



FINANCIAL
REGULATORY
COMMISSION



البنك المركزي
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ANNUAL REPORT
2019

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ABBREVIATIONS

ADB	Asian Development Bank
AFI	Alliance for Financial Inclusion
AML/CFT	Anti–money laundering and combating the financing of terrorism
AWAIR	Annual weighted average interest rate
CRI	Climate risk insurance
DPMS	Dealers in precious metals and stones
EBRD	European Bank for Reconstruction and Development
ECAPI	Eastern Europe & Central Asia Policy Initiative
FATF	Financial Action Task Force
FRC	Financial Regulatory Commission (of Mongolia)
GDP	Gross domestic product
GIZ	Agency for International Cooperation
IAIS	International Association of Insurance Supervisors
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
JICA	Japan International Cooperation Agency
JSC	Joint stock company
MACE	Mongolian Agricultural Commodity Exchange
MEFIN	Mutual Exchange Forum on Inclusive Insurance Network
MOCCU	Mongolian Confederation of Credit Unions
MSE	Mongolian Stock Exchange
NBFI	Non–bank financial institution
REB	Real estate broker
SCC	Savings and Credit Cooperative
USA	United States of America
WB	World Bank

FOREWORD



2019 was a prosperous year in the development of the sector. A year reflecting past achievements and successes; and providing for the identification of long-term objectives, future goals, and the Financial Regulatory Commission's (FRC's) next steps. Also, it was a year which marked the 25th Anniversary of the establishment of the financial regulatory authority, and the insurance system, in Mongolia.

During the fiscal year, the FRC's focus was to achieve the objectives set as part of the National Programme for Developing Mongolia's Financial Market Until 2025 (the main policy document for the financial market's development) and our Medium-term Strategic Plan; 2018–2021. The non-bank financial sector grew by 15.8% – compared to last year – accounting for 13.6% of gross domestic product (GDP).

FRC successfully implemented a number of measures on anti-money laundering and combating the

financing of terrorism (AML/CFT) compliance, as part of our effort on combating money laundering and terrorism financing. For example, regulations were amended to meet the Financial Action Task Force (FATF) standards, a risk assessment of the non-bank financial sector was conducted using the International Monetary Fund's (IMF's) risk assessment methodology, and on-site inspections of high-risk financial institutions were carried out across regulated sectors.

The FRC is working vigorously on enhancing the public's financial literacy, protecting the rights of investors and customers, diversifying financial products and services, and supporting market stakeholders in promoting advanced financial technologies. The FRC is collaborating closely with global, standard-setting organizations and international development agencies. The organisations include: the Alliance for Financial Inclusion (AFI), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the International Association of Insurance Supervisors (IAIS), the International Organization of Securities Commissions (IOSCO), the Japan International Cooperation Agency (JICA), and the World Bank (WB). And the interventions include developing the non-bank sector through projects aimed at enhancing the regulatory framework, and adopting international standards and best practices.

In 2020, the FRC will focus on establishing improved legal and regulatory frameworks; to promote a favourable business environment and encourage new, technologically advanced products and services. Accordingly, relevant laws are expected to be submitted to the Parliament.

A priority for the FRC in 2020 is to establish the legal and regulatory frameworks governing the activities of real estate brokers (REBs) and dealers

■ FOREWORD

in precious metals and stones (DPMS). These newly-regulated entities will need to be licenced and registered, within a sound supervisory system working across the sectors.

One of the key objectives set for 2020 is the removal of Mongolia from the FATF's 'grey list' of jurisdictions with strategic AML/CFT deficiencies. Appropriate measures will be taken throughout 2020 to ensure compliance with the assessment.

In 2020, the FRC will strive to enhance the activities of the financial sector's policy council, establish a systems risk management and crisis system, and adopt risk-based supervision as part of an

integrated policy to ensure financial stability. Efforts will continue to be dedicated towards strengthening corporate governance of regulated entities, the establishment of a compliance system, and improving the public's financial literacy.

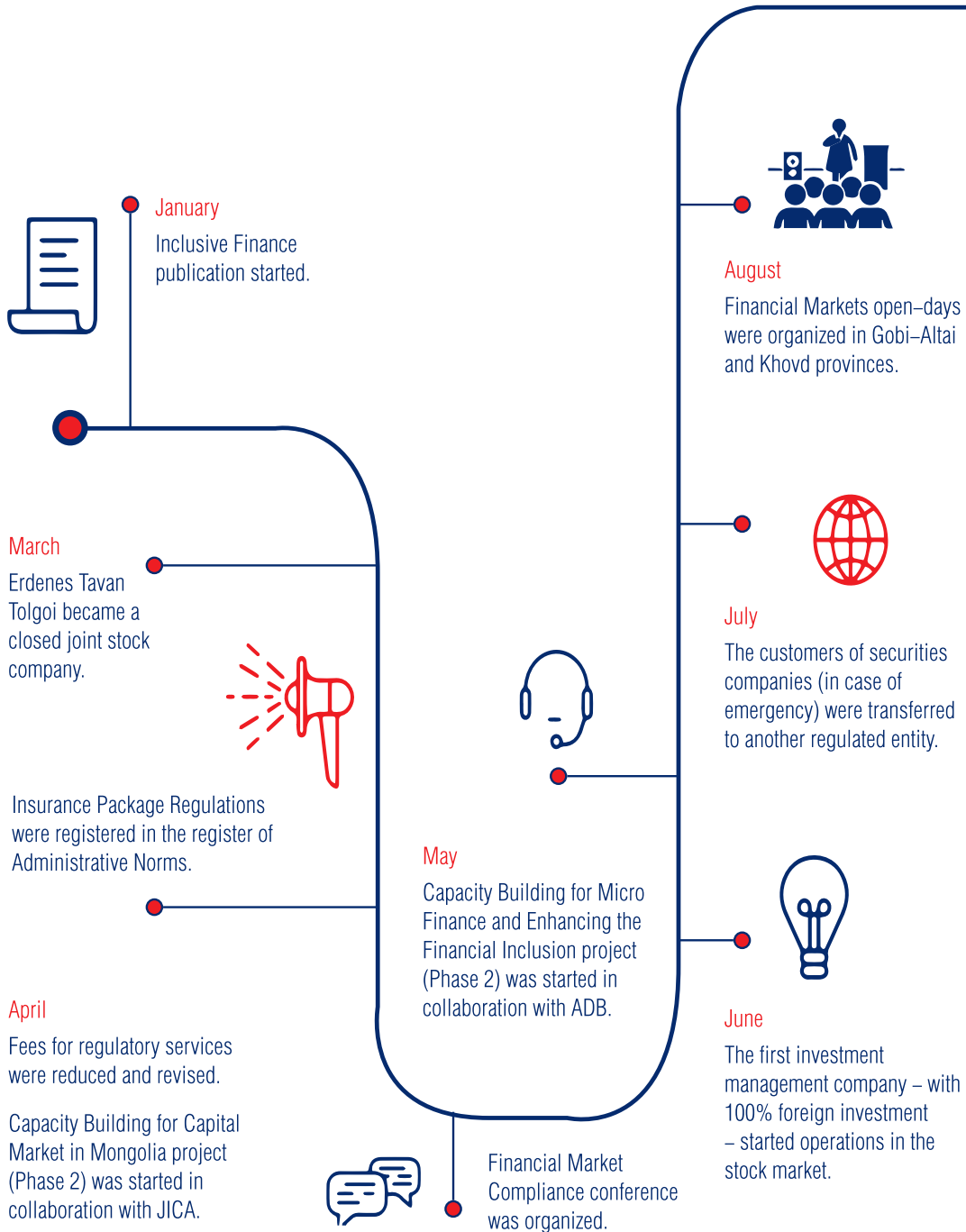
I look forward to the continued cooperation of our valued partners; policy makers, professional associations and regulated entities. Working together — developing the financial market, in line with international standards and providing accessible financial services that are trusted by customers, investors and insured — I am confident we will accomplish even more in 2020.

BAYARSAIKHAN Demberedash



Chairman

TIMELINE





September

Financial Markets open-day was organized in Darkhan province.



October

The law on Counter Terrorism and Proliferation was approved by Parliament in October, adding Real Estate Brokers and Dealers of Precious Metals and Stones as regulated entities to the law on Legal Status of FRC.

Mr Bayarsaikhan Dembereldash was appointed as Chairman of the FRC.



THE WORLD BANK

November

Within the framework of Strengthening Fiscal and Financial Stability (SFFS) project (funded by the WB), work started on implementation of the AML/CFT Action Plan and FATF's recommendations.



A scientific conference dedicated to the 25th anniversary of Financial Regulation was held.

December

FRC held a meeting with IFC and discussed the possibility of future cooperation on development of the capital market of Mongolia.

SUMMARY

The world economy declined by 0.3% in 2019 (to 3.0%) as a result of trade wars and economic uncertainty; while Mongolia's economy recovered and GDP reached MNT 36.9 trillion; an increase of 5.1%. In foreign trade, exports reached USD 7.6 billion and imports USD 6.1 billion. Overall, the balance of trade was a surplus well above USD 1.5 billion; a 31.3% increase compared to 2018. Mining, manufacturing, and generating (electricity, heat, and power) accounted for 63%, 26% and 11% of Mongolia's industrial sector respectively. Mongolia's reliance on mining products (and their export), and the prices of mining products and raw materials, had a significant impact on loan quality and stock market prices; slowing economic growth. Thus, the financial market relies heavily on the economy, in particular the mining sector. During the fiscal year, foreign direct investment increased to USD 2.9 billion.

In 2019, 526 regulated entities operated in the securities market and the number of account holders reached 1.8 million. The total of securities trading decreased by 41.5%, from a high level of trading of leading joint stock companies' (JSCs) portfolios in 2018. While market capitalization increased by 7.2% to MNT 2.7 trillion, the Mongolian Stock Exchange (MSE) TOP 20 Index decreased by 1,844.9 points to 19,621.9.

During the fiscal year, MNT 705.1 billion worth of goods were traded in the Mongolian Agricultural Commodity Exchange; a decrease of MNT 6.4 billion compared to the previous year. The Mongolian Agricultural Commodity Exchange (MACE) Mongolian Agricultural Price Index (MAPIX) reached 794,316.1 points; down 67,104.4 points from the previous year.

