT0.7 billion, 37.0%, from the securities market,
- MNT0.5 billion, 24.0%, from the insurance market,
- MNT19 million, 1.0%, from the SCC sector, and
- MNT0.4 million from other income.

The extra revenue – exceeding projections – was due to the FRC signing a trilateral agreement with brokerage, agricultural and commodity brokers – to repay regulatory service fees outstanding since 2014 – and the decision to increase the capital requirements of NBFIs. In addition, MNT83 million was generated from fines; and stamp duty income of MNT46 million was collected for the state budget.

MNT2.5 billion was spent on current expenditure and MNT42 million on salaries and bonuses of staff. Overall, MNT 2.6 billion was approved in the budget package for 2017. From the allocated amount of MNT 2.5 billion, 99.2% was spent on performance, while MNT20 million was saved and paid back to the state budget.

Factors – including the FRC's amendment of fees for use of the FINA (FINance and Accounting) software system (due to the additional software development service and scope of work being reduced by suppliers) and reduced, one–off extra allowances and bonuses – led to budget savings.

**Table 3.** Budget Expenditure (MNT, billions).

| | | |
|---|---|---|
| Salary and social insurance contributions | 2017 | 1.8 |
| | 2016 | 1.8 |
| Accommodation expenses and rent | 2017 | 0.3 |
| | 2016 | 0.3 |
| Membership (international organizations) fees | 2017 | 0.3 |
| | 2016 | 0.1 |
| Goods and services (projects and programmes) | 2017 | 0.1 |
| | 2016 | 0.2 |
| Supply, inventory and other expenses | 2017 | 0.1 |
| | 2016 | 0.2 |
| Total | 2017 | 2.5 |
| | 2016 | 2.7 |
| Cost savings | 2017 | 0.1 |
| | 2016 | 0.2 |

Some expenditures were not funded – according to Parliamentary resolution – however the operations were undertaken by making efficient use of the approved budget.

In previous years, the FRC's functions increased – with the growth of financial markets and regulatory activities – while the state budget decreased year–by–year. Unfortunately, though employees were working hard, there was insufficient funding for performance–based, incentive pay. Moreover, 70% of computers and office equipment presented technical problems – were in some cases obsolete – and no longer suitable for installation of software programs (for risk–based inspection systems for example). To carry out these functions, the FRC managed, using the MNT0.6 billion from the surplus revenues of 2017. In 2017, the surplus revenue of MNT 630.3 million that exceeded the projected revenue was allocated, in accordance with relevant regulations, for providing social assistance to employees, performance bonuses, replacing old computers, equipment, and furnishing, and subsidize other budgetary deficiencies.

The Commission received a grant of MNT83 million from the AFI, and financed overseas missions, including AFI's working meetings, seminars and other events. Moreover, a total of MNT62.4 million was generated from training fees in 2017, and MNT42.8 million was spent. The remaining MNT19.6 million was collected into the state budget. In addition, 2017 ended without unpaid receivables, non–salary payables and other budgetary issues.

2

# IMPLEMENTATION AND ENFORCEMENT OF LEGISLATION

According to the *Law on the Legal Status of the Financial Regulatory Commission,* the Commission (as the regulatory and supervisory institution) implements and enforces 18 laws, including: *the Law on the Securities Market, the Law on Insurance,* the *Law on Non–Bank Financial Activities, and the Law on Savings and Credit Cooperatives.*

In ensuring implementation of applicable laws, the FRC approved and amended regulations (guidelines and methodologies) related to the activities of relevant entities; and promoted market development.

The FRC enhanced implementation of the *Economic Recovery Program of Mongolia 2016–2020;* approved by Parliament Resolution No.71, 24 November, 2016. The associated working group was established and approved by joint resolution No. A–35/33/64 of 2017 by the Chairman of the FRC, the Governor of the Bank of Mongolia and the Minister of Finance of Mongolia Resolution. The working group drafted the *National Program to Develop Mongolia's Financial Market until 2025.* The programme was approved by Government Resolution No.299, 3 October, 2017.

The FRC met with an assessment team of the Financial Action Task Force (FATF), to conduct a risk assessment on money laundering and terrorism financing. As a result, the Commission prepared a report for evaluation of FRC's anti–money laundering and combating financing of terrorism framework; according to FATF's recommendations. Similarly, information on the UN Security Council's sanctions list was provided to regulated entities (also within an ADB project) and SCCs. And, a working group was established at the FRC to draft amendments to the *Law on Combating Money Laundering and Terrorism Financing.*

The FRC joined a working group of the Government, the Parliament and the Bank of Mongolia; and prepared draft, new and revised legislation, related to banks and the financial sector.

A working group was established to prepare draft legislation indicated in the Parliament Resolution *General Directives for Improving Legislation of Mongolia by 2020* of January 2017. The FRC drafted and approved regulations, procedures, and guidance within its authority, and registered legal acts to the *General Administrative Law.*

## 2.1. POLICY AND REGULATION

### SECURITIES MARKET

The FRC cooperated with related authorities to develop and draft amendments to the following law and regulation:

- revised draft of the Banking Law of Mongolia; as developed by the Bank of Mongolia.
- drafted *'Regulation on creating electronic databases of collateral registries for movable assets and non–assets; to process, share and exchange data; to number registration of collateral statement and to identify public release data and statistical data'* as developed by the Ministry of Justice and Internal Affairs.

Components related to capital market policy and regulatory issues, were incorporated in the Government's short and medium–term policy documents of 2017.

FRC worked to create a legal environment of dual–listing; to support development of the securities market and to improve the regulatory environment. In accordance with provisions of the *Law of Mongolia on the Securities Market – 'The FRC shall determine the conditions and requirements to be imposed on those foreign securities issuers who may issue shares in Mongolia and the list of approved foreign stock exchanges'* – thus the Commission provided the Mongolian Stock Exchange (MSE) and Mongolian Securities Exchange (MSX) with a list of global stock exchanges operating with internationally recognized standards (capital market infrastructure and proper legal environment etc.). A list of 26 leading international companies (including securities trading firms registered with foreign issuers) authorized to issue securities in Mongolia, was approved by the FRC's Resolution No.151 of 2017.

With the approval of the list, registered companies and countries will be able to implement the *Minerals Law of Mongolia and the Law on Securities Market.* The laws will also enable the regulatory environment, to approve the registration of foreign companies listed on the Mongolian exchanges, and issue securities.

A working group (involving representatives of the MSE) drafted the *'Regulation on securities registration of a legal entity registered in a foreign stock exchange to issue securities in Mongolia; a legal entity registered in Mongolian stock exchange to issue securities in foreign country'* approved by FRC Resolution No.223 of 2017.

In accordance with the implementation of the new *General Administrative Law,* a working group was established at the FRC to amend, revise, consolidate, and repeal, resolutions, rules, guidelines and forms prepared previously by the Commission. Accordingly, 33 regulations were combined into four, 20 new regulations were developed, and three repealed.

According to Article 2.3 of the *Law of Mongolia on Pledge of Movable and Intangible Property,* the securities market should be regulated by the securities regulatory and supervisory body. So, the FRC developed a draft *Regulation on Securities Lending and Collateral* and proceeded to reflect comments and recommendations of the relevant stakeholders, and finalised the draft regulation.

The Chairman of the FRC approved Resolution No.405 *Regulation on risk management of accounting practices and Regulation on control activities of internal information holders* of the Mongolian Securities Exchange (MSX).

In accordance with the Government's Resolution No. 208 of 2016 *Action Plan of Economic Recovery Program* provision 1.1.5., and the Minister of Finance and the Chairman of the FRC's decree (181/297 of 2017) a working group was established. The group consisted of members from FRC, MASD, MoF, MSE and MSCD; and developed an assessment and recommendations for implementing the T+3[2] settlement and *Deliver versus Payment* principles for trading securities in the capital market.

## INSURANCE MARKET

To improve the legal environment – and develop laws and regulations in banking, finance and insurance – the Prime Minister established a working group. The FRC was involved, and organized discussions on the *Law on Insurance, the Law on Insurance Intermediaries and the Law on Driver's Liability Insurance.* Resulting comments and suggestions were submitted to the working group.

A study was conducted on access to – and inclusiveness of – insurance for mortgage borrowers, which was presented during a meeting of the Financial Stability Board.

A draft *Regulation on mortgage insurance* was developed by the FRC; and reflected relevant comments of the Bank of Mongolia, MoF, public, insurance institutions, and MIC[3]. The regulation was approved by Resolution No.109 of the FRC, dated 2017. In deference to Decree No. A/65 of the Minister of Health (2017) the FRC developed the *Law on Risk Insurance of Medical Care Services* and drafted a concept paper.

The FRC estimated the amount of premiums to be paid by insurers to the *Driver's Insurance Fund* in 2017, and organized discussions with the Association of Compulsory Insurance (ACI) in accordance with Article 26.2 of the *General Administrative Law.* As a result, the Chairman of the FRC and Minister of Finance approved *Decree No.313/203,* declaring 1.8% of the Fund to be allocated to the driver's insurance fund in 2017.

Insurance legislation was amended in accordance with Article 62.1 of the *General Administrative Law* and provided information – to the insurance market's stakeholders and participants, professional associations and the public – through the website of the FRC. The Commission also organized a forum involving representatives of professional organizations, and drafted the regulation which includes attention to their comments.

Under the auspices of the GIZ, an Impact assessment of the regulatory environment of inclusive insurance was conducted; within the *Development program for participation of insurance regulatory authorities in Asia.*

2. Transaction date plus three days.
3. Mongolian Ipotek ('Mortgage') Corporation LLC

## NON–BANK FINANCIAL INSTITUTION SECTOR

The FRC was involved in working groups to draft: the *Law on National Payment System,* and the *Law on Asset Management Company;* and to revise the *Law on Credit Guarantee Fund,* the *Law on Currency Regulation,* the Law on Executing Transaction in Mongolian Currency and the *Banking Law of Mongolia.*

To create more favourable conditions for conducting non–bank financial activities – with independence, stability, competitiveness and risk tolerance – the FRC expanded the scope for operations, and created a legal environment for protecting clients and investors. And a revised Law on Non–Bank Financial Activities was drafted.

The FRC prepared a resolution to change the minimum amount of share capital of NBFIs. According to the revised Resolution No.90 of 2017, the minimum amount of share capital of NBFIs was to be:

- MNT2.5 billion in Ulaanbaatar,
- MNT0.7 billion in Bayan–Undur district ('soum') of Orkhon province, and Darkhan district of Darkhan–Uul province, and
- MNT0.2 billion in other districts of the provinces

The *Regulation on Non–Bank Financial Activities* was amended by Resolution No. 92; which revoked *Currency Exchange NBFI, Loan financing NBFI and Asset Management NBFI.*

Resolution No. 93 (approved in 2017) provided for amendment of the *Regulation on setting and monitoring prudential ratios to non–banking financial activities.*

A draft *Regulation on offsite supervision of the NBFIs* was developed, based on recommendations provided by an international consultant and international organizations.

Under the World Bank lending project, a mortgages proposal was developed to be financed through NBFIs. It was based on a study of the Nigerian mortgage financing model (using microfinance institutions).

## SAVINGS AND CREDIT COOPERATIVES SECTOR

Within the *Supporting sustainable development of SCCs* component of the *Supporting Financial Sector Development and Stability* (SFFS) project, the FRC conducted studies and organized meetings with relevant authorities; to produce a road map for establishing and managing a deposit insurance and stabilization scheme and to implement risk–based supervision of SCCs.

With the support of the SFFS project, a *Development Forum* was organised to discuss issues; including: challenges to the sector's development – of key policy, programs, and legal environment – to support sustainable development of SCCs and future of the sector.

FRC submitted proposals – that insurance should cover deposits of the SCCs' member, and exemption from corporate income tax for non–profit entities – to the relevant state authorities.

A draft *Regulation on offsite supervision of the SCCs* was developed to introduce a risk–based supervision system.

The FRC joined the International Credit Union of Regulator's Network and participated in the Network's conference in Vancouver, Canada. During the conference, delegates discussed the most important issues, including: principles of supervision, e–security, cooperative governance, tech–based financial instruments, ways to reduce cash flow, problems facing regions, the impact of the SCCs' in financial sector development, and inclusive finance. Delegates also shared experiences and knowledge with other regulatory agencies.

As a member of the Board of the *City Program for Supporting Micro–Business and Poverty Reduction,* FRC participated in meetings and discussions; related to SCCs funded by the city government, but unable to meet prudential requirements. The Board of the City Program decided to extend SCCs' cooperation contracts for three years, with a condition to reclaim the provided funds.

The FRC established a working group with the *Micro–finance Development Fund,* to promote inclusive financial services in rural areas and involve SCCs' low–cost loans. The working group developed low–cost loan conditions and requirements of the SCCs in the countryside. Once the financing of such loans is settled, it will be possible to provide funds to SCCs.

To support programmes and projects implemented through microfinance institutions, and involve SCCs low–cost loans, the FRC proposed (to the Ministry of Labour and Social Protection) an amendment to the *Law on Employment Promotion.* Additionally, a proposal to amend the *Law on small and medium enterprises* was submitted to the Ministry of Food and Agriculture. In accordance with the low–cost loans supporting small and medium enterprises, it will be financed through microfinance institutions. Furthermore, the FRC started to eliminate SCC registration discrepancies; between the FRC and the registered entities.

## 2.2. REGISTRATION AND LICENSING

Within the securities sector, the following were newly licensed:

- investment management companies (five),
- asset–backed securities companies, and banks for specific securities registration activities or custodial services (three),
- brokerage company (one),
- commercial bank's custodian banking services (three),
- MACE (one) was newly licensed and 10 related brokers' licenses were extended.

Others licenced and/or registered, included:

- intermediary activities relating to selling and purchasing securities on a foreign securities market company (one)
- providers of brokerage services to clients via nominal account companies (two)
- investment funds (five)
- asset valuation company (one)
- auditors (seven)
- legal firms exclusive to participants in securities market (two)

Other approvals – such as changes – were as follows.