In the insurance sector, a total of 317 insurance companies, intermediaries, brokers, loss adjusters, audit firms, actuaries, and auditors, along with 2,520 insurance agents, delivered their products and services to 1,153,392 customers. Total assets of the insurance sector reached MNT 365.8 billion, of which 45.3% (MNT 165.6 billion) were for the reserve fund.

In 2019, general and life insurance companies collected a total of MNT 196.6 billion in insurance premiums. A total of MNT 57.3 billion was spent on reinsurance premiums, of which MNT 2.1 billion (3.7%) was paid by domestic reinsurers. Total indemnity expenses of insurance companies reached MNT 65.5 billion in 2019; an increase of 12.5% compared to the previous year.

During the fiscal year, 538 non-bank financial institutions (NBFIs) operated in the non-bank sector; increasing the number of customers and borrowers by 1.8 times to 2.9 million and 419,900, respectively. The sharp increase was linked to the introduction of digital financial products and services in the sector. Total assets increased by 34.7% to MNT 1.7 trillion, of which MNT 1.2 trillion was disbursed in the form of loans. Most (87%) of these loans were considered to be performing.

The number of SCCs decreased by 6.4% to 261 while the number of members increased by 13.4% to 70,968 compared to the previous year. Total assets of savings and credit cooperatives (SCCs) increased by 11.2% to MNT 222.6 billion during the fiscal year.

📍 Government Premises IV, Baga Toiruu 3, Chingeltei District, Ulaanbaatar, Mongolia 15160

☎ 976 51 264444

✉ press@frc.mn

🌐 www.frc.mn

📌 Санхүүгийн зохицуулах хороо

📌 [@FRC_of_Mongolia](https://www.instagram.com/FRC_of_Mongolia)



INTRODUCTION

The FRC was established in 2006 following Parliament's enactment of the law on the Legal Status of the Financial Regulatory Commission. With the adoption of the law, the FRC commenced supervisory and regulatory activities across the non-bank financial sector including insurance and micro-finance. The FRC also began regulation of the securities market; previously under the responsibility of the former Securities Commission.

The FRC is responsible for ensuring the stability of financial markets, protecting the interests of investors (customers and policyholders), supervising the non-bank financial sector, and establishing a regulatory environment through sound policy-making. 2019 marked the 25th anniversary of the establishment of the FRC. With 124 staff, the FRC supervised 2,433 regulated entities across four sectors, and implemented necessary policy measures throughout 2019.

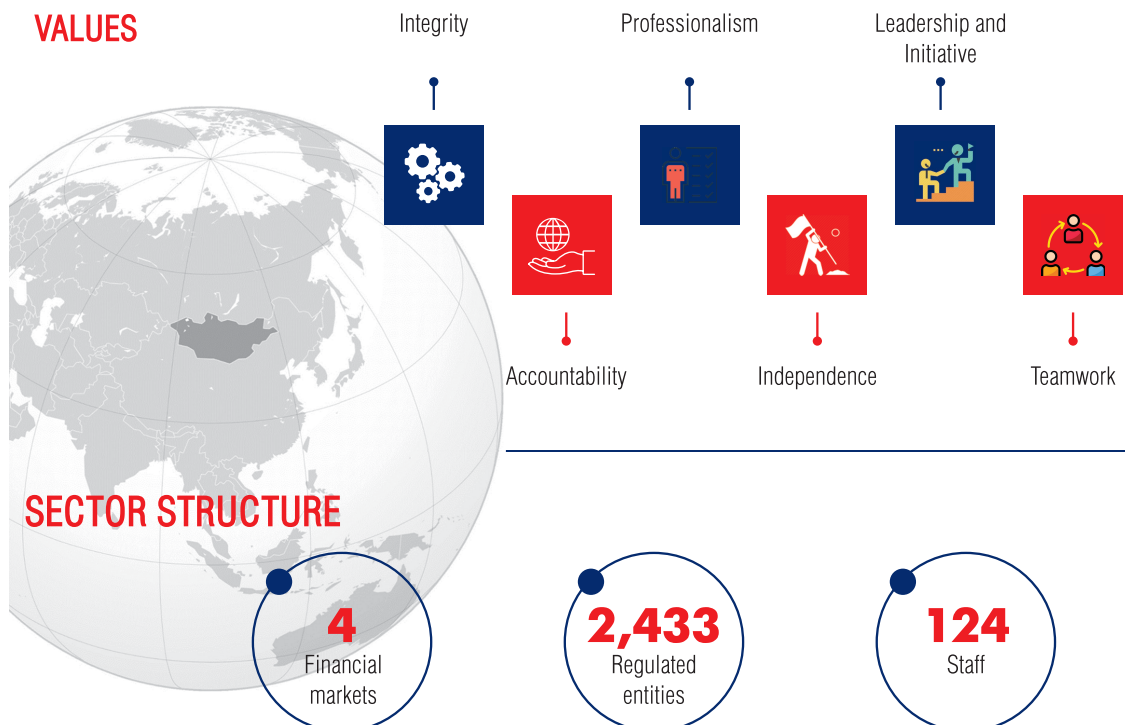
VISION

To create diversified, sustainable and inclusive financial markets, where fair competition is promoted and consumer protection is secured, towards fostering economic growth and development.

MISSION

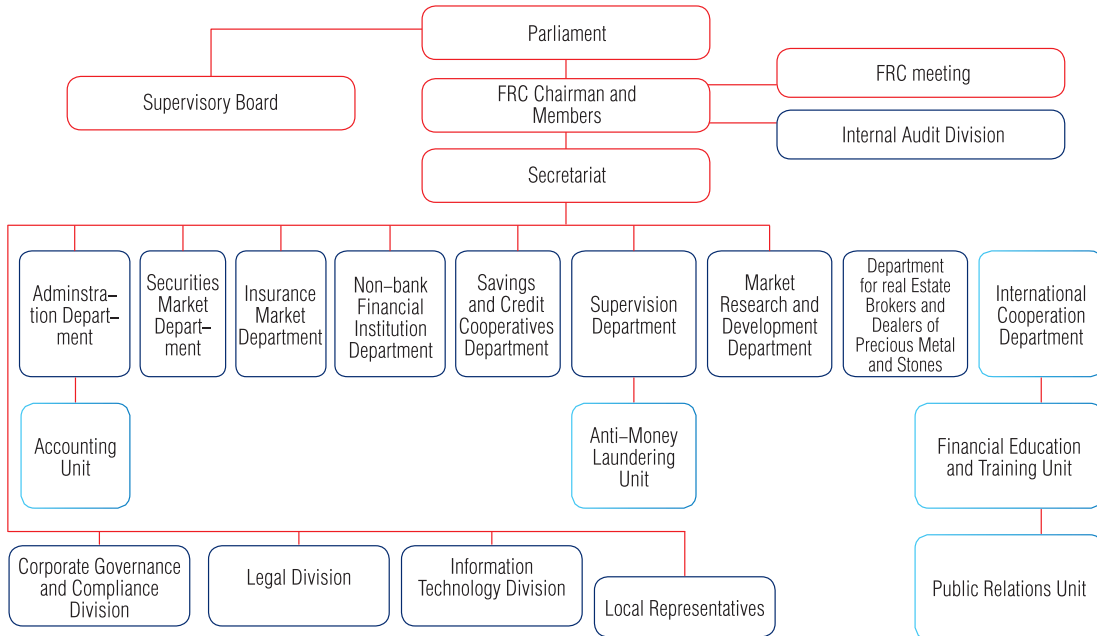
To develop diversified and sustainable financial markets that ensure the rights of consumers – and trust, in the marketplace – through implementation of sound financial policies, regulation, and establishment of an effective supervision system.

VALUES



ORGANISATIONAL STRUCTURE

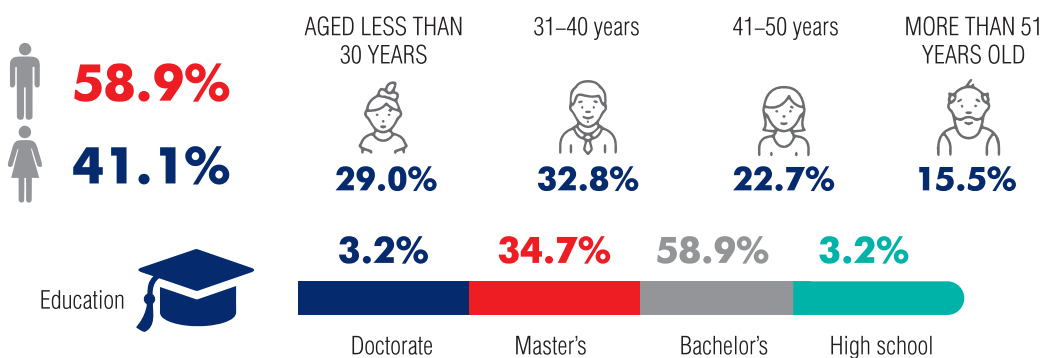
Figure 1. Organisational Structure



The FRC consists of:

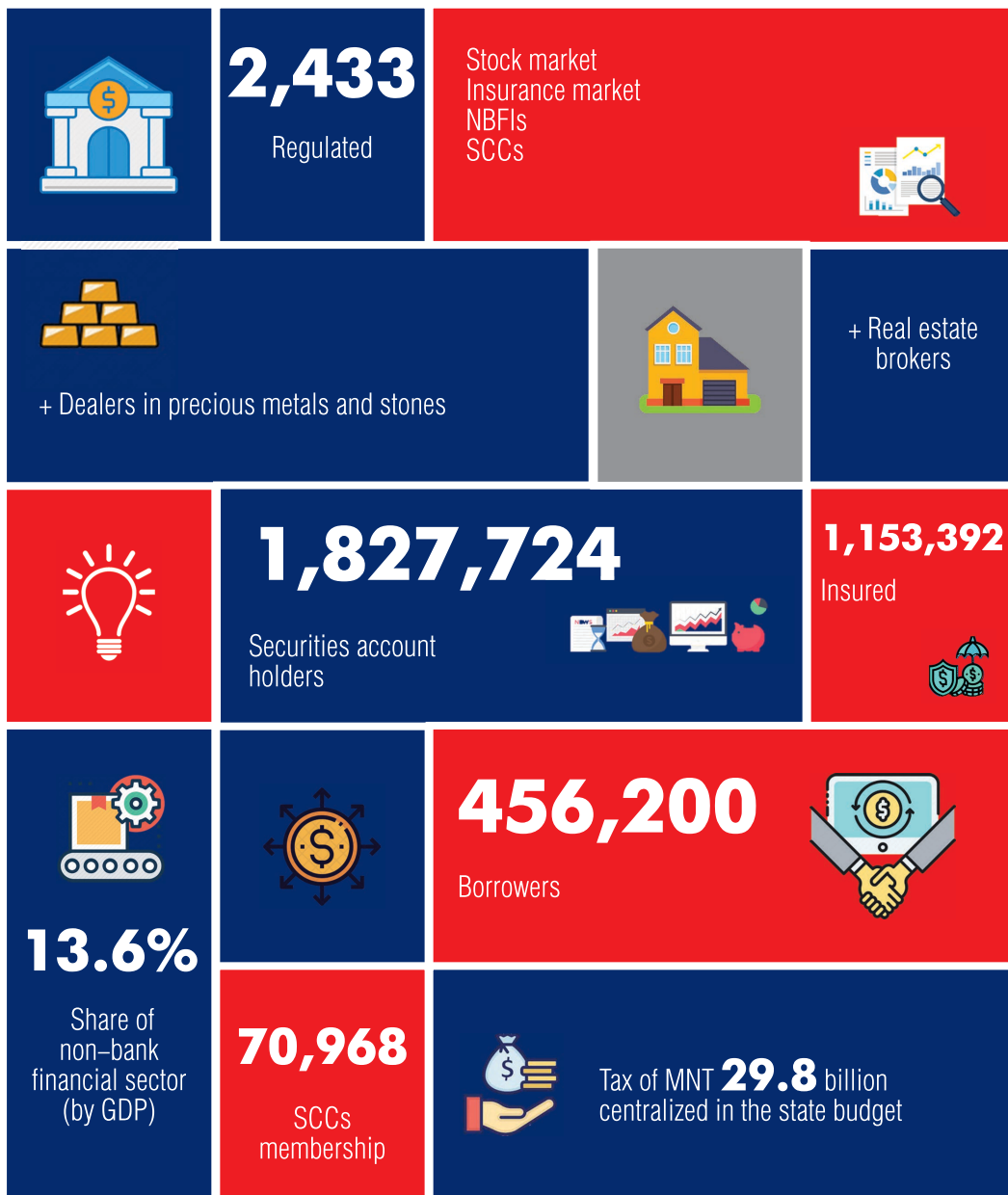
- nine departments: Administration, Securities Market, Insurance Market, NBFIs, SCCs, Supervision, Market Research and Development, REBs and DPMS, and International Cooperation;
- four divisions: Corporate Governance and Compliance, Information Technology, Internal Audit Division, and Legal;
- four units: Accounting, Anti-Money Laundering, Financial Education and Training, and Public Relations; with a total of 124 staff.
- In 2019, there were 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.

Figure 2. Staff Information



KEY INDICATORS

Figure 3. Key Indicators of the Financial Sector



GLOBAL MARKET

New, advanced technology, and new financial products and services

One trend that dominated 2019 was advancements in mobile and real time payments and services; on cloud-based technology. Another rapidly evolving technology trend was quantum technology, which delivers financial services more quickly.

- IMF estimated that global economic growth weakened by 0.3% to 3.0%.
- The China–United States trade war, and uncertainty of Brexit, influenced the global economic decline.



Micro finance sector.

The number of microfinance borrowers increased by 43% over the previous 10 years. Of the total 139.9 million borrowers, 80% were women and 65% were from rural areas.

• South Asian countries – such as Bangladesh, India and Vietnam continued to lead the way in microfinance services.

Stock markets hit 10–year highs – after the 2008 financial crisis – ending 2019 up, by:

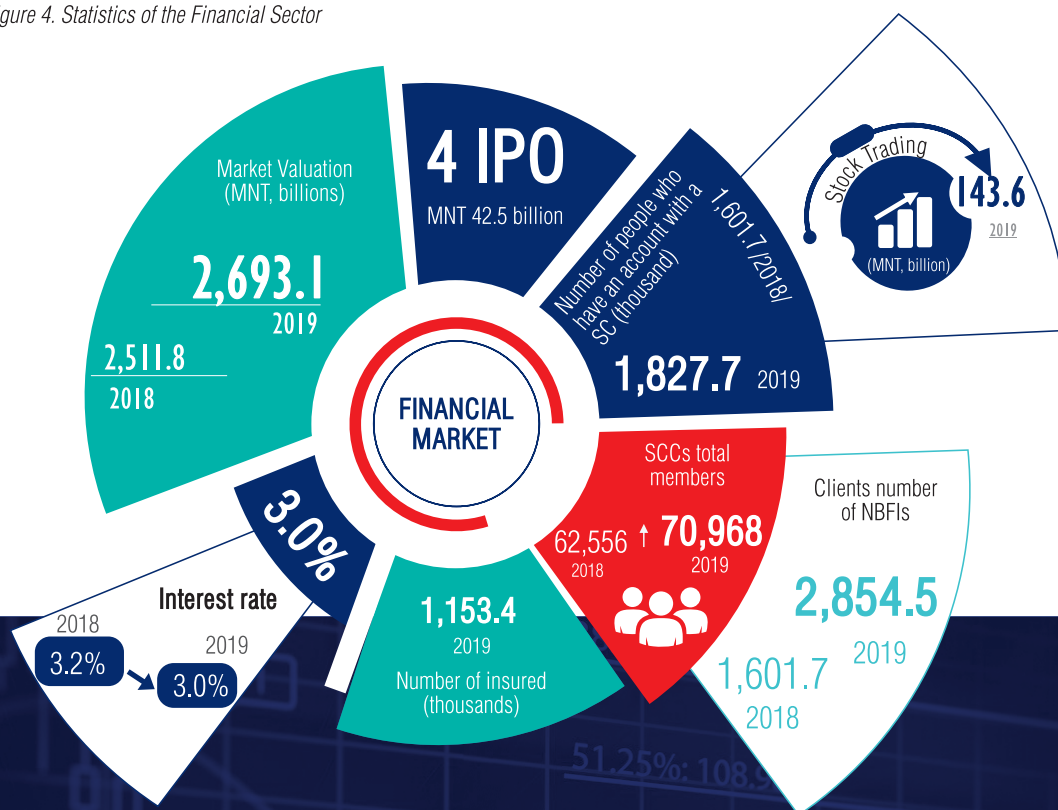
- MSCI Index, 24%
- German DAX, 25%
- France CAC, 25%
- Japanese Nikkei, 18%
- Chinese CSI300, 36%

In 2019, insurance premiums in Mongolia increased by 6%, and elsewhere as follows:

- USA, 5%
- Britain, 6%
- Europe, 2%
- Latin America, 1%
- Asia, 4%
- Pacific countries 18%.

CURRENT STATUS OF FINANCIAL MARKETS

Figure 4. Statistics of the Financial Sector



STOCK MARKET

- » TOP-20 index: 19,621.9
- » MSE A index: 9,531.7
- » JSCs: 306
- » Securities companies: 54
- » Value of agricultural products: MNT 705.1 billion
- » Securities backed by MNT 4.1 trillion from 78,703 borrowers

INSURANCE MARKET

- » Total assets: MNT 365.8 billion
- » Total fees: MNT 196.6 billion
- » Indemnity: MNT 65.5 billion
- » Reserve Fund: MNT 165.6 billion
- » Penetration: 0.56 %
- » Density: MNT 60,708

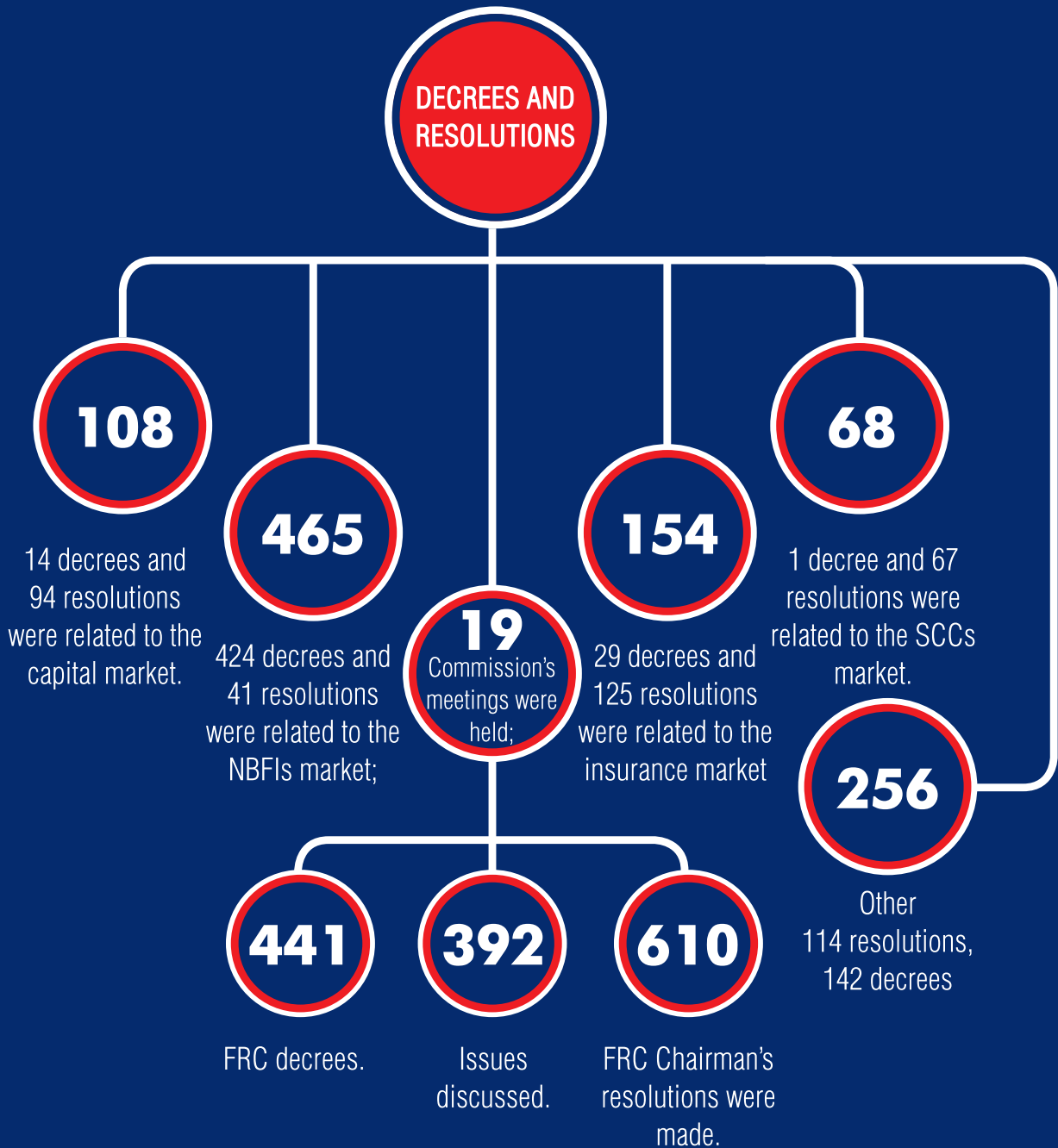
NBFIs SECTOR

- » NBFIs: 538
- » Total assets: MNT 1.7 trillion
- » Total loans: MNT 1.2 trillion
- » Annual weighted average interest rate: 3.0 %
- » Borrowers: 419,900
- » Non-performing loan: 8.5 %