**Table 4.** Authorisations; Securities Market.

| № | Change | Number |
|---|---|---|
| 1 | Name | 4 |
| 2 | Equity, and/or composition of shareholders | 20 |
| 3 | Authorized officials | 7 |

In the insurance sector, new licenses were issued to

- insurance agent insurance individuals and entities (78).
- intermediary companies (four), and
- insurance loss–adjuster company (one)

Conversely, licenses were revoked for:

- individual insurance representative (313),
- insurance loss–adjuster companies (three), and
- insurance intermediary companies (two)

26 branches of 16 insurance companies and professionals were issued licenses, and 11 companies' mortgage insurance products were registered. The following licenses and authorizations were registered in the year.

**Table 5.** Authorisations and Licenses; Insurance Market.

| № | Item | Number |
|---|---|---|
| 1 | Authorisation (official permission) of company | 45 |
| 2 | Registration of address | 41 |
| 3 | Registration of authorised intermediaries | 33 |
| 4 | Branch permit | 26 |
| 5 | Insurance product registration | 26 |
| 6 | Actuary's rights | 6 |
| 7 | Equity, and composition of shareholders change | 4 |
| 8 | Name change | 1 |

Among the NBFI, new licenses were issued to 31 companies, revoked for 15 and suspended for 23 others.

The following licenses and authorizations were registered.

**Table 6.** Authorisations; NBFIs.

| № | Item | Number |
|---|---|---|
| 1 | Change of equity, and/or composition of shareholders | 294 |
| 2 | Change of address | 91 |
| 3 | Change of CEO | 75 |
| 4 | Permission to open branch | 42 |
| 5 | Change of name | 13 |
| 6 | Additional license | 11 |

Among savings and credit cooperatives, licences were:

- extended 54.
- suspended, 21
- newly licensed 17,
- revoked 8 and
- reinstated 3,

The following licenses and authorizations were registered among SCCs.

**Table 7.** Permits; SCCs.

| № | Permit | Too |
|---|---|---|
| 1 | To conduct project financing services | 1 |
| 2 | For branches | 14 |

## 2.3. SUPERVISION

In line with the 2017 action plan, for ensuring the rights of investors and consumers, the FRC conducted on–site and off–site supervisions of 2,125 regulated entities; including the following.

**Table 8.** Supervisions Undertaken by FRC

| Item | Number |
|---|---|
| NBFIs | 534 |
| JSCs | 300 |
| SCCs (overseeing solvency and prudential ratios) | 290 |
| Securities companies | 52 |
| Auditing firms | 49 |
| Insurance intermediaries | 42 |
| Insurance loss–adjusters | 29 |
| Valuation companies | 21 |
| Legal firms | 21 |
| General insurance companies | 15 |
| Special purpose companies | 14 |
| Custodian banks | 3 |
| Exchanges (MSX, and MSE) | 2 |
| MACE | 1 |
| Mongolian Securities Clearing House (MSCH) | 1 |
| Mongolian Central Securities Depository (MCSD) | 1 |
| Security nominee company | 1 |
| Life insurance company | 1 |
| Reinsurance company | 1 |

Corrective measures for disclosed misconducts and violations – in accordance with applicable legislations – were prescribed. Supervision was conducted on–site and off–site, and licenses of regulated entities were suspended, retrieved, and revoked as necessary.

**Off–site supervision.** Regulated entities submitted quarterly financial statements; solvency and prudential ratios, and other requirements; with 3,612 financial statements examined. Additionally, 126 JSCs' shareholders' meeting reports were inspected to ensure the rights of minority shareholders. Of these, 52 JSCs' Boards of Directors' failed to supply documents announcing the shareholders meeting, for example, and the public were informed via the FRC's official website.

Corrective measures for disclosed misconducts and violations were taken in accordance with applicable legislation. Necessary penalties were imposed after examination of financial statements, and regulators' mandatory recommendations were imposed upon 115 entities. Penalties of MNT81.9 million were imposed upon 81 regulated entities, to correct the violations.

**On–site inspection.** Partial, and comprehensive on–site supervisions were conducted upon 243 entities.

**Table 9.** Organizations Inspected.

| Sector | 2016 | 2017 | Change (%) |
|---|---|---|---|
| NBFIs | 98 | 110 | 12 |
| Insurance companies | 7 | 67 | 857 |
| Securities | 6 | 37 | 516 |
| SCCs | 23 | 29 | 26 |
| Total | 134 | 243 | 81 |

The 81% increase – over 2016 – was due mainly to more inspections of securities and insurance markets' entities.

**Securities supervision.** In Dornod, Dornogobi, Gobisumber and Sukhbaatar provinces, 21 license holders and 16 JSCs were inspected, by on–site supervision, and certified compliant with the law.

Insurance supervision. In rural areas, on–site inspections were conducted on

- insurance representatives and insurance companies (44),
- insurance loss–adjusters (15),
- insurance companies (5)
- ACI, and
- insurance intermediaries.

**NBFIs.** Comprehensive inspections were conducted for five NBFIs and one Credit Guarantee Fund, and partial supervisions were conducted for 68 NBFIs located in Ulaanbaatar. 19 NBFIs located in Ulaanbaatar city and 17 NBFIs locating in Dornod, Dornogobi, Gobisumber Khentii, and Sukhbaatar, were inspected.

**SCCs.** Seventeen SCCs located in Ulaanbaatar city and rural areas were the subject of on–site inspections, and 12 SCCs were screened.

Regulated entities were promoted and provided with information about enforcement of the *Law on Anti–Money Laundering and Countering the Financing of Terrorism and the Law on Conducting Settlement in National Currency* pursuant to on–site inspections.

**License.** Enforcement action, including revocation and suspension of licenses, was taken against companies subjected to on–site and off–site supervision in accordance with applicable legislation.

3

# SUSTAINABLE DEVELOPMENT OF FINANCIAL MARKET

## 3.1. ENHANCING FINANCIAL INCLUSION

*'Financial inclusion'* requires establishment of an environment to deliver affordable financial services; reducing the unit costs, and developing policies to promote usage of innovative technologies. It also needs a regulatory scheme for sustainability; in delivering financial services for disadvantaged and low–income members of society. A robust and practical financial inclusion policy is one of the key priorities of globalization.

### 3.1.1. ENHANCING FINANCIAL LITERACY

**Securities market.** Training for lawyers and auditors – exclusive to securities market participants – was conducted three times, in collaboration with:

- Mongolian Institute of Certified Public Accountants,
- Mongolian Institute of Certified Adjusters, and
- Mongolian Bar Association.

Training materials, agendas, and examinations were revised, and logistical activities enhanced. The activity *'Training on granting a certificate for securities market's professional'* was undertaken three times by the Securities Certification Board and the Mongolian Association of Securities Dealers.

To improve knowledge of the securities market, the FRC refereed a competition entitled *'We are future investors; 2017';* organized for students of the Financial and Management at the school of Business Administration and Humanities, Mongolian University of Science and Technology.

*'Training on Securities market'* was conducted for 120 people living in rural areas, and *'Training on current circumstances of the financial market, and regulation and supervision of the FRC'* (for public and regulated entities) took place in Darkhan province.

In collaboration with JICA's *'Project for Capacity Building and Capital Market'* a *'Seminar on Investor protection fund' and 'Seminar on IPO and dual–listing'* was organised for participants and investors in the securities market. This was in accordance with the objective of the securities companies' ability enhancement and loss indemnity system creation. A text–book was also published.

*'Training on Financial market infrastructure principle'* was conducted in collaboration with the World Bank and the Bank of Mongolia.

*'Training on International practice of investment fund legislation and Exchange–Traded Funds* (ETF/' and *'Training on Fin–Tech'* for securities market participants and investors were presented in collaboration with the *'House of Training'* of Luxemburg.

**Insurance market.** Information was given for members of the public and institutions interested in obtaining a license for insurance professionals; during training that was conducted in Khovd province.

Training on the financial market and FRC's activities – for members of the public, clerks of insurance companies' branches, and business people in agricultural sector – was conducted in Darkhan–Uul province, and information was provided.

In collaboration with the National Emergency Management Authority, the *'Forum on usage, current circumstances and challenges of catastrophe insurance'* was hosted, and a paper on *'Current circumstances and challenges of insurance market'* was presented.

In collaboration with professional associations, six trainings were conducted:

- insurance representatives (two),
- insurance intermediaries (two)
- insurance companies' auditors (one), and
- loss–adjusters (one)

for 400 citizens; according to the training plan of 2017.

**NBFIs.** Training was conducted in Darkhan–Uul–for members of the public, entities, staff of branches, and business people in the agriculture sector – to provide information about the FRC, and regulated financial markets.

FRC participated in the working group, enhancing implementation of the *National Program for Financial Literacy of Public,* with the development of a plan.

The training program was developed in accordance with the *Law on Anti–Money Laundering and Countering the Financing of Terrorism* and compliance of related legislations, and was hosted in collaboration with the Bank of Mongolia.

*'Training on granting certification of NBFI'* was conducted at management level; in collaboration with the Association of Mongolian Non–bank Financial Institutions.

**SCCs.** Under the auspices of ADB, 274 SCCs participated in regional trainings i.e.,

- Western (42),
- Mountain (12),
- Eastern (9),
- Gobi (14), and
- Ulaanbaatar (197).

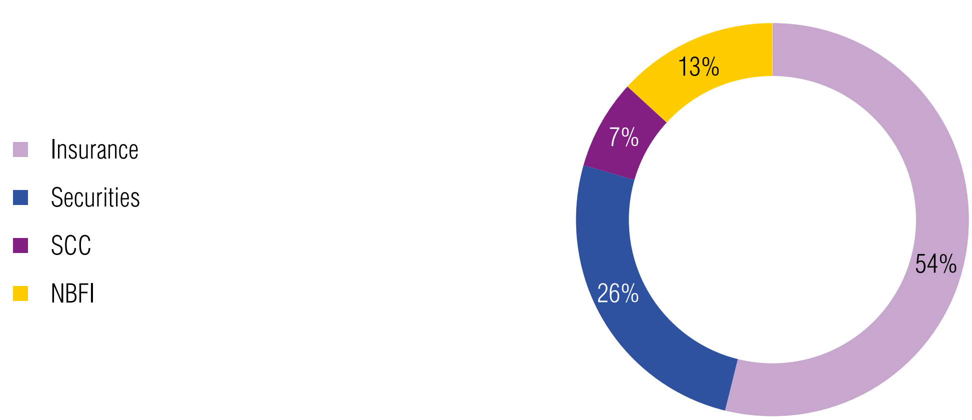
Content included the current circumstances of the SCCs' sector, challenges, FRC's enhancement activities, and legislation.

Training on financial literacy for businessmen was conducted, in collaboration with the Governor's office of Darkhan–Uul. In the training, information about the current circumstances of the SCC's sector, and regulating activities, was provided.

### 3.1.2. PROTECTION OF THE RIGHTS OF CONSUMERS AND INVESTORS

The number of complaints presented to the FRC – against various entities – from investors and clients (of securities market, insurance market, NBFIs, and the SCCs' market) numbered 267; a 39% decrease from 2016.

**Figure 2.** Petitions and Complaints; by Sector (%).



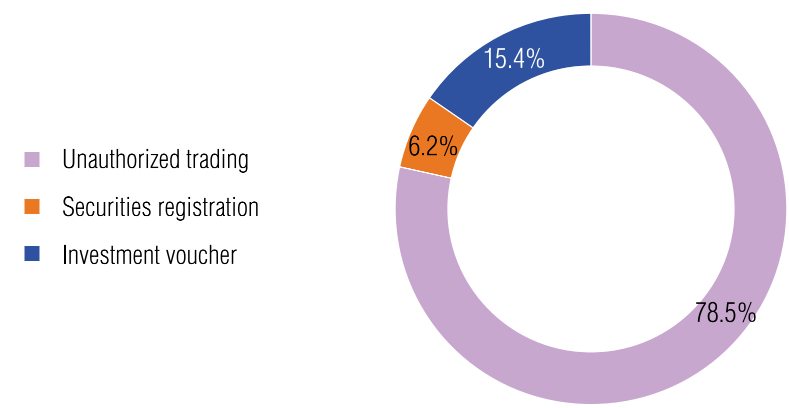
Insurance–related cases predominated – 54% of the total complaints – compared to the previous year:

- securities (61%),
- insurance (31%),
- SCCs (4%), and
- NBFIs (3%).

The FRC provided enquiry services for investors and clients – to offset the escalation of complaints – and this influenced the decrease in numbers. As part of this improvement, some complaints were passed on to regulated entities, and they helped resolve the issues. The number of complaints decreased, in part, due to the enhanced financial literacy of public, improved access to market information, and improved use of financial information.

**Complaints; securities market.** The number of complaints related to entities in the securities market reached 66 in 2017.

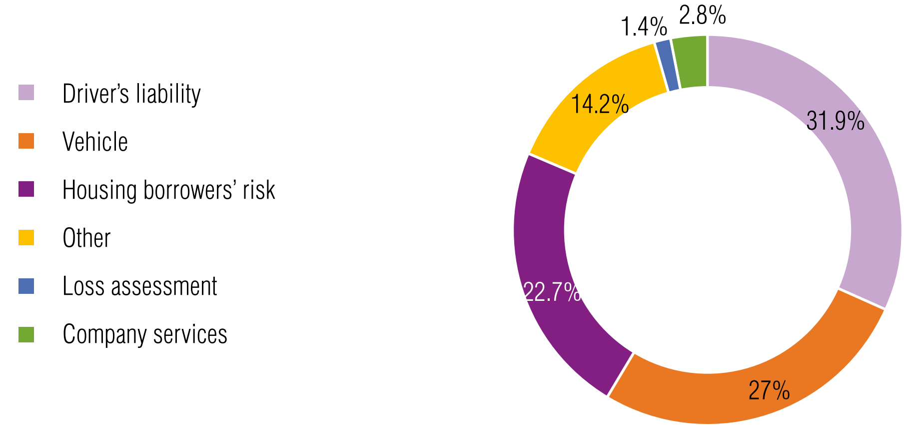
**Figure 3.** Petitions and Complaints; Securities Market (%).