SCCs

- » SCCs: 261
- » Total assets: MNT 222.6 billion
- » Total loans: MNT 156.7 billion
- » Total savings: MNT 155.8 billions)
- » AWAIR: 3.4%
- » Annual weighted average savings interest rate: 1.6%
- » Depositors: 36,400
- » Borrowers: 36,300

POLICY AND LEGISLATION



Throughout the year, 392 issues were discussed and 441 decrees were made; during the 19 Commission's Meetings. The FRC's Chairman issued 610 resolutions and the Chief Executive 391 resolutions.

POLICY AND LEGISLATION

Table 1. implementation of Resolutions

No	Resolution of the Supreme Authority; Execution of the Decision	Measures implemented	Performance (%)
1	Action Plan of the Government of Mongolia; 2016–2020	8	90.0
2	National program to develop Mongolia's financial market to 2025	64	90.3
3	Action plan to implement the strategy to reduce interest rates; 2018–2023	48	90.3
4	Strategic document to reduce non-performing assets	8	82.0
5	General directive for the economic and social development of Mongolia in 2019	3	80.0
6	The Government of Mongolia's monetary policy guidelines for 2019	10	84.0
7	Money and stock market development activities	20	80.7
8	Resolution No. 07 of the Economic Standing Committee of the Parliament of Mongolia on giving directions on creating a market environment to reduce bank loan interest rates	5	96.1
9	Tasks given by the working group established by Order No. 60 of the Speaker of the Parliament of Mongolia in 2018, to investigate whether there were any business violations in the activities of the Chairman of the FRC	7	93.6
10	Resolution No. 10 of the Standing Committee on Economic Affairs of the Parliament of Mongolia on Giving Directions	12	93.0
TOTAL		185	87.9

The FRC implemented and enforced 210 new, revised and amended laws, 102 Parliamentary resolutions and 14 Government resolutions.

The implementation of 185 provisions – of 10 policy documents related to financial market activities – were delivered to relevant organizations; with 88% completed within the legal timeframe. Throughout the year, the FRC planned to perform 179 tasks within seven objectives, and accomplished 89%.

Records of Archive and Administrative Norms:

In accordance with the General Guidance on Public Records, National Standard on Documents and General Instruction on Archives of Public Institutions, 17,903 official documents and 13,031 requests were received. Similarly 4,440 letters were sent and 432 requests were monitored (to ensure timely responses). FRC's operations were evaluated with an 'A' (90.8%) in the State Inspection; co-organized by the General Archives and the Civil Service Council every four years.

POLICY AND LEGISLATION

Table 2. Administrative norms and regulations registered in 2019

No	Resolution, order name and number	Registered; Ministry of Justice and Home Affairs	Title
1	FRC Resolution No. 271 of 2016.10.18	2 January, 2019. No. 4,120	Reselecting the minimum share capital of a NBFII.
2	FRC Resolution No. 27 of 2017.01.13	2 January, 2019. No. 4,121	Set the minimum share capital of a NBFII.
3	FRC Resolution No. 382 of 2018.12.16	3 January, 2019. No. 4,128	Securities collateral regulations.
4	FRC Resolution No. 04 of 2019.01.09	28 January, 2019. No. 4,184	Set of rules governing the securities market.
5	Joint Order No. 30 / A / 14 of January 21, 2019 of the Chairman of the FRC and the Minister of Justice and Home Affairs	21 January, 2019. No. 4,188	Procedures for submitting and using compensation information; provided to victims by the driver's insurance fund, and by the insurer, to the police.
6	2 No. 29 / A / 13 of January 21, 2019 of the Chairman of the FRC and the Minister of Justice and Domestic Affairs	31 January, 2019. No. 4,189	Model driver's insurance guarantee, and procedures for its application.
7	FRC Resolution No. 02 of 2019.01.09	4 February, 2019. No. 4,220	Insurance package rules.
8	FRC Resolution No. 38 of 2019.03.20	28 March, 2019. No. 4,284	Procedures for purchasing shares, and purchasing shares of a joint stock company.
9	FRC Resolution No. 46 of 2019.03.20	3 April, 2019. No. 4,331	Procedures for regulating and supervising the activities of the loan guarantee fund.
10	FRC Resolution No. 51 of 2019.04.10	19 April, 2019. No. 4,350	Emergency procedures for securities brokers, dealers and underwriters.
11	FRC Resolution No.72 of 2019.04.24	2 May, 2019. No. 4,364	List of internal information in the securities market, and procedures for reporting it.
12	FRC Resolution No. 211 of 2019	17 July, 2019. No. 4,431	Procedures for setting and centralizing regulatory service fees.
13	FRC Resolution No. 210 of 2019.07.08	22 July, 2019. No. 4,437	Procedures for calculating and monitoring prudential ratios for non-bank financial institutions.
14	FRC Resolution No. 354 of 2019.12.04	Dec 17, 2019. No. 4,555	Setting the minimum capital of an insurance company.
15	FRC Resolution No. 370 of 2019	Registering	Procedures for risk-based supervision of non-bank financial institutions.

POLICY AND LEGISLATION

In 2019, the following measures were undertaken to create and improve the legal environment of the sector, and to enhance the implementation of legislation within the regulations functions for financial services.

Amendments to the securities market legislation

Draft amendments to the law on Securities Market were introduced, and a concept for the draft law prepared, along with a needs assessment. A consultant of the Legal Environment Reform Project of the EBRD (at the Ministry of Finance) worked on the amendments to the law on Securities Market. Related to this, there was a need to redraft the law and hire specialized consultants.



A study to eliminate duplication (gaps and inconsistencies) in the law on Securities Market and related laws – and to improve their coherence – was conducted in collaboration with the German Agency for International Cooperation (GIZ).

In connection with this study, training to provide information on securities market legislation was organized for the staff of the GIZ.

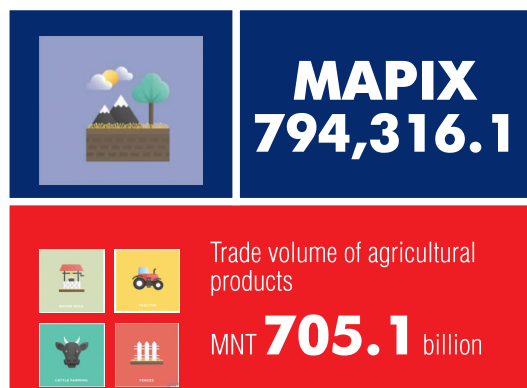
Amendments to the law will promote an increase in the number of new products and services within the securities market. Amendments will eliminate duplication of functions (between government agencies and professional associations), facilitate faster issuance and registration of securities, and increase long term investment (by transferring some government functions to self-regulating entities). The amendments will also allow the private sector to expand and, longer term, infrastructure can be developed by governor's offices; in the provinces and the capital. Overall, it is important too provide for economic growth, and the improvement of the legal environment will lead to a wide range of positive changes in markets in the economy. For example, increases in: participation of domestic and foreign investors, foreign direct investment and cash flow in the financial market, etc.



POLICY AND LEGISLATION

Amendments to the law on the agricultural commodity exchange:

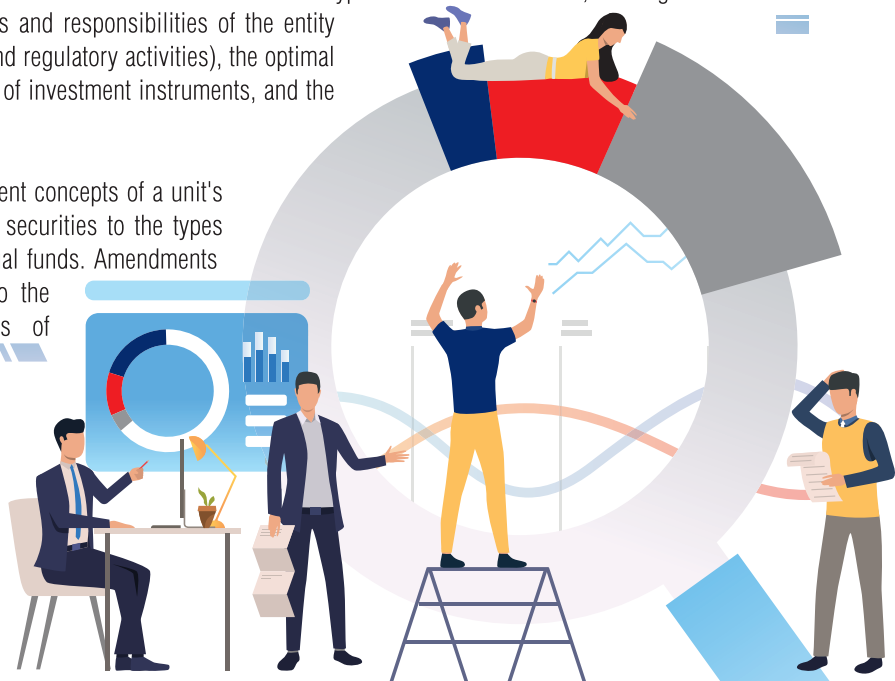
A needs assessment, impact assessment and an estimate of the costs associated with amendments to the law, were conducted in cooperation with the Agricultural Commodity Exchange LLC.



Amendments to the law on Investment Funds

A number of key issues – prompting amendment of the law on Investment Funds – were studied; with attention to relevant international legislation. Issues studied included: clarification of types of investment funds, unit rights versus shares, specification of the rights and responsibilities of the entity implementing the fund's management (and regulatory activities), the optimal timing for the fund, increasing the range of investment instruments, and the creation of taxation support, etc.

Amendments to the law will clarify different concepts of a unit's rights and shares, and add government securities to the types of assets that can be invested with mutual funds. Amendments will also improve regulations related to the management and regulatory functions of mutual funds.



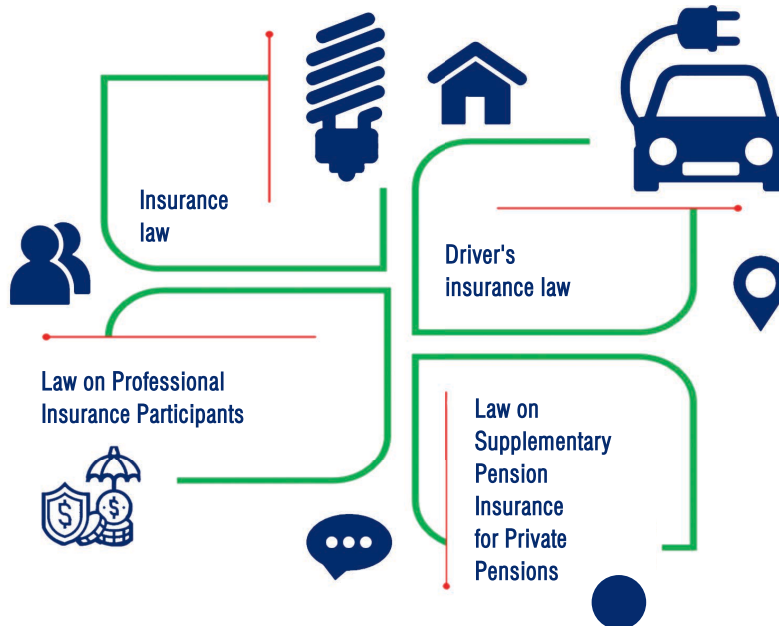
POLICY AND LEGISLATION

Insurance market

Within the framework of drafting amendments to insurance legislation, amendments to the law on Insurance, law on Insurance Intermediaries and the law on Driver's Liability Insurance were drafted in collaboration with the Ministry of Finance.

Concept papers of revised draft amendments for the above laws address a wide range of issues,

including: requirements for the primary insurer to reinsure a certain percentage of risk with a domestic reinsurance company, to conclude insurance contracts electronically, to simplify the process of claims for indemnification, to provide legal opportunities for digitisation, to change the insurance classification from life into non-life in compliance with international standards (detailing the differences) etc.



The FRC was engaged in a working group on drafting the law on Supplementary Private Pension Insurance; with the Ministry of Labor and Social Protection with the support of the ADB. With the adoption of this law, high-income insured will be able to be voluntarily insured with additional personal pension insurance, and those insured will have a multi-source pension income upon retirement.

A study to eliminate duplication, gaps and inconsistencies in the law on Insurance Market and related laws – and to improve their coherence – was conducted in collaboration with the GIZ. The FRC regulates and monitors insurance activities within the framework of the insurance package regulations which includes 21 regulations and instructions; as approved by Resolution No. 02 of 2019, and another related 44 regulations and instructions.

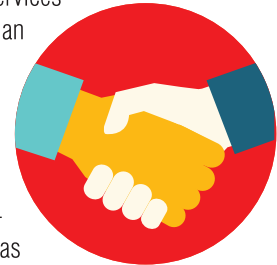
POLICY AND LEGISLATION



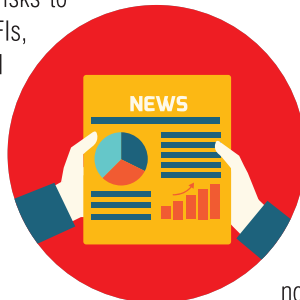
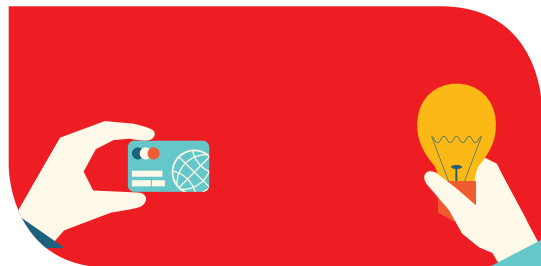
A revised version of the law on Non-Bank Financial Activities, a concept paper of the draft law, and relevant studies, were developed. Related comments and opinions were received from relevant regulatory agencies. Adoption of this revised law will: improve the regulatory environment, create a favorable and risk-free environment for the introduction of new financial services and products, create a regulatory environment that provides public services quickly and promptly, and provide for the establishment of an effective inspection system.



The regulation on calculating and monitoring the prudential ratios of non-bank financial institutions was revised. And the risk management system was improved by establishing prudential ratios for forecasting and assessing the operational risks of non-bank financial institutions.



A draft regulation on risk-based supervision of non-bank financial institutions was developed, and approved after the receipt of comments and opinions from the public. The document provides for the regulation and monitoring of activities, and the financial conditions of NBFIs. It also allows for assessment of the implementation of legislation (in non-bank financial activities) and regulations approved by the competent authority. It also determines the level of potential risks to financial activities and solvency of NBFIs, and provides measures for revealed violations.



A draft resolution on setting a revised minimum amount of share capital for NBFIs was prepared, and approved by the FRC after receipt of comments and opinions from the public. The resolution will reduce the risk of non-bank financial activities, create conditions for NBFIs to operate normally, and increase efficiency.

POLICY AND LEGISLATION

A revised version of the law on Savings and Credit Cooperatives was drafted. The revised legislation was adopted to create levels of protection (such as mutual financial institutions, stabilization funds, and protection of savings), as well as to improve the consumer protection system. By establishing a three-tier protection system, the FRC has provided professional and financial assistance to cooperatives (that experienced difficulties and lost liquidity). These are in line with market credibility, the good practices of other countries, and international trends in protecting depositors' assets. ADB's project consultants supported development of the revised draft law; providing relevant research and recommendations.

FRC prepared the introduction of a risk-based supervision system for SCCs. All cooperatives will be assessed remotely in accordance with the risk assessment methodology and 35 SCCs were involved in on-site inspections to test the feasibility of remote monitoring assessments. Based on the risk assessment, an action plan was developed for each cooperative's risk category. Based on the risk assessment, an action plan for each risk category was developed and implemented. A number of measures were taken to introduce risk management systems for SCCs in their Supervisory Boards; which perform the functions of internal control within the framework of the cooperative's structure. In this context, training for members of the Supervisory Boards, and checklists for internal control, were introduced.

POLICY AND LEGISLATION



Within the framework of improving the public's financial knowledge, the Public Financial Literacy Program 2016–2021 was implemented by: the Bank of Mongolia, the Ministry of Finance, the Ministry of Education, Culture and Science. Train the Trainees of financial education programmes for the public, and training sessions for professional training institutes in the capital and rural areas of the country were undertaken. A total of 220 trainers were involved, in: Arkhangai, Dornogovi, Govisumber, Dundgovi, Khuvsgul, Tuv, Umnugovi, Uvurkhangai and Zavkhan, and in Ulaanbaatar.

The Advanced Financial Analysis training was organized by the WB's SFFS project. The training provided FRC staff with the skills and knowledge needed to perform extra duties and strengthen the Commission's human resource capacity. Fifty FRC employees were involved. Similarly, the Risk-Based Assets Calculation Workshop was attended by 70 FRC officials and regulators. Another 25 employees – 145 with some double counting – participated in two in-house trainings on the Introduction of Risk-Based Assets Requirements for Insurance Companies.



FRC, in cooperation with JICA (within the framework of the second phase of the Capital Market Capacity Building project) conducted training for credit rating agencies (on Government bonds and corporate bond market) and improving the regulatory environment. Within the framework of the program, training on legal environment of credit rating agency and practical issues of operations were organized. The project advisory team discussed the development of the company's bond market and the intensification of efforts to improve the legal environment of the over-the-counter market.

In accordance with the Training Agreement with professional associations, the trainings were organized in cooperation with the Mongolian Bar Association, the Mongolian Institute of Certified Appraisers, the Mongolian Institute of Certified Public Accountants, and the Association of Professional Brokers of Agricultural Commodities. The FRC monitored the training process and the audit process, providing guidance and recommendations.



POLICY AND LEGISLATION

In cooperation with the Mongolian Association of Securities Dealers, training on licensing and certification of securities brokerage and investment services was organized, in May and October. Of the 205 people who participated, 43 were licensed to conduct brokerage services, 126 were licensed to conduct investment services, and 36 were certified to operate in the securities market.



Financial Markets open day was organized in Darkhan-Uul, Khuvsgul and Orkhon and provinces.



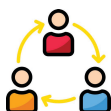
In cooperation with the MNBFI, the FRC organized three trainings for NBF staff. Within the framework of the training agreement and with the management of 80 NBFs and the MNBFI, FRC organized an online training on Compliance and Ethics, in which 245 NBF employees participated from supporting organizations. In addition, NBF staff were trained on NBF accounting practices. The trainings strengthened the human resources of non-bank financial market participants, and provided them with the knowledge and information to work professionally in the market. Representatives from more than 70 NBFs were involved.

In May 2019, a regional training on Savings and Credit Cooperatives Risk Management was organized within the framework of the Microfinance Institution Capacity Building and Financial Access Project (implemented in cooperation with ADB). Forty-two members of SCCs' Supervisory Boards, CEOs and accountants were among the 142 participants, and trainers from 23 Mongolian Confederation of Credit Unions (MOCCUs) were trained, and measures were taken to build the capacity of sector participants.