Stock trading without shareholders' permission represented 78.5% of complaints related to the securities market; with 70% accounted for by 17 brokers and dealers whose licenses were revoked. Among the rest, three investors were subsequently indemnified, one investor's share was resettled, another investor was paid the previous years' dividends, and ultimately the decision was made to indemnify 11 investors for their losses.

**Complaints; insurance market:** Investors and entities filed 139 complaints.

**Figure 4.** Petitions and Complaints; Insurance Market (%).

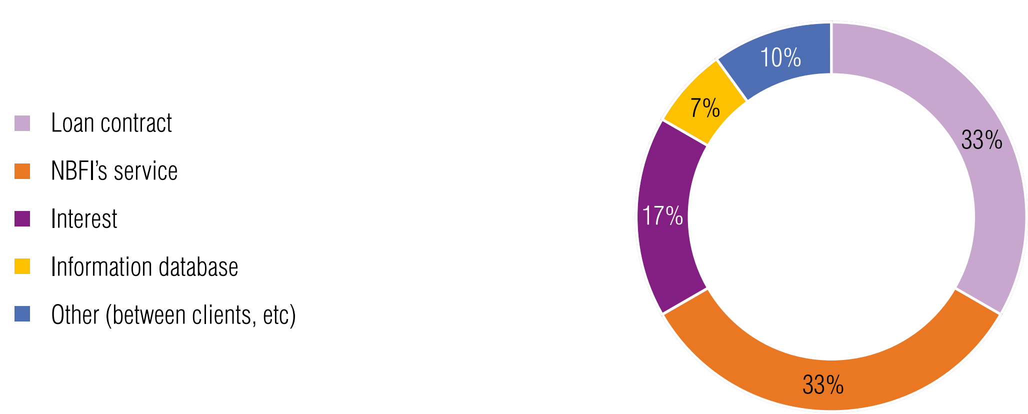



Complaints submitted to FRC were addressed promptly, and a decision was made to make insurance indemnity equal to MNT 490.6 million for 30 investors and legal entities. Among these, MNT164.1 million of insurance indemnity was provided for 18 investors and entities.

*'Reasonable'* rejection of insurance indemnity, represented 60% of total complaints, and increased over the previous year.

**Complaints; NBFIs.** Thirty complaints were made against NBFIs; a decrease of 3.0% since 2016.

**Figure 5.** Petitions and Complaints; NBFIs (%).




Most of the complaints concerned errors on the estimation of loan interest, penalty rate, unreleased collateral, and loan contract created preferentially to the NBFI itself. Two complaints related to the dismissal of update of credit history to the Credit Bureau Database (Bank of Mongolia).

**Complaints; SCCs.** Of the 18 complaints, half concerned disputes over share capital, and the other half, disputes between members with savings. The number of complaints in 2017 was 4% less than the previous year.

Complaints were processed according to the legislation and necessary measures and information were provided.

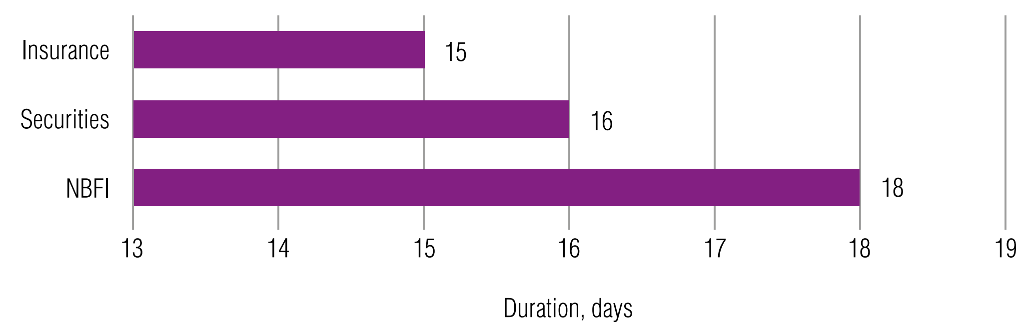
267 complaints were filed within the supervision department during the year.

**Table 10.** Status of Petitions and Complaints

| Status | Number |
|---|---|
| Resolved | 267 |
| Resolved in time | 260 |
| Overdue | – |
| Underway | 6 |
| In court | – |
| Deferred | 1 |

The FRC presented 437 official responses to the related professional entities; requirements for necessary corrections were imposed upon 223 (orders, assignments, comments, enquires and supply of more information). Other documents and FRC's decisions were presented to 214 complainant as a response to resolution of the complaint.

**Figure 6.** Average Duration of Complaints Procedures.




The time required to resolve complaints ranged from three days, to 44 days; and the average was one day less than in 2016.

## 3.2. SECTOR'S LEGAL ENVIRONMENT AND ITS IMPROVEMENT

Within the NBFI sector, the FRC's mandate included the enforcement, monitoring and implementation of 18 laws.

Over 210 regulations, guidelines and manuals were approved by the FRC to oversee activities, registration, licenses, permits and authorizations, of regulated entities. After approval of the *General Administrative Law* – which took effect in 1 July, 2016 – the FRC formed a working group (under the Chairman's Resolution No. 402) to incorporate provisions of the new law with relevant legislation. The newly–adopted norms will be developed in accordance with the *General Administrative Law,* as well as the newly–approved regulations of 2017 (to be submitted to the Ministry of Justice and Domestic Affairs).

Within the scope of refining the legal environment of the financial market, the *Guidelines for Improving Mongolia's Legislations until 2020* was approved; which will provide for the drafting of seven new laws and amendment of 10 existing ones. Research began on the development of new legislation, such as the *Law on conducting financial transactions under a real name*, the *Law on Crowdfunding*, the *Law on Health Expert Liability Insurance,* the *Law on Professional Lawyer Liability Insurance*, and the *Law on Investor Protection Fund.* In addition, in 2016, a working group was established under the Prime Minister's decree 76 to develop *'Assessment and recommendation on legal environment of banking and insurance sector, drafting of relevant policy documents, development of insurance and securities market.'*

FRC staff were part of the working group that developed the *National Program to Develop Mongolia's Financial Sector until 2025;* which was approved by the Government in 2017 under decree No. 299.

The FRC was also part of the working group that drafted the revision of the *Law on Infringement,* and the *Law on Investigation of Regulatory Infringement,* and developed the *Regulation on registration of legal documents during processing of infringements, complaints, and resolutions.* FRC staff also participated in introductory training on the above laws.

FRC Provided comments and provisions to the state financial policy documents, such as: *Mongolia's strategy on developing economy and society 2018, and State Monetary Policy, 2018.*

FRC submitted an implementation plan and progress report on the *Sustainable Development Concepts of Mongolia–2030, and the Economic Recovery Program.*

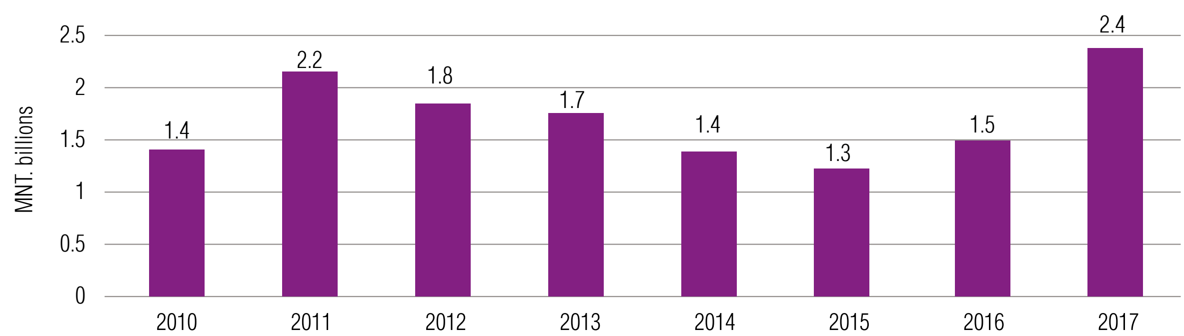
4

# CURRENT STATUS OF NON–BANK FINANCIAL SECTOR

## 4.1. SECURITIES

**Market Capitalization.** At the end of 2017, the securities market capitalization reached MNT2.4 trillion; an increase of MNT1.0 billion since 2016.

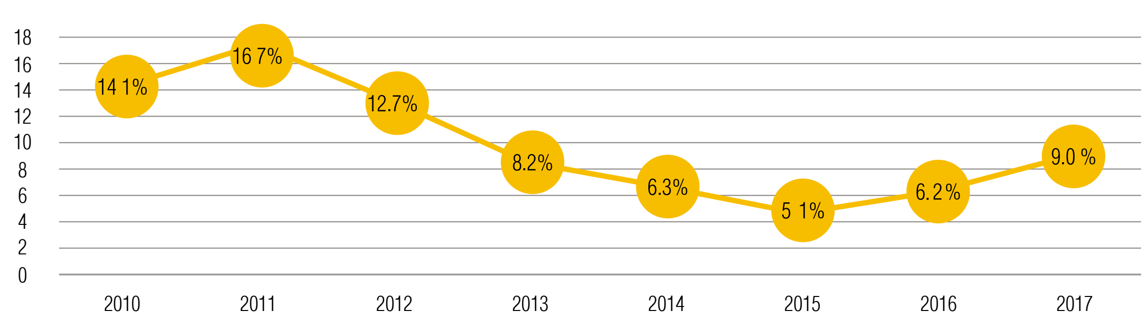
**Figure 7.** Market Capitalisation.




During the year, two companies launched IPOs and another issued a corporate bond; through the MSE, and the first private exchange, the MSX. On 24 November 2017, the FRC approved the merger of Evergreen Investments LLC and APU JSC. As a result, APU JSC became the largest listed company on the MSE. The merger provided experience of raising funds, and made a significant impact in increasing the market capitalization.

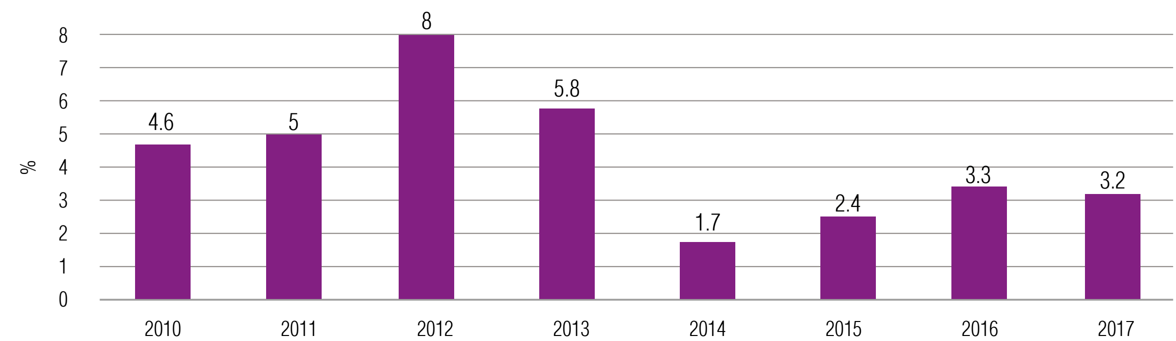
**Market Capitalization to GDP ratio and liquidity levels.** At the end of 2017, the market capitalization accounted for 9.0% of the nominal GDP; a 2.8 percentage points increase on the same period in 2016.

**Figure 8.** Market Value by GDP.



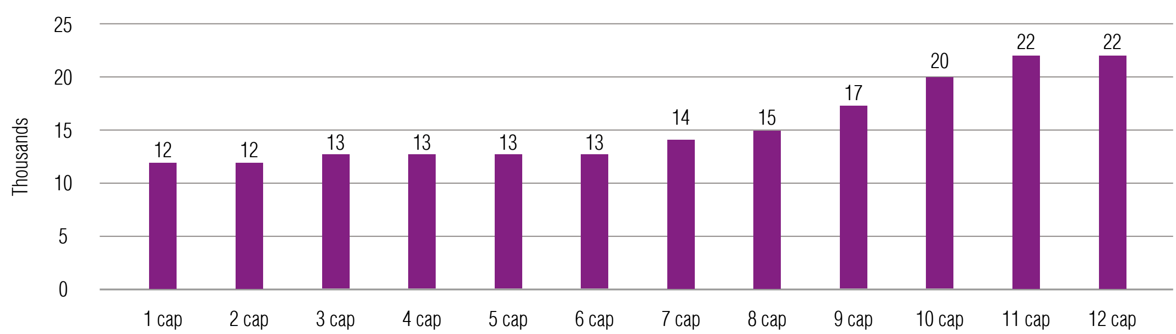

The liquidity index of the amount traded was equal to 3.2% of the market capitalisation.

**Figure 9.** Liquidity Level.



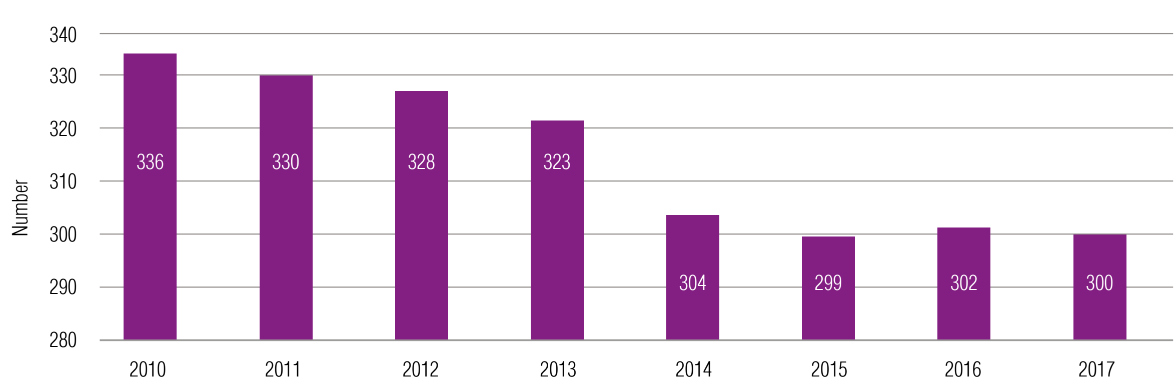

The TOP–20 index increased by 66.5% (since 2016) to 20,737 units; the highest the index reached was 24,520 units, the lowest 11,972 units, while the average was at 15,512.