The FRC organized 13 certificate-level trainings for members of cooperatives' boards (and Supervisory Boards), Loan Committee members and CEOs; in cooperation with the MOCCU. The training program provided knowledge and information on: professional ethics, AML/CFT, counter-terrorism financing, and compliance implementation.

Within the framework of the cooperation agreement between the Mongolian Insurance Association and the Mongolian Banking Association, training of insurance representatives was undertaken three times in Ulaanbaatar, and once in each of 18 rural areas. A total of 1,152 participants were involved in: four trainings for insurance intermediaries in Ulaanbaatar, one training in rural areas, and one training for insurance loss adjusters in Ulaanbaatar.

Frontier Fintech Summit was organized.

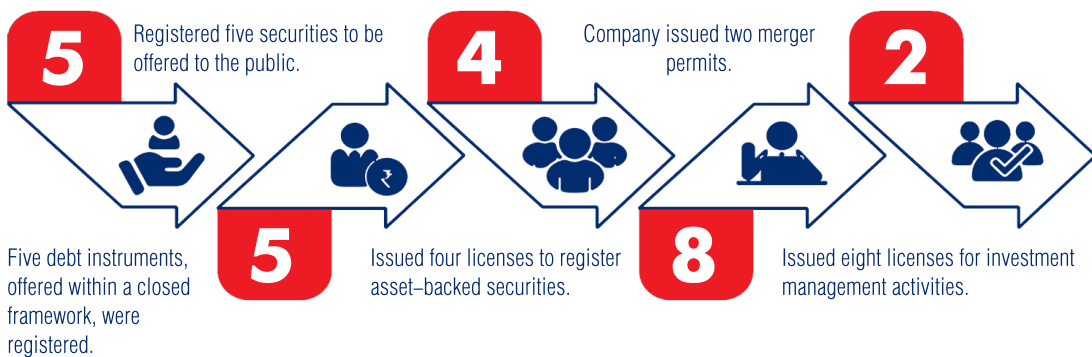


LICENSING AND REGISTRATION

In 2019, licenses and registrations issued by the FRC, in the field of securities, included:

• license to conduct securities broker activities	2
• license to conduct securities dealer activities	3
• license for securities market participants to act as investment advisors	2
• license for asset management activities	1
• license to operate as an agricultural broker	1
• license to conduct broker activities in foreign securities markets	3
• registration of documents for the establishment of a private investment fund	4
• registration as a legal entity to provide audit services to securities market participants	3
• registration as a legal entity to provide legal advice to securities market participants	7
• registration of mutual investment fund documents	1
• authorization to provide broker services to clients through nominal accounts	4

Figure 5. Information of the Securities Sector; Licensing and Registration



Insurance agents licenses issued to 121 people.



Insurance brokerage licenses issued to five legal entities.

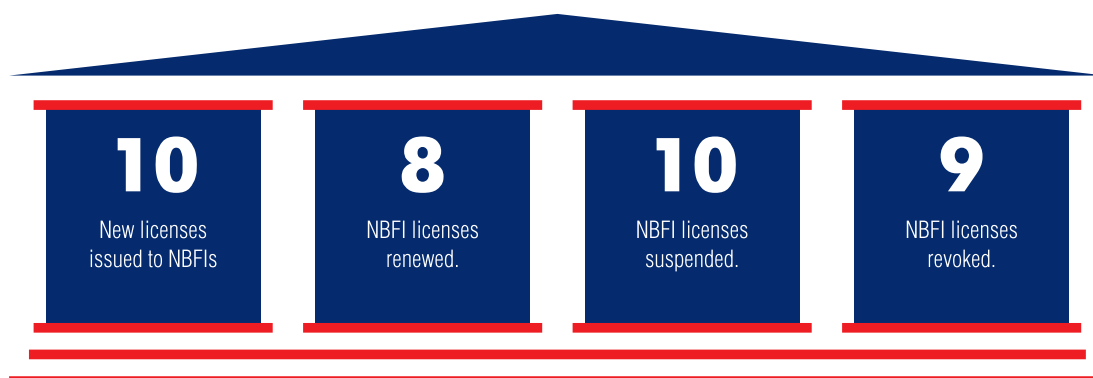
Insurance loss adjusters licenses issued to two legal entities.

In 2019, licenses and registrations issued in the field of insurance included:

• license for insurance broker	5
• license for insurance loss adjuster	2
• license to open insurance branch or intermediary company	29
• license for a professional insurance company	15
• license for an insurance representative	121
• registration of insurance products	12
• registration for opening a representative office	21
• rights and registration of insurance actuaries	8
• right to audit an insurance company	1
• restructuring of insurance company's share capital and shareholder	7
• change of the insurance company's name	4

LICENSING AND REGISTRATION

Figure 6. Information of the Non-bank Financial Institution Sector; Licensing and Registration



Licenses to conduct non-bank financial activities were issued to ten new companies, licenses of nine NBFIs were revoked, licenses of ten NBFIs were suspended, and licenses of eight NBFIs were restored, and the following licenses were issued:

Table 3. Information of Non-bank Financial Institutions Licensing and Registration

Nº	Authorizations	Number
1	Name change	13
2	Additional license	15
3	Open branch	34
4	Close branch	2
5	Authorisation of a representative office	2
6	Change of address	59
7	Change of equity, and/or composition of shareholders	367
8	Change of designated CEO	75

In 2019, licenses and registrations issued in the field of SCCs included:

- new licenses issued to 17 SCCs ,
- licenses were extended to 52 SCCs
- licenses were suspended on 10 SCCs,
- license was reinstated to one SCC,
- licenses were revoked for 35 SCCs
- license to operate as an insurance agent to one SCC
- license to open branches to 27 SCCs,
- registered to change addresses and locations for 13 SCCs, and
- registered to have executive directors and elected members, for 34 SCCs



SUPERVISION

Off-site

FRC received and reviewed monthly and quarterly financial statements, balance sheets and prudential ratio reports, from regulated entities. Responses were provided, with instructions to eliminate violations and shortcomings, and the implementation of required activities were monitored. Off-site supervision was undertaken on a total of 10,573 monthly and quarterly financial and prudential ratio reports.

Securities

FRC received and examined the 2018 financial statements of 139 JSCs, 47 securities companies, 10 asset management companies, and three custodian banks – along with 99 JSCs' second quarter statements for 2019 – through the Fina (computer) system.

Insurance

FRC received the 2018 financial statements of 89 insurance companies, the first quarter of 2019 results for 91 organizations, the second quarters' for 90

organizations, and the third for 89 organizations; for examination and approved through the Fina system. Financial statements of the Association of Compulsory Insurers NGO – for the fourth quarter of 2018 and the whole of 2019 – were also received, examined and verified.

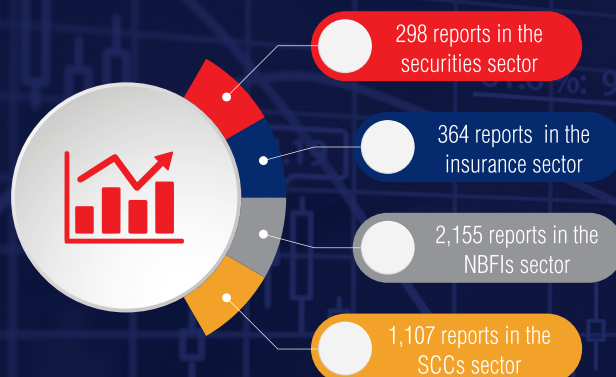
NBFIs

FRC received, examined and verified 2,155 NBFIs' reports and ancillary information. In addition, information from December, 2018 and January till November, 2019 was received from 6,649 NBFIs, reviewed and verified by the Fina system.

SCCs

FRC received financial statements, balance sheets and prudential ratio statements of 279 SCCs for the fourth quarter of 2018, from 282 for the first quarter of 2019, from 275 for the second quarter, and from 262 for the third quarter; all of which were examined and verified in the FinA system.

Figure 7. Remote Monitoring and Inspection Data



Within the framework of improving the securities trading supervision and reviewing statements and materials of shareholders' meeting of the securities issuers (in accordance with the relevant legislation) FRC undertook the following:

- Reviewed the shareholders' meeting statements of 155 JSCs, of which 135 JSCs shareholders meetings were constitutional and FRC provided relevant responses to them. The other 53 securities companies had not convened shareholders' meetings through the FRC's website.
- A total of 103 JSCs decided to allocate dividends through Board of Directors' meetings and submitted their decisions to the FRC; of which 26 paid a total of MNT 62.2 billion in dividends to 61,091 shareholders.

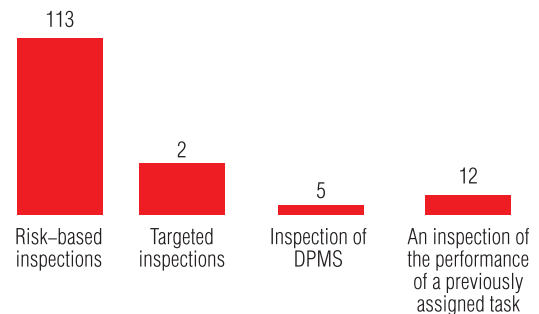
SUPERVISION

Within the scope of on-site inspections:

On-site inspections were carried out (in full or in part) on a total of 1,022 securities market participants (including branches and participants within the financial group), companies whose shares were publicly traded, professional participants in the insurance sector, NBFIs, SCCs and REB companies. According to the 2019 on-site inspection plan, the following comprehensive inspections were conducted: 68 NBFIs, 17 investment management companies, a Mongolian securities settlement and clearing LLC, the MSE JSC, 10 JSCs, the 100% government-financed Loan Guarantee Fund, five insurance companies, the Association of Compulsory Insurers NGO, and (a partial inspection of) the activities of nine insurance intermediaries. In addition, comprehensive on-site inspections were conducted on six SCCs, and partial inspections on 32 SCCs.

Within the law on AML/CFT and in accordance with the risk-based inspection plan, a total of 113 inspections were conducted, including: 17 securities companies, seven insurance companies, three insurance loss adjusters, 19 insurance intermediaries, 13 SCCs, 20 NBFIs, and 34 REBs. In the field of targeted inspections, on-site inspections were conducted on 29 NBFIs licensed to provide electronic payment and remittance services. In the field of precious metals and precious stones, five on-site inspections were conducted. In addition, during the fourth quarter of 2019, on-site inspections were

Figure 8. On-site Inspection Information

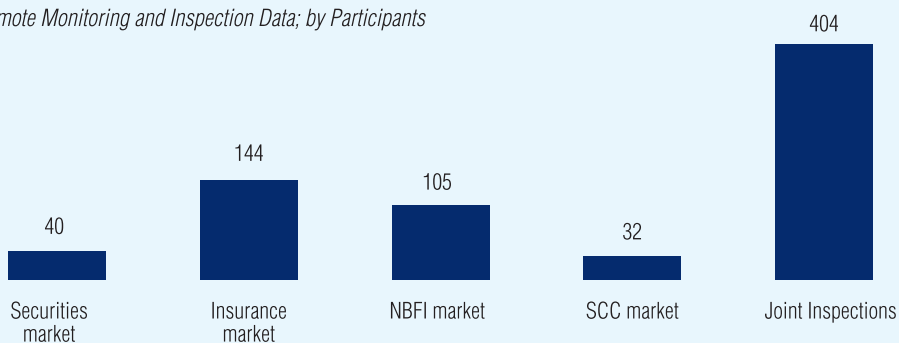


conducted in 12 organizations, to verify implementation of previous recommendations given by the FRC.

Conducted supervision, with cooperation of the Bank of Mongolia, on 404 regulated companies (entities and financial groups) including: 37 parent companies, nine banks, 39 NBFIs, 11 insurance companies, 16 securities companies, four SCCs and 325 other companies.

In addition, unscheduled inspections were carried out at the MSE and State Department Store JSC; along with partial inspection at 22 NBFIs, three insurance companies, 126 branches and representative offices (of 17 local organizations) and on nine JSCs that offered their shares to the public.

Figure 9. Remote Monitoring and Inspection Data; by Participants



SUPERVISION

Within the framework of monitoring the implementation of formal notices of state inspectors, and ensuring the implementation of administrative sanctions, a total of 89 formal notices of inspectors in five fields were delivered in 2019. These included: seven in securities inspection, 23 in NBFIs, 11 in SCCs, 20 in insurance, and 28 in AML/CFT. Within the scope of revoking, recovering and annulling the licenses of regulated entities, whose operations were defective and/or failed to meet the requirements of relevant legislation, a total of 132 issues

were discussed and resolved in FRC's meetings. These included 42 issues related to revoking of licenses, 16 related to recovering licenses, 70 issued related to annulling, three issues related to the transfer of clients of securities companies, and one related to changing the company's form.

In 2019, a total of MNT 213.7 million in fines were reimbursed, within the framework of monitoring the payment of state stamp duty, regulatory service fees and fines.

Figure 10. Inspectors' Requirements



The FRC monitored implementation of the law on Payments in National Currencies, and associated activities in the reporting period included:

- On-site supervision carried out on 16 insurance companies.
- Opened a case of violation by a limited liability company, and imposed a fine for contravention of the law on Payments and Settlements in National Currencies.
- Implementation of the law in the activities of 45 legal entities was promoted by means of provision of recommendations. These included how to express the tariffs of international post and parcel services in the territory of Mongolia, and ways to eliminate errors and violations revealed during on-site supervision conducted previously (November 2018).
- Provided advice and information to 38 SCCs.
- Opened a case of violation by one limited liability company and one JSC. They were ultimately fined MNT 40.0 million for violating the law; conducting transactions in foreign currency.
- Organized training on how to ensure implementation of the law on AML/CFT and the law on Execution of Payments in National Currencies, and provided relevant instructions and recommendations.

PROTECTION OF THE RIGHTS OF CONSUMERS AND INVESTORS

In addressing 346 petitions and complaints from license holders, securities issuers, investors and clients, 333 were resolved within the legal timeframe. Professional advice, clarifications and information were provided to more than 600 citizens by phone and in person.

In the reporting period, 14 citizens' petitions were passed on to the police for their attention, three securities companies were ordered to compensate damages

incurred by 18 civilians, a total of 8,490 shares (of five JSCs) were repatriated to the accounts of five individuals at the Central Securities Depository, and a total of MNT 800,000 was reimbursed to two individuals.

The insurers made a preliminary decision to pay out a total amount of MNT 855.2 million in compensation to 70 people, of which indemnity amounting to MNT 277.9 million was paid to 34 people.

Figure 11. Petitions and Complaints; Decisions



ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

Improving the legal environment



In 2019, FRC amended the rules on remote and on-site supervision of non-bank reporting entities for AML/CFT according to FRC's resolution number 212, and in compliance with Article 26.6 of FATF's recommendation. As a result, and in accordance with FATF's standards, changes will be made to the reporting of an entity's risk assessment in case of significant changes made at the organizational level. In addition, the rules were amended in compliance with FATF standards in December 2019, and established a system for monitoring and inspection of the tasks. Moreover, in compliance with FATF's standards, FRC made relevant changes to sector regulations and approved them at an FRC meeting.

In response to requirements in FATF's recommendation, 26 amendments were made to regulate the requirements of eligible entities; in accordance with relevant laws and regulations.

FRC prepared a proposal to amend Article 11.6 in the 11th provision of the law on Violations, increased the size of fines to be imposed on unlicensed entities, and submitted a proposal to be approved by Parliament.

Guidelines on identifying, monitoring and reporting unlicensed entities engaged with electronic payment, money transfer services and foreign exchange trading were approved by FRC's Head of Secretariat's Order No. 199 of 2019. With the adoption of the guidelines, channels for obtaining information of entities engaged in services – without licenses from FRC – such as receiving electronic payments and remittance services (provided by NBFIs) were increased. This initiative was the start of a system to detect (take measures specified in the legislation and inform the public about) unlicensed services.

In addition, Guideline for inspectors on on-site supervision for combating the money laundering and terrorist financing issues was approved by the FRC's Head of Secretariat's Order No. 200 of 2019. The guideline details the measures to be taken in AML/CFT, as well as the scope and sequence of supervision.



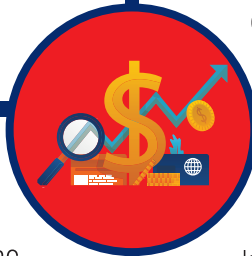
ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM



Risk assessment of AML/CFT activities

In 2018, in accordance with FATF recommendation No. 1 (on risk assessment) FRC conducted a risk assessment in four regulated sectors, including: NBFIs, SCCs, securities and insurance markets; using a methodology developed by the IMF.

In the context of the Direct Implementation No. 3, a joint group gave assignments to improve non-financial business and professional service providers' understanding of their sector's money laundering and terrorism financing risks, to carry out risk based supervision and to take preventive measures in case of violations of obligations to combating money laundering and terrorism financing.



In November and December 2019, based on the results of the sector's risk assessment indicators and other relevant factors, FRC assessed money laundering and terrorism financing risks of 1,003 reporting entities using the methodology developed by the IMF, and created a database.

In this regard, in 2019, under the cooperative work with MMCG LLC research organization, FRC conducted an assessment of money laundering and terrorism financing risks of regulated entities in six sectors, including; non-bank financial institutions, credit unions, insurance and securities markets, and the newly regulated non-financial sectors such as REBs, and DPMS.



ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

Preventive measures



- The Financial Sector Compliance Forum; 2019 was organized by the FRC – for the second time – on 18 June, 2019, funded by The Asia Foundation. Representatives from international organizations such as the WB and the IMF were invited to participate in the forum, and discussions were held on current issues and solutions.

FRC organized the Compliance and Ethics – online training – in cooperation with the Banking and Finance Academy and the Mongolian Association of Non-Bank Financial Institutions. Since June 2019, more than 300 NBFIs have been trained and certified. FRC organized 27 trainings in Ulaanbaatar and in the rural areas – for individuals and in cooperation with professional associations – involving more than 1,000 participants.



- On 23 December, an agreement was signed with financial sector professional associations, to organize trainings and cooperate in AML/CFT activities.

The Guideline for Compliance Officer of NBFIs was developed for reporting entities regulated by the FRC; in cooperation with professional associations. The Guideline is designed to provide practical advice to those responsible for reporting money laundering and terrorism financing activities, or the compliance staff. The Guideline covers a wide range of issues, including the risks of money laundering and terrorism financing, related compliance requirements, business ethics, whistleblowing, and privacy protection.



ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

Reporting to FATF

The FRC prepared and submitted a report to FATF, on measures taken to combat money laundering and terrorism financing, in accordance with the Guidelines for Implementation of Technical Recommendations and Guidelines to ensure direct implementation of effectiveness.

Within the scope of implementing the Technical Recommendations, Mongolia submitted a request to the Asia Pacific Group. The request sought to improve the assessment results of the 20 technical recommendations contained in Mongolia's 2017 Mutual Assessment Report, and clarifications were submitted in January 2019. Defense of the report was presented by FRC in August 2019, at the 22nd Annual Meeting of the Asia-Pacific Economic Cooperation (APEC) in Canberra, Australia.

In October 2019, FATF published the Mongolian Re-evaluation Report. Of 12 indicators related to the FRC, eight were upgraded by one step and four indicators were upgraded by two steps. A total of 20 recommendations were submitted for an upward grading; of which 16 were accepted. Only recommendations 1, 8, 14 and 35 remained unchanged.

Within the scope of Ensuring Direct Implementation of Effectiveness, the Direct Effectiveness Implementation Report was submitted on 22 July, 2019. Additional clarifications were prepared – and submitted on 1 September – in accordance with questions that were presented. The FRC successfully defended the Direct Implementation 4 (Preventive Measures) in Bangkok, Thailand during 9–13 September. FATF placed Mongolia on a 'grey list' of countries with strategic shortcomings, and to improve 'Effectiveness' rating, six tasks for Direct Implementation were assigned, for review at a regular meeting held on 18 October.

The first progress report was submitted to the Financial Intelligence Unit on 2 December, reflecting the relevant information in accordance with the approved plan and tasks assigned by the Joint Group.



ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

Measures taken by the FRC, with regard to inclusion of DPMS, and REBs as regulated entities

FRC amended the relevant laws including the law on Legal Status of the FRC and the law on AML/CFT with regard to adoption of the law on the Proliferation of Weapons of Mass Destruction and Counter-terrorism which was approved in October.

The FRC has become responsible for monitoring and regulating the activities of DPMS, and REBs.