**Figure 10.** Top–20 Index; Monthly Average.



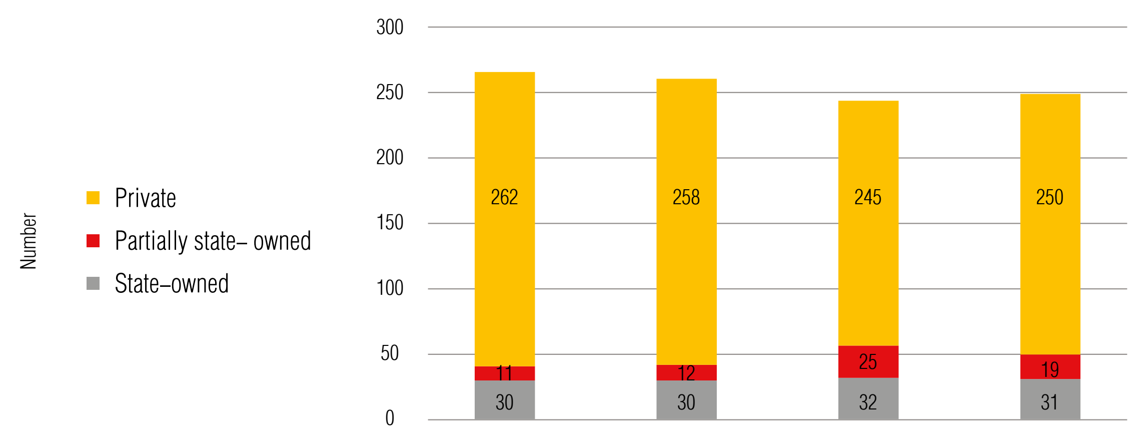

Securities market participants. During 2017, 300 companies ware registered with the Commission, and conducting operations. During the same period two companies successfully launched IPOs.

**Figure 11.** Listed Companies.



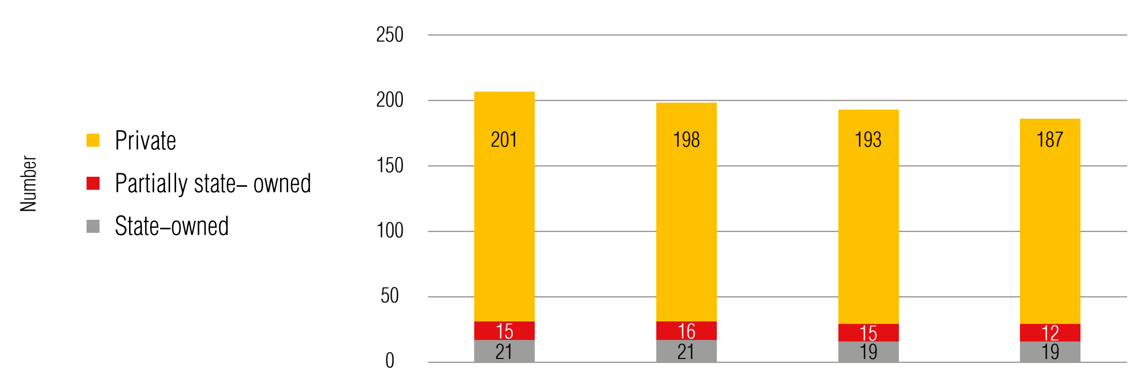
In terms of equity, 250 (83%) of securities companies registered with the Commission were privately owned.

**Figure 12.** JSCs registered at FRC.




As for JSC companies registered as licenced trading companies, 188 out of 219 (86%) were privately owned.

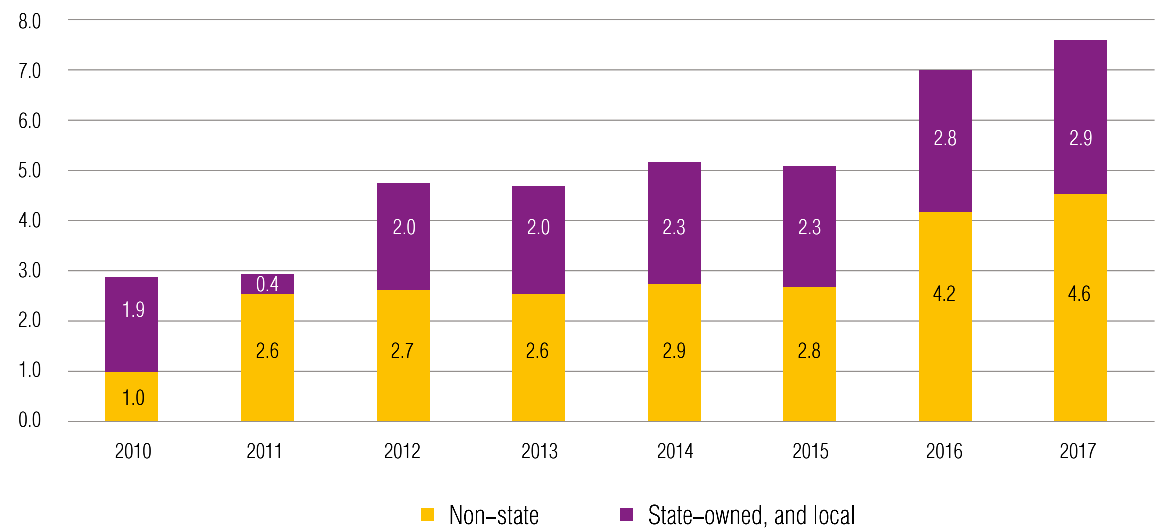
**Figure 13.** Registered Trading Organization; by Type.




The discrepancy in the number of registered companies and companies with trading rights, was due to the fact that the Law on Securities Market required companies with trading rights to: develop a registration regulation, have it approved by the Commission, determine registration criterial according to the regulation, and un–register companies that did not meet requirements.

Numerically, 83% of firms were privately owned; and in terms of shares, 62% were privately owned.

**Figure 14.** Share Structure of JSC.

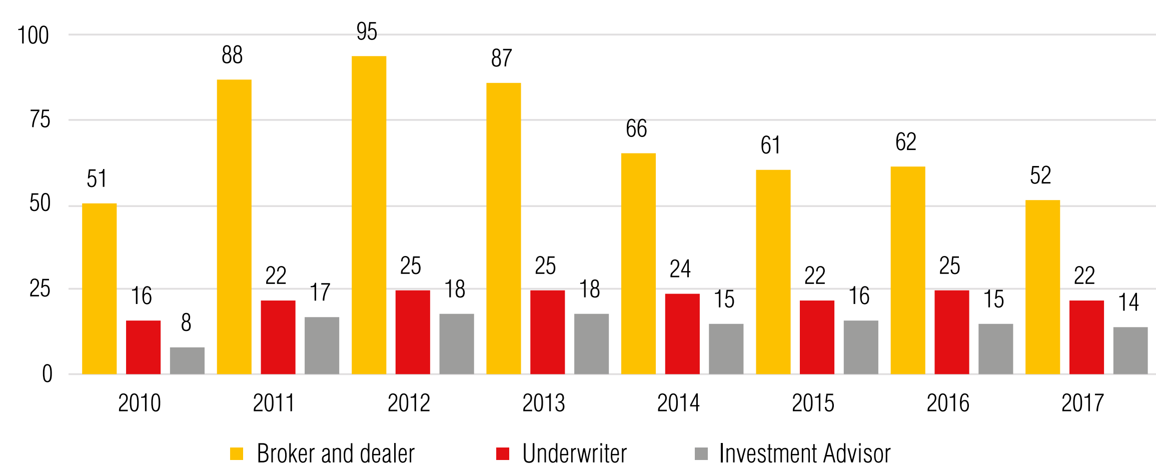



In accordance with the Law on Securities Market and Law on Investment Fund, the Commission licensed the following:

- securities trading (20),
- fund management (17)
- Investment funds (9),
- MSCH (1),
- MCSD (1), and
- custodian bank service (1),

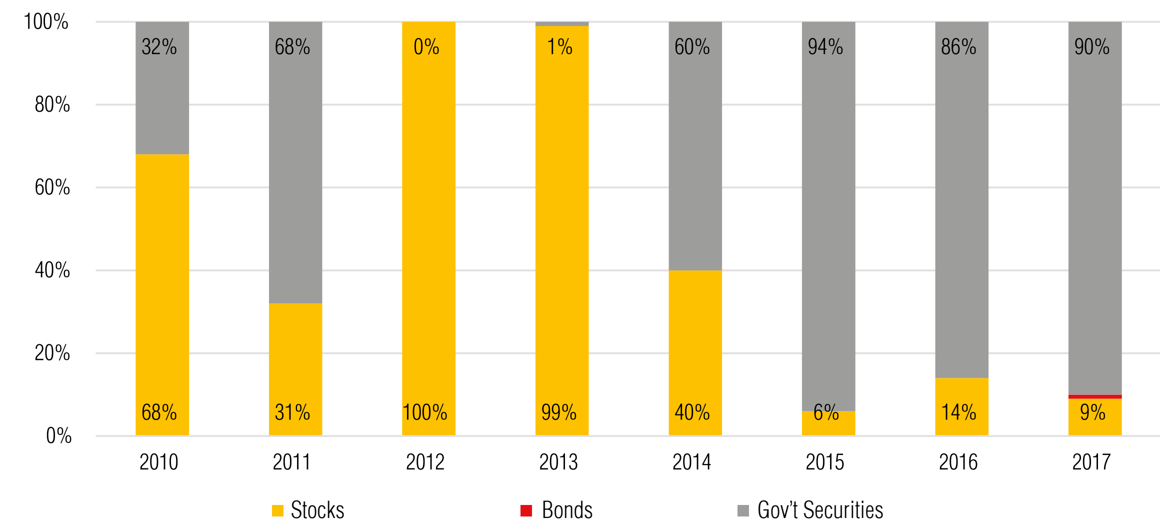
In 2017, under the Law on Securities Markets, 52 special purpose companies were licensed by the Commission to engage in professional activities.

**Figure 15.** Licenced Intermediaries; by Type.



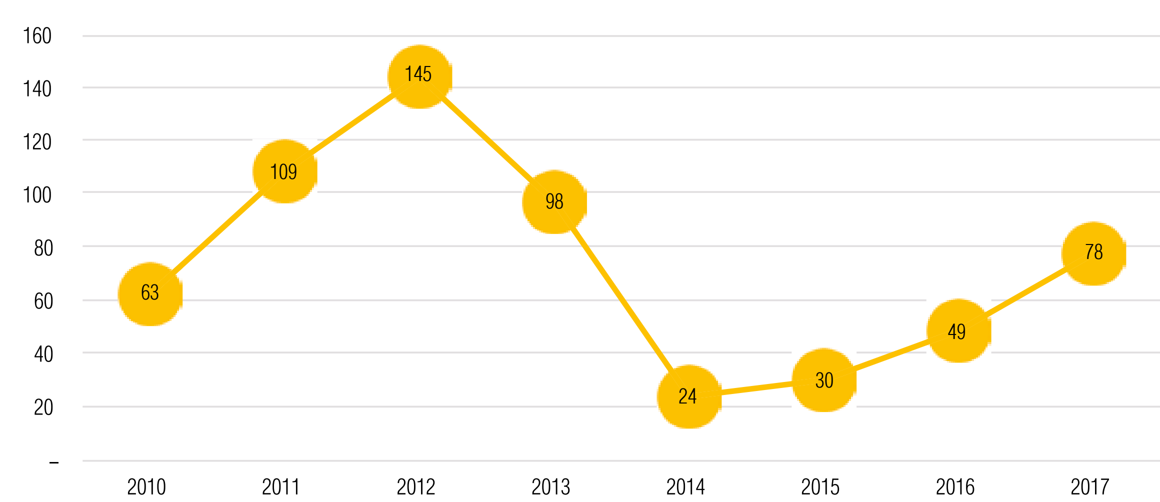

Securities trading. In 2017, total trading value reached MNT 861 billion; an increase of MNT 512 billion (147%) from previous year. Of the trading, 9.1% was shares, the primary market for government securities was 73.2%, and the secondary market for government securities trading was 16.5% and the corporate bonds trading was 1.2%.

**Figure 16.** Securities Trading Indicator (%).




**Stocks.** During 2017 134 million shares – of 135 companies – worth total of MNT78. billion, were traded on the MSX.

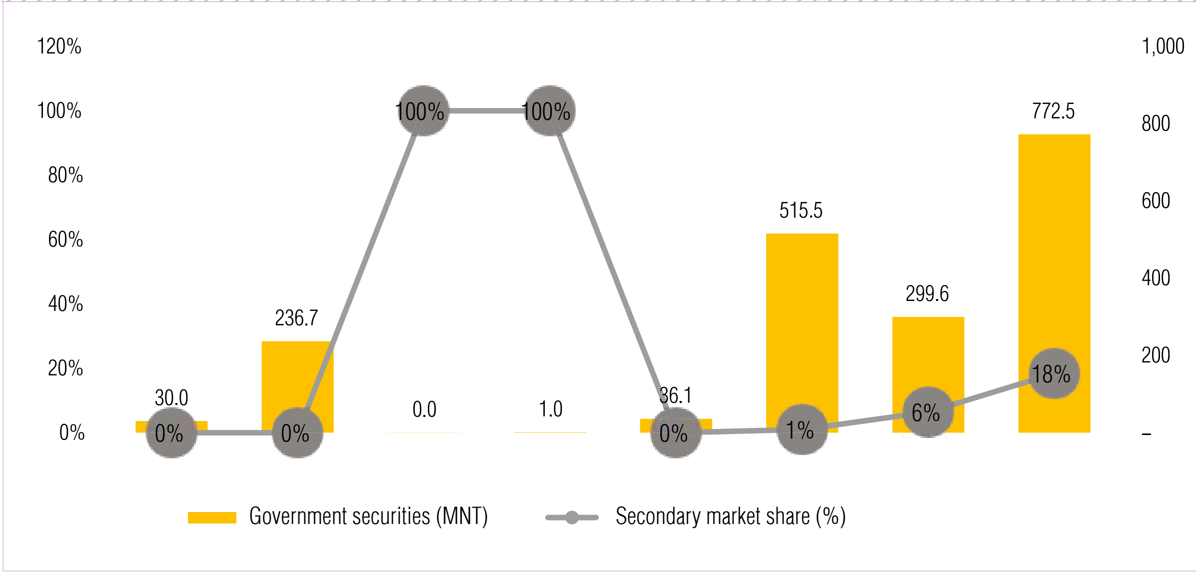
**Figure 17.** Shares Traded.




Government Bonds. Trading in primary market. In 2017, a total of 67 million Government Securities were traded at MNT 630 billion through 44 trades at the MSE. This was a MNT29 billion (59.1%) increase from the same period of last year.

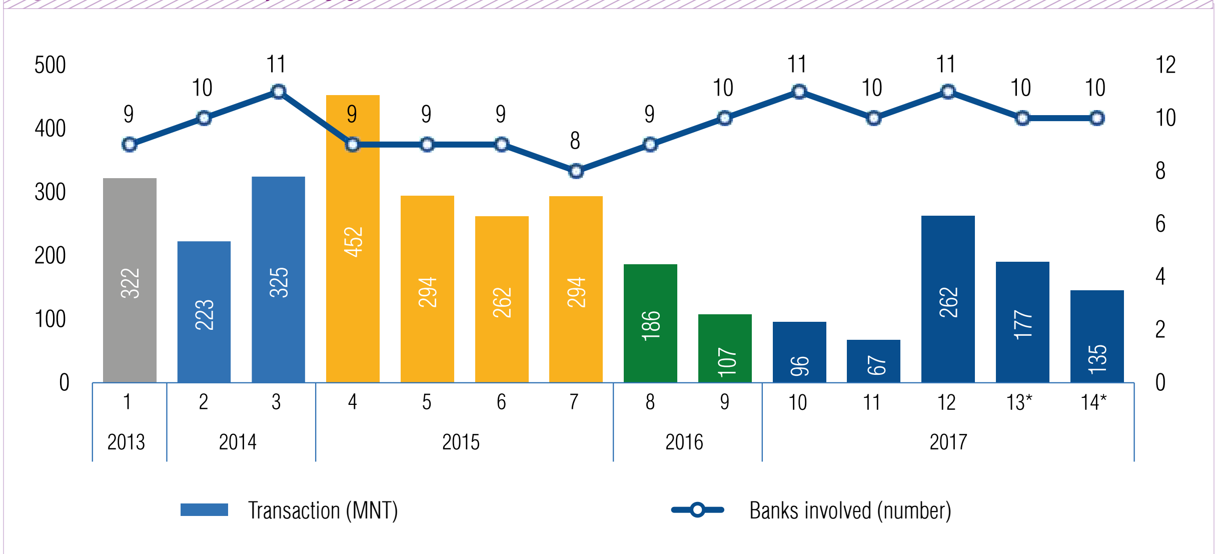
*Trading in secondary market:* 1.4 million securities worth MNT 142 million were traded on the secondary market.

**Figure 18.** Government Securities Trading, and Share of the Secondary Market.



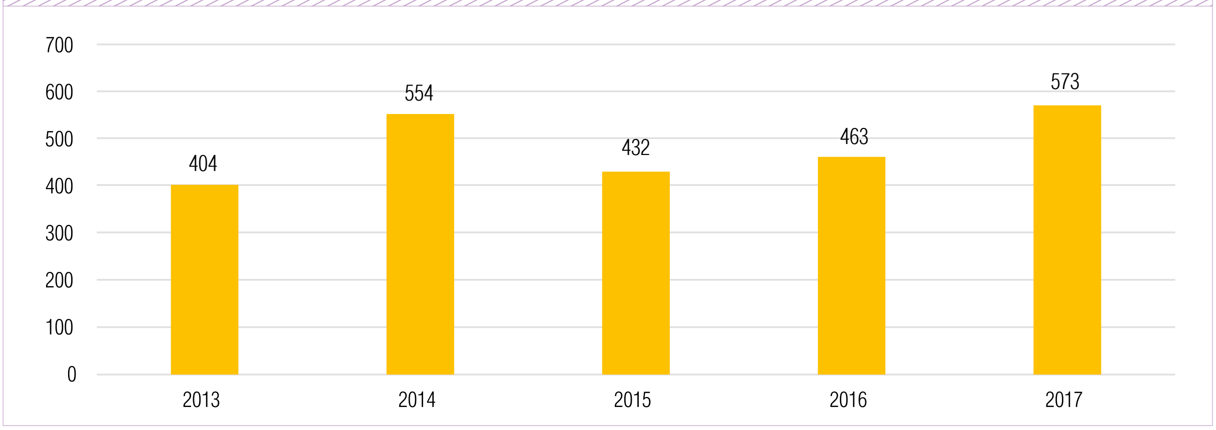

**Asset–backed Securities.** The Commission licensed issuers of asset–backed securities and registered asset–backed securities, in accordance with the *Law on Asset–backed Securities and the Regulation on Registering asset–backed Securities.* During 2017, 'MIK Asset SPCs 12–14' were licensed and its securities were registered.

**Figure 19.** Bonds Secured by Mortgages.



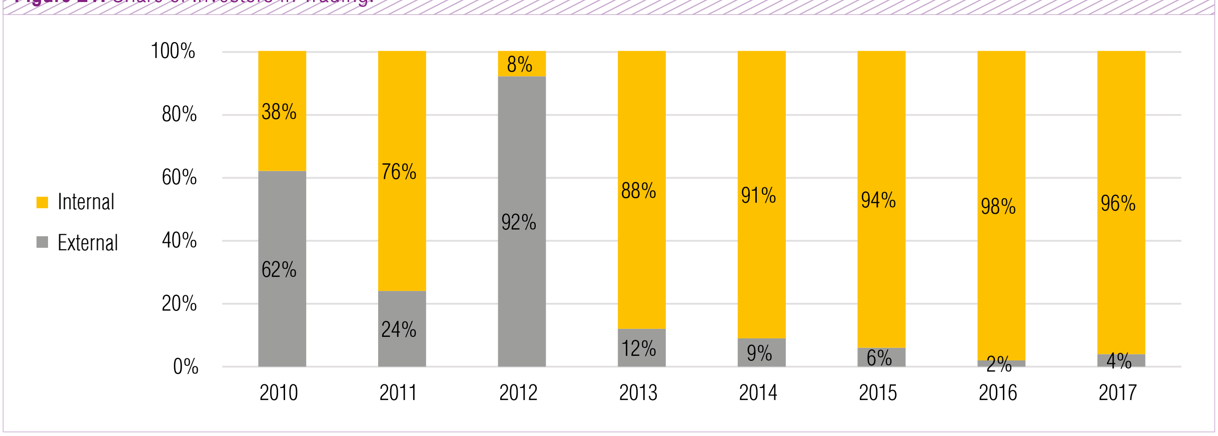

**Mongolian Agricultural Commodity Exchange.** As of 2017, 163 spot trades took place at the MACE, consisting of a total of 961 transactions worth MNT 572.6 billion. This included 6,967 tonnes of cashmere, 10,878 tonnes of wool, 356 tonnes of camel wool, 1,674 tonnes of industrial goat cashmere and 1,208 tonnes of industrial sheep wool.

**Figure 20.** Value of Trading in MACE.




**Investors and accounts in the securities market.** Since the beginning of secondary market trading at the MSE, a total of 906,116 accounts and 143,244 connection accounts were opened through the MCSD. The accounts consisted of 901,248 accounts of domestic and 2,057 foreign investors, 2,624 domestic enterprises and 187 enterprises respectively. During the reporting period, 19,544 new accounts were opened, consisting of 19,334 domestic investors, 107 were foreign investors, 94 were domestic enterprises and 9 foreign enterprises.

**Figure 21.** Share of Investors in Trading.




During 2017, the share of foreign enterprises and individuals in the total trading volume at the MSE, was 4%; domestic enterprises and local investors accounted for the balance of 96%.

At the end of 2017, total market capitalization reached MNT 2.4 trillion, a figure MNT 271.6 billion higher than the highest economic growth period of 2011.

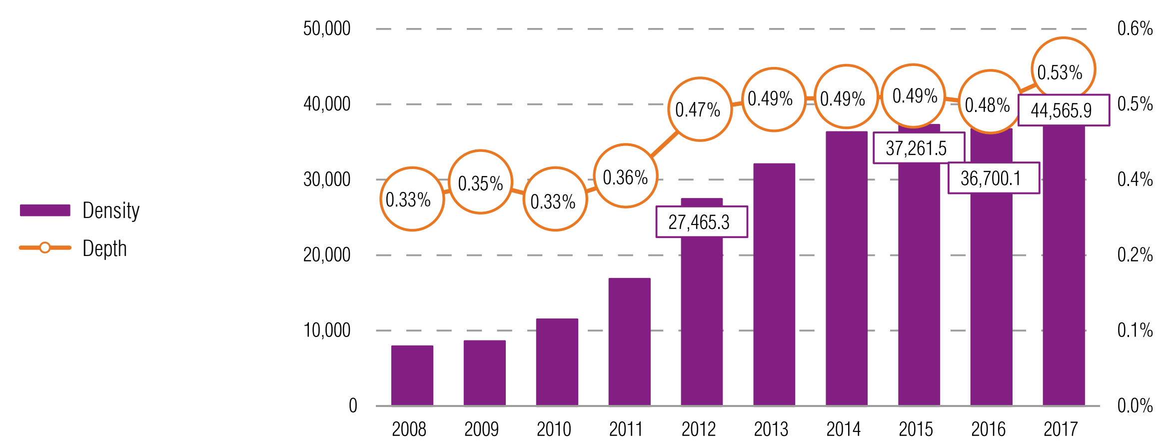
'And Energy' launched its IPO on Mongolia's first privately owned stock exchange; a crucial step towards development of the capital market, promotion of competition, and creating a favourable operating environment for investors and market participants.

Furthermore, trading of the first derivative, financial instruments (through the MACE) is expected to further boost the diversity of products in the capital market, provide a safety net for the herders, and promote development of the market.

## 4.2. INSURANCE

Total assets of the insurance market reached 0.9% of GDP, a small increase since 2016.

**Figure 22.** Insurance; Depth and Density.




In 2017, the average insurance premium per person reached MNT44,566; a 21.4% increase from 2016.

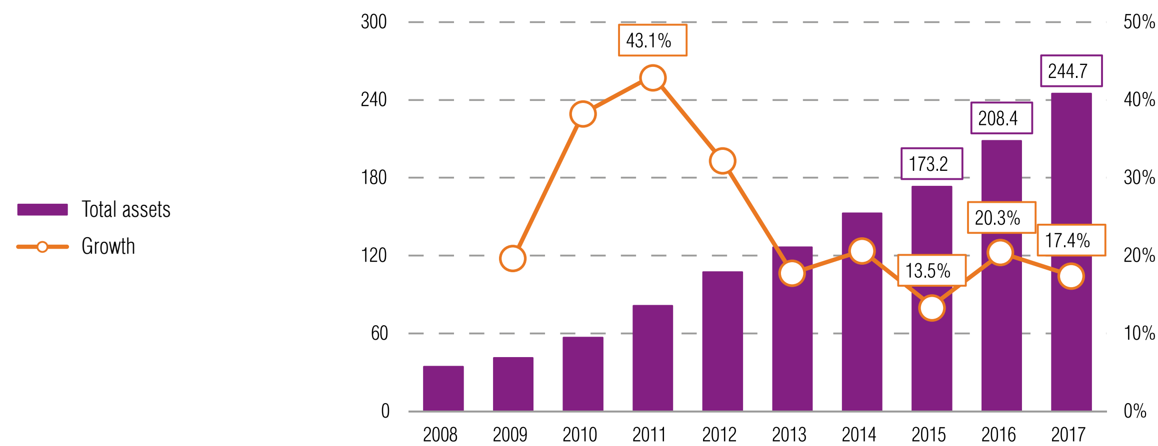
**General Indicators.** The Commission licensed 17 insurance companies, 42 insurance intermediaries, 29 insurance loss–adjusters, 239 insurance company branches, 12 insurance representative offices, 209 insurance intermediary offices, 50 insurance loss–adjuster branches, and 6 representative offices

**Table 11.** Licenced Insurance Entities.

| № | Company | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Regular insurance | 16 | 16 | 17 | 16 | 16 | 15 | 15 | 15 |
| 2 | Life insurance | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| 3 | Reinsurance | | | | | | 1 | 1 | 1 |
| 4 | Reinsurance representatives | 2,061 | 2,057 | 2,357 | 3,187 | 3,260 | 3,340 | 3,091 | 2,893 |
| 5 | Insurance broker | 9 | 8 | 17 | 20 | 30 | 37 | 40 | 42 |
| 6 | Loss–adjuster | 6 | 9 | 9 | 14 | 20 | 27 | 31 | 29 |
| 7 | Actuary | 12 | 13 | 18 | 15 | 15 | 15 | 15 | 21 |
| 8 | Total | 2,105 | 2,104 | 2,419 | 3,253 | 3,342 | 3,436 | 3,194 | 3,002 |

**Assets.** At the end of 2017, the aggregate assets of insurance companies reached MNT 245 billion, an increase of MNT36.3 billion (17.4%) from the previous year.

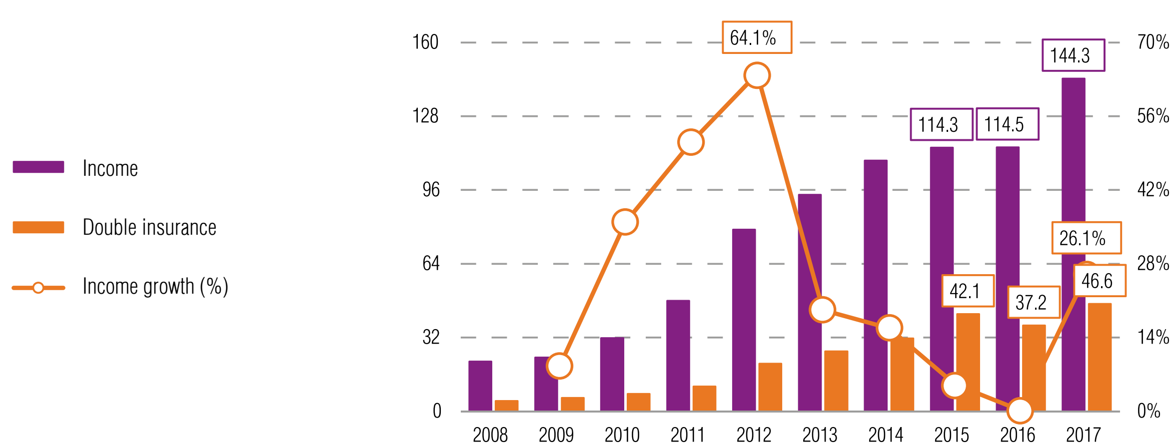
**Figure 23.** Insurance Companies Total Assets.




The total assets of the insurance market comprise 79.1% ordinary insurance companies, 3.2% life insurance companies and 17.7% reinsurance companies.

During the reporting period, insurance companies signed contracts with 1,015,265 individuals and entities, earning MNT 144 billion in premium revenues. Further dissection of the revenues indicates that 97.8% of total premium revenues were collected by the non–life insurance companies, while life insurance and reinsurance companies respectively earned 0.9% and 1.3%. Total revenue increased by 26.1% from the same period of last year.

**Figure 24.** Insurance Companies Income and Reinsurance Premiums.



One noteworthy indicator in the insurance markets was the surge in revenues from reinsurance premiums, an increase of MNT 9.4 billion or 25.2% totalling MNT 46.6 billion. Non–life insurance companies contributed MNT 45.8 billion to this figure, whereas life insurance and reinsurance companies paid MNT 0.02 billion and MNT 0.8 billion.

Further breakdown of revenue growth revealed that crop insurance increased by 212.7%, construction insurance by 126.8%, livestock insurance by 106%, credit insurance by 183.5%, and aircraft insurance by 157.3% respectively.

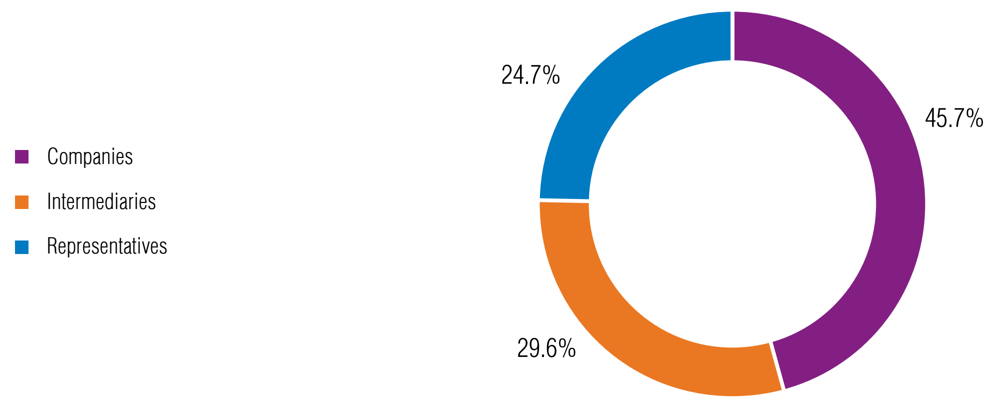
**Table 12.** Insurance Premium Income (by type).

| № | Type | Premiums (MNT, billions) | | Change (%) |
|---|---|---|---|---|
| | | 2016 | 2017 | |
| 1 | Accident and medical | 12.3 | 17.9 | 45 |
| 2 | Property | 31.8 | 36.7 | 15 |
| 3 | Vehicle | 14.5 | 18.5 | 28 |
| 4 | Cargo | 1.9 | 1.5 | –24 |
| 5 | Construction | 3.3 | 7.4 | 127 |
| 6 | Crop | 0.0* | 0.0* | 213 |
| 7 | Livestock | 1.2 | 2.4 | 106 |
| 8 | Aircraft | 3.2 | 1.5 | –55 |
| 9 | Driver's liability | 0.5 | 0.4 | –5 |
| 10 | Liability | 7.9 | 10.8 | 37 |
| 11 | Financial | 3.2 | 3.2 | –1 |
| 12 | Credit | 1.0 | 2.9 | 184 |
| 13 | Trust | 0.3 | 0.3 | –3 |
| 14 | Aircraft related | 2.8 | 7.3 | 157 |
| 15 | Driver's liability | 27.8 | 30.4 | 10 |
| 16 | Terminable Life | 0.2 | 0.2 | 32 |
| 17 | Savings | 0.1 | 0.1 | 13 |
| 18 | Pension | 0.1 | 0.1 | 74 |
| 19 | Health | 1.0 | 0.9 | –7 |
| 20 | Crop | 0.0* | 0.0* | 245 |
| 21 | Livestock | 1.5 | 1.8 | 17 |
| | **Total amount** | **114.5** | **144.3** | **26** |

* = Less than MNT50 million

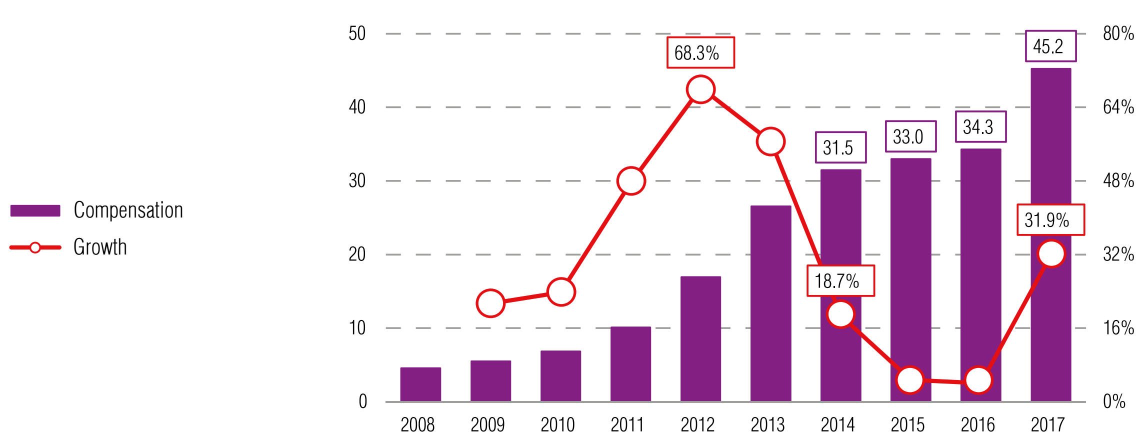
Insurance premium income accounted for 45.7% of total insurance premiums, while insurance companies accounted for 29.6% and insurance intermediaries accounted for 24.7%.

**Figure 25.** Insurance Premiums Sources (%).




**Total Insurance Indemnity:** Total insurance indemnity amounted to MNT45.2 billion during the year; an increase of 31.9% compared to the previous year. 98% of total indemnity was made by general insurance companies, while 2% was made by life insurance companies.

**Figure 26.** Insurance Indemnity.



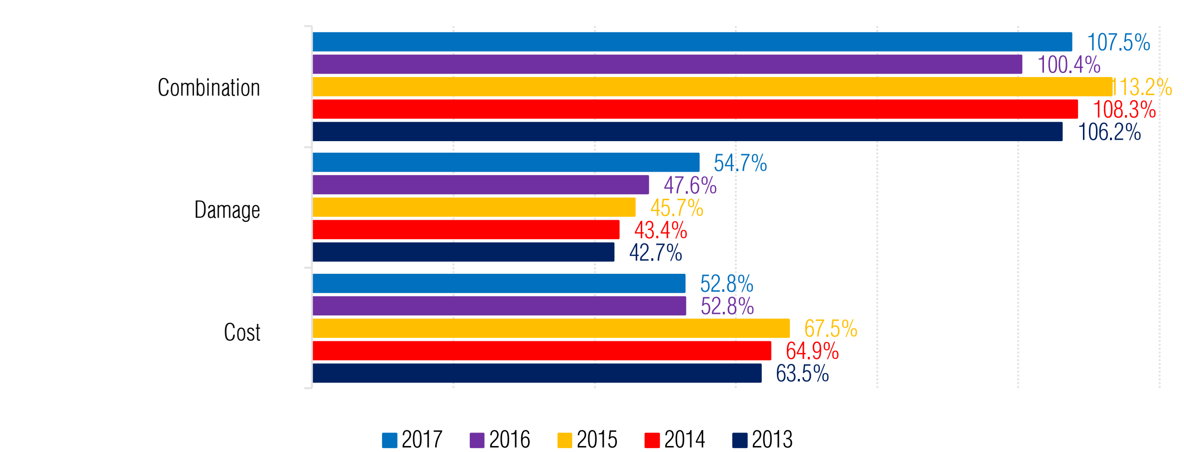

98% of total insurance indemnity was made by general insurance companies and the remaining 2% was paid by life insurance companies. General insurance companies' indemnity was increased by 32.7% which impacted an increase of 31.9% on total insurance indemnity (compared to the previous year).

Net profits of the insurance sector grew by 15.7% from 2016 and reached MNT13.2 billion. Reinsurance companies' net profit increased by 55.6% which was the main reason for the net profit growth of the insurance sector. The net profit of general insurance companies reached MNT8.7 billion, net profit of life insurance companies MNT0.2 billion and net profit of reinsurance companies reached MNT 4.3 billion.

**Figure 27.** Net Profit. Insurance Market.

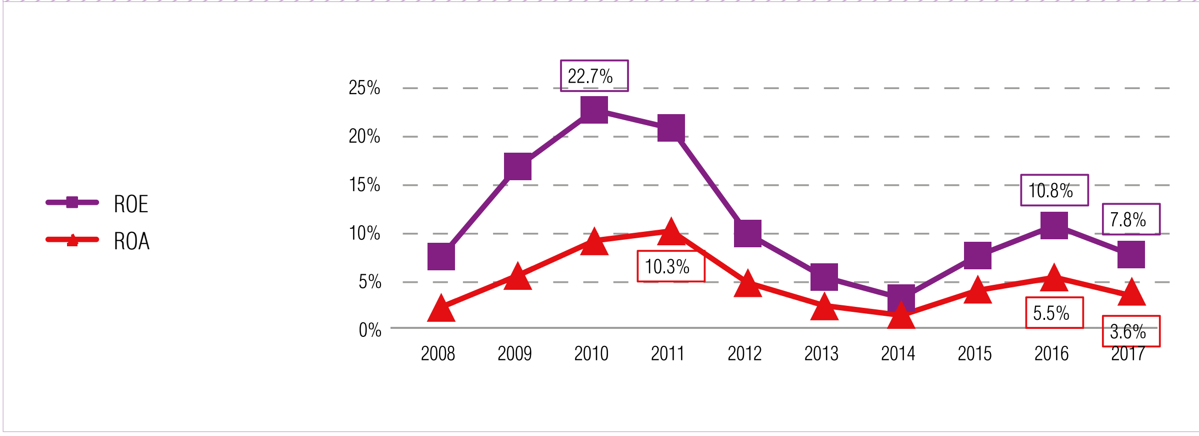

Claim recovery in 2017 increased by 7.1 unit (54.7%) compared to the previous year. This is an increase of 31.9% in total insurance indemnity and 14.8% in income. In other words, the increase in income was lower than the cost of insurance indemnity.

**Figure 28.** Key Ratios.



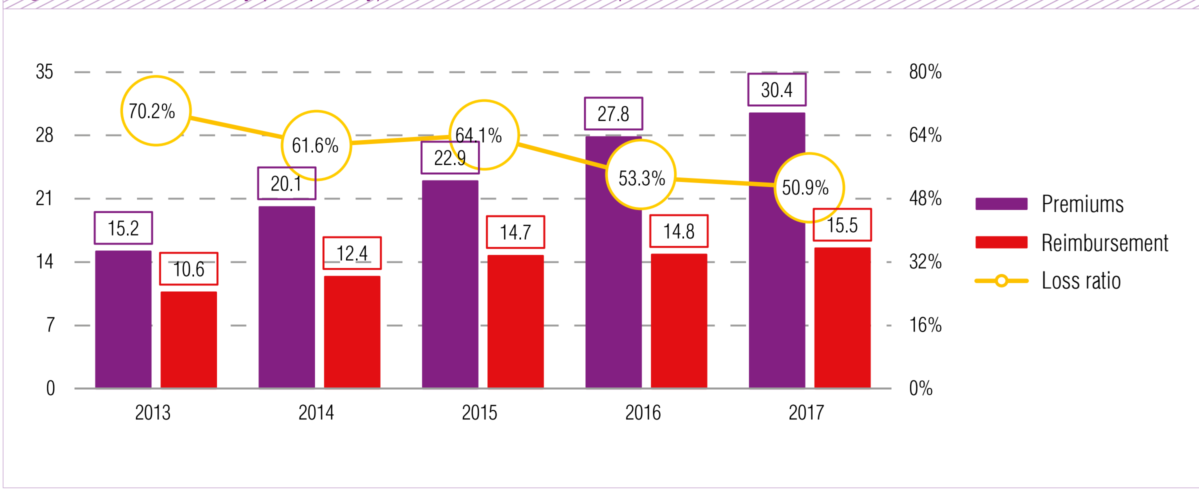

Growth and declines in total return on total assets (ROA) and return on equity (ROE) have seen similar trends in the last 10 years. However, 2014, total equity and equity returns reached 1.6% and 3.3% respectively. By 2017, ROA had risen by 1.9 percentage points to 3.6%.

**Figure 29.** Return on Total Assets and Current Assets.




Insurance premiums for driver's liability amounted to MNT 30.4 billion, up 9.5%. This represented 21.1% of total insurance premium revenues. Indemnity reached MNT15.5 billion; an increase of 4.7%, or 34.3% of total market indemnity.

**Figure 30.** Driver's Liability (Compulsory) Insurance; Fees and Compensation.



## 4.3. NON–BANK FINANCIAL INSTITUTIONS

Current Status of the Sector: The number of NBFIs holding special licenses issued by the FRC reached 534 at the end of 2017; an increase of 3.1% compared to 2016. The scope of activities and duties of NBFIs included:

- granting loans,
- trustee and factoring services,
- online clearing and settlement transactions,
- trading foreign currency,
- providing investment and financial consulting services to owners of microfinance business, small and medium enterprises and private businesses,
- investing in short–term financial instruments, and
- issuing clearing and settlement instruments.

At the end of 2017, NBFIs were engaged in the following:

- loans (482),
- trading foreign currency (145),
- financial and investment consulting services (31),
- factoring services (28),
- payment guarantee services (16)
- clearing and settlement transactions (15), and
- short–term financial, clearing and settlement instruments (7).

**Table 13.** Key Indicators.

| № | Indicators | 2016 | 2017 | Change (%) |
|---|---|---|---|---|
| 1 | Total number of NBFIs | 518 | 534 | 3 |
| | in rural areas | 60 | 70 | 18 |
| 2 | Number of clients | 592,461 | 1,471,099 | 148 |
| 3 | Number of shareholders | 1,042 | 1,039 | –0.3 |
| 4 | Number of employees | 2,115 | 2,473 | 17 |
| 5 | Number of branches | 124 | 164 | 36 |
| | In Ulaanbaatar | 92 | 114 | 22 |
| | in rural areas | 32 | 50 | 82 |
| 6 | Representative Office | 4 | 4 | 0 |
| 7 | Total assets (MNT, billions) | 787.2 | 969.2 | 23 |
| | vs banking sector (%) | 3.1 | 3.4 | 10 |
| 8 | Outstanding loan (MNT, billions) | 478.2 | 638.0 | 33 |
| | vs. banking sector (%) | 3.9 | 4.8 | 23 |
| 9 | Total equity (MNT, billions) | 579 | 758 | 31 |
| | vs. banking sector (%) | 19 | 23 | 21 |
| 10 | Total share capital (MNT, billions) | 441 | 595 | 35 |
| | vs. banking sector (%) | 69 | 82 | 19 |

During 2017, 144 NBFIs were granted special licenses to trade foreign currencies, of which 49 (33.8%) were the principal providers.

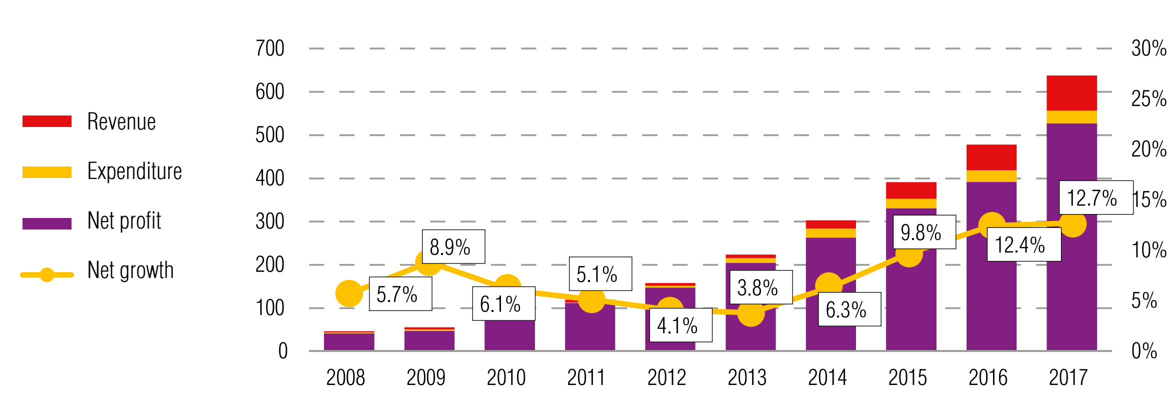
**Total Assets:** The total assets of the non–banking sector reached MNT969.2 billion, an increase of MNT182 billion (23.1%) compared to the previous year. There was MNT179.7 billion (31.1%) increase in private asset of NFBIs, of which shared capital increased by MNT154.8 billion (35.2%) due mainly to the increase in total non–banking sector assets. 96.2% of total assets were comprised of current assets, of which 65.8% were loans and 27.2% of cash assets.

**Table 14.** Assets by Type (MNT, billions).

| ASSETS | 2016 | | 2017 | | Changes | |
|---|---|---|---|---|---|---|
| | MNT | % | MNT | % | MNT | % |
| Current assets | 754 | 96 | 933 | 96 | 178 | 24 |
| Cash assets | 243 | 31 | 264 | 27 | 21 | 9 |
| Short–term investment (net) | 1.3 | 0.2 | 2.7 | 0.3 | 1.4 | 111 |
| Total loans | 478 | 61 | 638 | 66 | 160 | 33 |
| Credit risk fund | –42 | –5 | –56 | –6 | –14 | 33 |
| Accounts receivable of total factoring | 0.0* | 0.0* | 0.1 | 0.0* | 0.1 | 231 |
| Factoring receivable risk fund | 0.0* | 0.0* | – | 0.0* | 0.0* | 100 |
| Real estate, and others | 5 | 1 | 8 | 1 | 4 | 81 |
| Other assets | 69 | 9 | 76 | 8 | 6 | 9 |
| Non–current Assets | 33 | 4 | 37 | 4 | 4 | 11 |
| Fixed and intangible assets | 40 | 5 | 46 | 5 | 5 | 13 |
| (Accumulated depreciation) | 7 | 1 | 9 | 1 | 2 | 25 |
| Total | 787 | 100 | 969 | 100 | 182 | 23 |

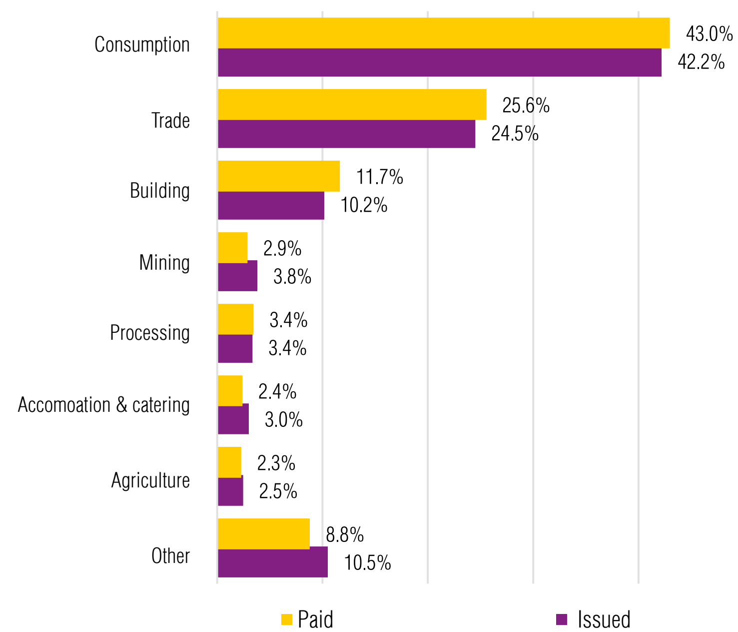
Compared to the previous year's last quarter, NBFIs' total debt balance rose by MNT159.8 billion (33.4%) reaching MNT638 billion, while servicing 107,442 borrowers. Of total loans, loans issued in foreign currency rose by MNT10.6 billion (24.5%) while loans issued in local currency increased by MNT170.5 billion (39.2%) compared to the previous year.

**Figure 31.** Quality of Loan Portfolio.



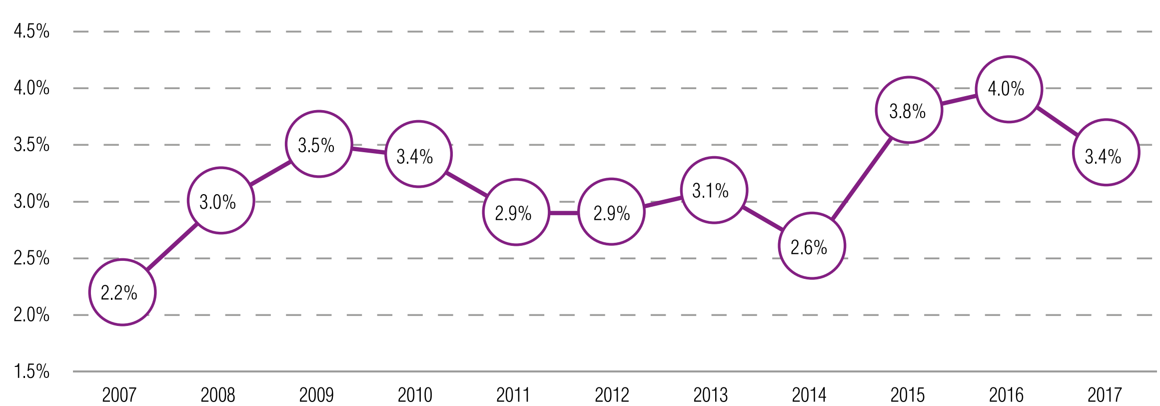

The following figures show the share of total loans issued and paid in the service industry of the economy

**Figure 32.** Issued and Paid Loan, by Category.




Monthly weighted average percentage rate of loans provided by 482 NBFIs with a special license provide has been de–creased by 0.6 percentage points to 3.4%.

**Figure 33.** Weighted Average Loan Interest.




Total assets of NBFIs increased by 23.1% since 2016. MNT211 billion (21.8%) of aggregate assets were allocated capital and MNT758.2 billion (78.2%) were owners' equity. Equity was composed of share capital (61.4%), accumulated profit (16.0%), loans (11.6%), trust service debt (4.0%) and other capital. NBFIs' own equity increased by MNT179.7 billion (31.1%) over the previous year. Equity increase was due primarily to the increase of share capital (MNT154.9 billion) and accumulated profit (MNT24.7 billion).

**Table 15.** Liabilities and Stockholders' Equity (MNT, billions).

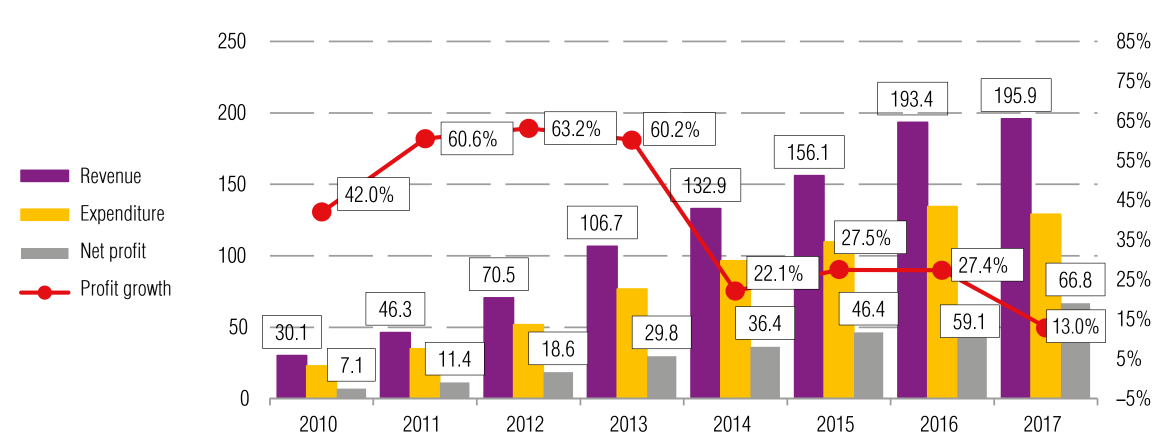
| Liabilities and stockholders' equity | 2016 | | 2017 | | Change (%) |
|---|---|---|---|---|---|
| | MNT | % | MNT | % | |
| **Total liabilities** | **209** | **26.5** | **211** | **21.8** | **1.1** |
| Trust service payable | 31 | 3.9 | 39 | 4.0 | 28.5 |
| Payable to banks & institutions | 121 | 15.4 | 113 | 11.6 | –7.1 |
| Other sources | 4 | 0.5 | 7 | 0.7 | 63.4 |
| Bonds issued by NBFIs | 4 | 0.5 | 7 | 0.7 | 68.3 |
| Project loan financing | 21 | 2.7 | 15 | 1.5 | –30.4 |
| Other liabilities | 27 | 3.5 | 31 | 3.2 | 12.5 |
| **Equity** | **579** | **73.5** | **758** | **78.2** | **31.1** |
| Shared capital | 441 | 56.0 | 595 | 61.4 | 35.2 |
| Other assets | 6 | 0.8 | 7 | 0.7 | 8.2 |
| Funds | 1 | 0.1 | 0 | 0.0 | |
| Accumulated profit / loss | 130 | 16.6 | 155 | 16.0 | 18.9 |
| Secondary payable | 1 | 0.1 | 1 | 0.1 | |
| **TOTAL, LIABILITIES AND EQUITY** | 787 | 100 | 969 | 100 | 23.1 |

NBFIs' profits reached MNT195.9 billion, an increase of 1.3% by the end of 2017. Net profit was made up by interest income (82.7%), non–interest income (13.9%) and non–operating income (3.4%).

Expenses of NBFIs reached MNT129.1 billion – a decrease of 4% since the previous year – and included: income tax expense, potential risk expense, non–interest expense, and interest.

Net profit of NBFIs totalled MNT66.8 billion, an increase of MNT7.8 billion (13%) from a year earlier.

**Figure 34.** Profit Performance.



Total assets of NBFIs reached MNT969.2 billion; equivalent to 3.4% of the total assets of the banking sector. Debt liability balance amounted to MNT638 billion, which accounted for 4.6% of the banking sector. Owners' equity of NBFIs reached to MNT758.2 billion, which represented 28% of the total banking sector. Share capital of NBFIs represented 81.7% of total share capital in the banking sector and totalled MNT595.4 billion.

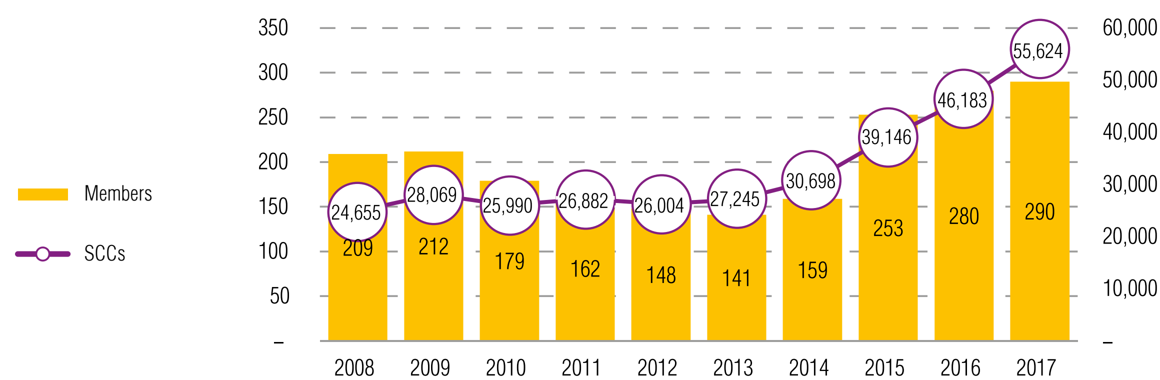
Share capital of NBFIs reached MNT969.2 billion at the end of the year. The increase was due primarily to new capital requirement from the FRC; and this is expected to enhance financial inclusion and influence financial market positively.

### 4.4. SAVINGS AND CREDIT COOPERATIVES

**Number and Members of SCCs:** By the end of 2017, the number of SCCs had increased by 3.6% compared to the same period of the previous year and 290 savings and credit cooperatives were licensed. 192 SCCs operated in Ulaanbaatar and 98 in the provinces.

#### Number of SCCs and members

**Figure 35.** SCCs and Members (Number)




According to geographical location, 32.6% of SCCs were located in Western region, 13.3% in Eastern region, 28.6% Mountain region, 16.3% in Gobi region, and remaining 9.2% in Central region. Of the 192 SCCs operating in Ulaanbaatar, 92.8% were in six districts and 7.8% in the three 'remote' districts.

**Table 16.** Entities (by Region).

| Region | 2016 | 2017 | Difference | |
|---|---|---|---|---|
| Western | 30 | 32 | 2.0 | 6.7 |
| Easter | 13 | 13 | 0 | 0.0 |
| Mountain | 27 | 28 | 1.0 | 3.7 |
| Gobi | 16 | 16 | 0 | 0.0 |
| Central | 10 | 9 | 1.0 | –10.0 |
| Ulaanbaatar | 169 | 177 | 8.0 | 4.7 |
| Isolated distracts | 15 | 15 | 0 | 0.0 |

Compared to the previous year, membership of SCCs has increased by 9,441. 57.5% of all SCCs' members were females. The number of branches increased by 14 (175%) since the previous year.

**Table 17.** Key Indicators.

| № | Indicator | 2016 | 2017 | Change | |
|---|---|---|---|---|---|
| | | | | Number | % |
| 1 | Total SCCs | 280 | 290 | 10 | 4 |
| | In rural area | 96 | 98 | 2 | 2 |
| 2 | Total members | 46,183 | 55,624 | 9,441 | 20 |
| | Female members | 26,605 | 31,968 | 5,363 | 20 |
| 3 | Total employees | 750 | 745 | –5 | –1 |
| | Female employees | 542 | 541 | –1 | 0 |
| 4 | Branches | 8 | 22 | 14 | 175 |
| | Ulaanbaatar branches | 7 | 7 | – | 0 |
| | Rural areas branches | 1 | 15 | 14 | 1,400 |

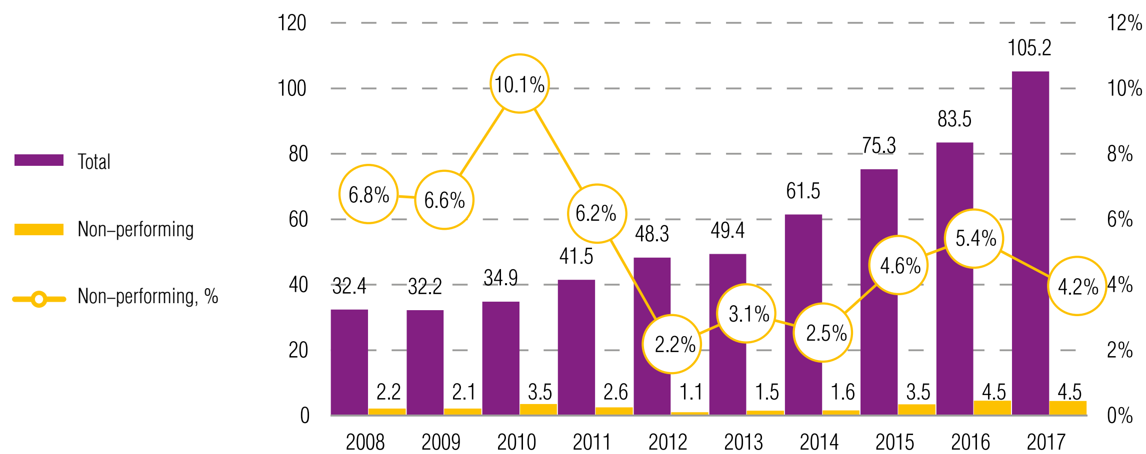
The distribution of SCCs across the country was as follows

**Table 18.** Distribution of SCCs.

| Province | Number | Province | Number |
|---|---|---|---|
| Arkhangai | 4 | Khovd | 2 |
| Bayankhongor | 4 | Khuvsgul | 4 |
| Bayan–Ulgii | 12 | Orkhon | 12 |
| Bulgan | 3 | Selenge | 1 |
| Darkhan–Uul | 2 | Sukhbaatar | 2 |
| Dornod | 6 | Tuv | 4 |
| Dornogovi | 6 | Umnugovi | 4 |
| Dundgovi | 6 | Uvs | 6 |
| Govi–Altai | 2 | Uvurkhangai | 2 |
| Govisumber | 1 | Zavkhan | 10 |
| Khentii | 5 | Ulaanbaatar | 192 |
| Total | | | 290 |

**Indicators of Loans:** A MNT3.1 billion credit risk fund was created and total net loans amounted to MNT102.1 billion. The total of non–performing loans decreased by 1.2 percentage points (from 2016) to reach 4.2% (equivalent to MNT4.5 billion). Total loans increased by MNT21.7 billion (26.1%) reaching MNT 105.2 billion; the highest growth over the last nine years.

**Figure 36.** Loans, and Non–performing Loans.




Loans – increased steadily over the past years – by MNT21.0 billion (28%) to MNT95.7 billion.

**Table 19.** Loans Classification (MNT, billions).

| Type | 2016 | 2017 | Difference | % |
|---|---|---|---|---|
| Standard loan | 73.7 | 95.7 | 22.0 | 30 |
| Overdue | 5.2 | 5.0 | 0.2 | –3 |
| Non–performing | 4.5 | 4.5 | 0.1 | –2 |
| Sub–standard | 1.2 | 1.1 | 0.1 | –5 |
| Doubtful | 1.9 | 1.6 | 0.3 | –14 |
| Write–off | 1.5 | 1.7 | 0.2 | 16 |

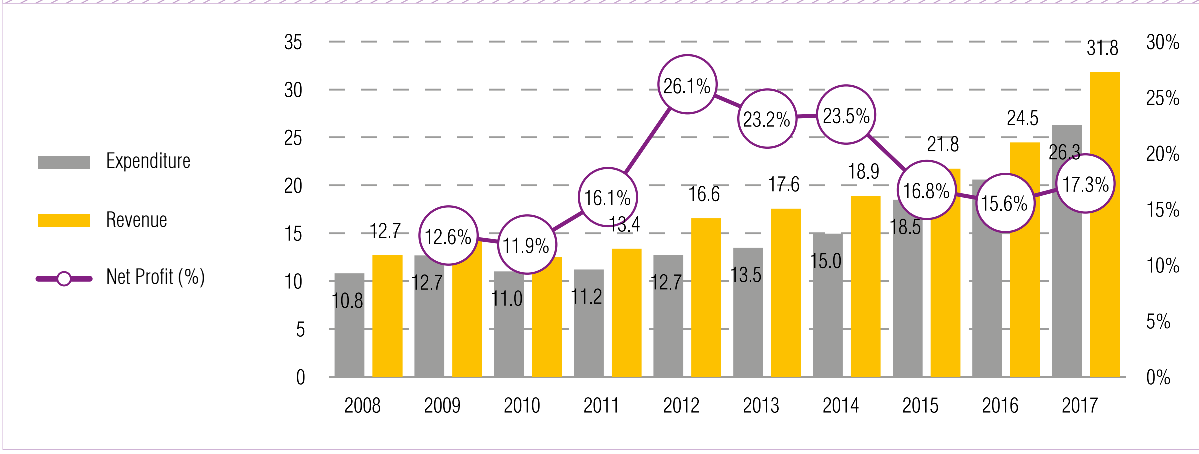
**Indicators of Savings:** In 2017, 259 SCCs' accounted for savings of MNT99.3 billion, and the remaining 31 SCCs had zero savings. In addition, 12 SCCs had savings of MNT1 billion to MNT10 billion, the remaining 247 SCCs accounted for MNT15.3 billion of savings.

**Table 20.** Savings Amount (by Class).

| № | Savings value | SCCs, number | Total, MNT, billions | % |
|---|---|---|---|---|
| 1 | > 10 billion | 3 | 61.6 | 62.0 |
| 2 | 1 to 10 billion | 9 | 22.5 | 22.6 |
| 3 | 0.5 to 1 billion | 6 | 4.3 | 4.4 |
| 4 | 0.1 to 0.5 billion | 31 | 6.3 | 6.3 |
| 5 | 50 to 100 million | 24 | 1.7 | 1.7 |
| 6 | 10 to 50 million | 112 | 2.6 | 2.6 |
| 7 | 5 to 10 million | 41 | 0.3 | 0.3 |
| 8 | Up to 5 million | 33 | 0.1 | 0.1 |
| 9 | No savings | 31 | 0.0 | 0.0 |
| Total | | 290 | 99.3 | 100.0 |

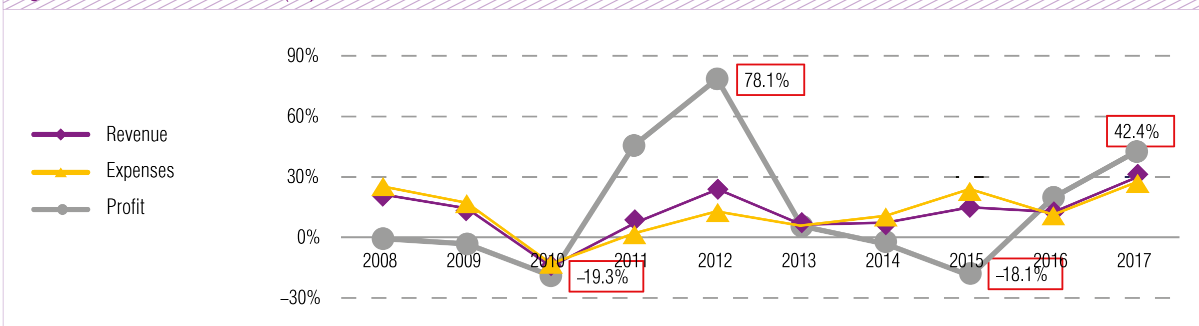
**Profitability:** Over the last decade, the sector's total revenue and cost increased steadily, and in 2017 the total of all SCCs earned revenues of MNT31.8, costs of MNT26.3 billion and net income of MNT 5.5 billion. Operating expenses accounted for 30.4% of the total revenue with the highest cost being human resources at 19.8%.

**Figure 37.** SCCs' Revenues and Expenses.




Total revenue growth impacted on the net income increase and total revenue increased by 28.8% in comparison with the previous year; reaching its highest peak in the last ten years. On the other hand, costs also reached a high point; increased by 26% compared to the previous year.

**Figure 38.** Profit Performance (%)




The increase in total profits was mainly due to increased total revenues, up by 28.8% compared to the same period in 2016; the highest growth in the past 10 years. Expenses also increased in a similar way, up by 26% compared to 2016.


## ХОЛБОО БАРИХ

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