A package of draft laws was developed to improve the framework for AML/CFT. A working group was established to create a legal environment to regulate the activities of REBs and DPMS. Development and approval of relevant rules and regulations were made under the Order No. 391 of the Head of FRC Secretariat on 31 December.

In December, a cooperation agreement was signed between the FRC and the National Statistics Office, to identify DPMS, to create a database and include them in a business register.

FRC conducted an assessment of money laundering and terrorism financing risks of financial institutions and sectors.

With technical assistance from the ADB, and within the framework of prevention, information dissemination and training activities, FRC organized technical training on AML/CFT activities for DPMS, and REBs, in Darkhan, Erdenet and Ulaanbaatar,

INTERNATIONAL COOPERATION

The FRC broadened cooperation with other financial regulatory authorities, international standard-setting organizations, development agencies, and donor organizations. The objective was to take the non-bank financial sector's development to the international level, and contribute to regional financial integration.



The FRC is an active member of international standard-setting organizations, including: the Alliance for Financial Inclusion (AFI), International Credit Union Regulators' Network, International Association of Insurance Supervisors (IAIS), and the International Organization of Securities Commission (IOSCO).

The FRC submitted a Multilateral Memorandum of Understanding application to the IAIS, and is preparing to conduct a self-assessment of the level of IOSCO's 38 Core Principles of securities regulation and joining the Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

The FRC has been engaged with the AFI's six working groups, including: Consumer Empowerment and Market Conduct, Digital Financial Services, Financial Inclusion Data, Financial Inclusion Strategy, Global Standards Proportionality, and SME Finance. This started in 2016, and FRC engaged with a newly established working group (Inclusive Green Finance) in 2019. The FRC is also a member of AFI's Eastern Europe & Central Asia Policy Initiative (ECAPI) implementing projects for improving regional financial inclusion.



The FRC is actively engaging in developing global financial inclusion policies and strategies as a Board Member of AFI since 2017. The Chairman of the FRC was reappointed/reselected as a Board Member in 2019.

INTERNATIONAL COOPERATION

In cooperation with international banks, donor organizations, and international standard-setting organizations, the FRC implemented technical assistance projects in strengthening the capacity of the non-bank financial sector.



The FRC has accomplished Delivery versus Payment and T+2 Settlement System projects as parts of the technical cooperation project Money and Capital Market Development Strategy for Mongolia implemented by the EBRD. In support of the legal framework of non-bank financial institutions in Mongolia, a technical assistance project is being implemented to amend the law on Non-Bank Financial Institutions Activities.

Cooperation with JICA, included activities such as: studies on the corporate bonds market and credit rating agencies, preparation of policy recommendations, and a review of the framework of OTC rules for private placement are being implemented under the Project for Capacity Building of the Capital Market Phase 2. Within the project, the Economic Research Institute of Mongolia conducted a Study of Developing Corporate Bond Markets in Mongolia, and International Advisor (Deloitte Tohmatsu Financial Advisory LLC) prepared recommendation on the Corporate Bond Market.



In collaboration with the ADB, the FRC has been implementing the Mongolia; Expanding the Capacity of the Nonbank Finance Sector to Support Financial Access project since May 2019. The following activities have been conducted.

- Strengthening the capacity of SCCs,
- Assessing the merger of weak SCCs; and
- Developing practical application of risk-based supervision.

INTERNATIONAL COOPERATION



The FRC participated in the Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (RFPI Asia) program implemented by GIZ, and co-organized the Public-Private Dialogue 7 on Climate Risk Insurance (CRI) with the Mutual Exchange Forum for Inclusive Insurance (MEFIN) in September, 2019.

Under the SFFS project implemented by the WB, amendments to the law on the Legal Status of the FRC were drafted. A needs assessment for the law's revision was also conducted, and legal recommendations were provided. In addition, draft versions of some rules and regulations for the FRC were revised. In support of strengthening FRC's institutional capacity, a Mid-term Training Program for 2019–2021 was developed, based on a study of capacity building, a gap analysis of existing competencies, future competencies required by the FRC, and ways of bridging the gaps.

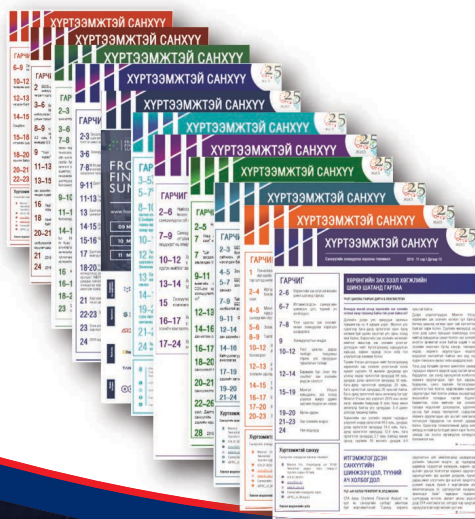


The FRC is cooperating with Mongolia's embassies – in the USA, the UK, and the Commonwealth of Australia) in strengthening Mongolia's AML/CFT regime. In particular, in getting Mongolia removed from the 'grey list' of countries with strategic AML/CFT deficiencies; as identified by the FATF.

RESEARCH AND ANALYSIS

The FRC has released Financial Sector Review and the journal Inclusive Finance, quarterly and monthly, in order to provide stakeholders in the financial sector and the general public with financial market information and improve their financial literacy. More than 10 studies (research works) have been conducted in the scope of financial sector regulation, risk management, and new products and services, based on the risk-based decision making and policy making.

Overview of financial sector, journal, data and research works are available at the FRC's website (www.frc.mn), and related information can be provided via email (rsa@frc.mn) and phone number (51-261012).



BUDGET AND FINANCE

Table 4. Budget and financial information

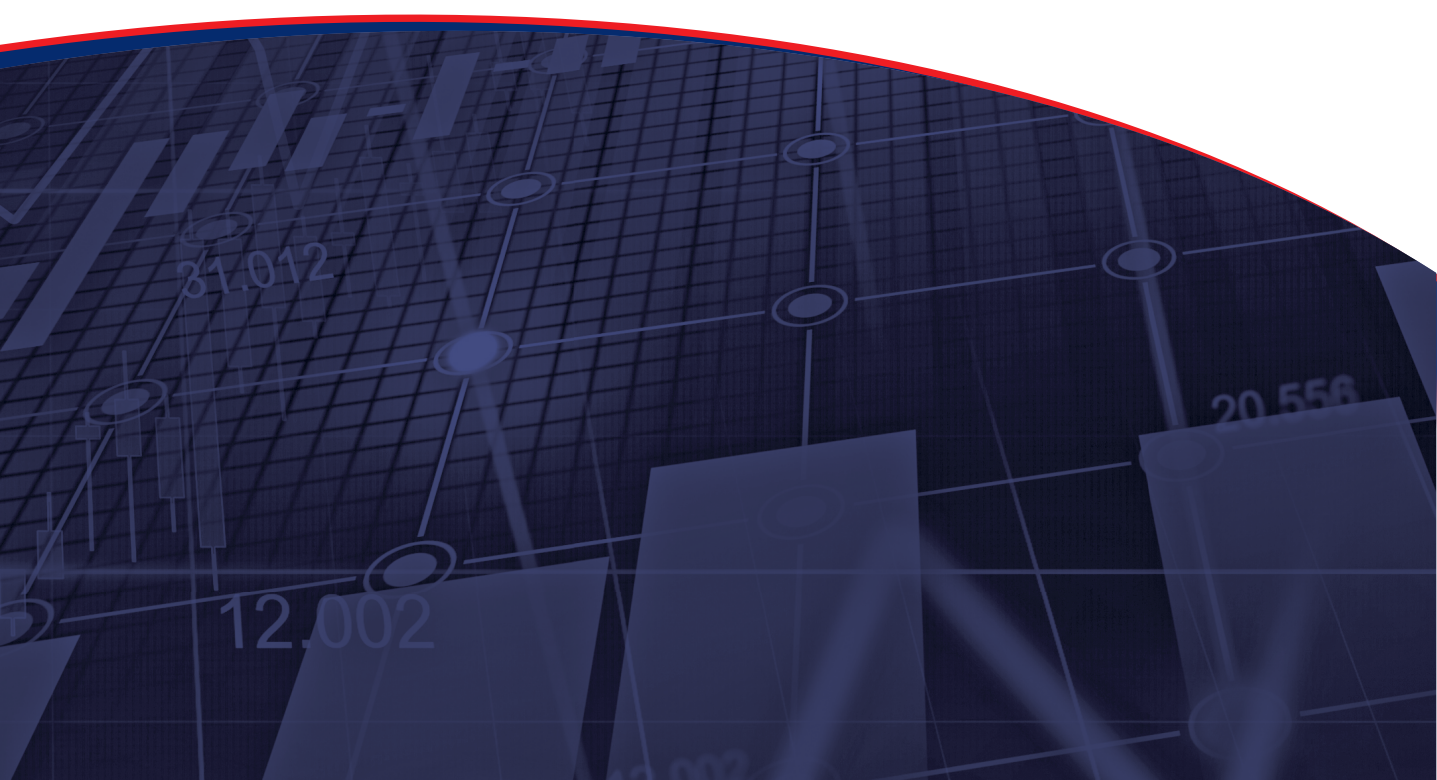
Expenditure	3,762.2	(MNT, million)	(%)
State budget	2,740.2		73.0
Regulatory service fees	1,022.0		27.0
Income of regulatory services	2,331.3		
NBFIs	1,005.2		43.1
Insurance market	654.2		28.1
Securities market	647.9		27.8
SCC sector	24.0		1.0

In 2019, FRC operated regularly and soundly. Total expenditure was MNT 3.8 billion, consisting of: 73% from the state budget and 27% from the revenues of FRC's regulatory service fees.

Income of regulatory services totaled MNT 2.3 billion, consisting of:

- 43.1% (MNT 1.0 billion) from NBFIs,
- 28.1% (MNT 0.7 billion) from the insurance market,
- 27.8% (MNT 0.6 billion) from the securities market, and
- 1.0% (MNT 24.0 million) from the SCC sector.

In addition, stamp duty of MNT 64.2 million and fines of MNT 213.7 million were collected for the state budget.



ACHIEVEMENTS

The 25th
anniversary of the
financial regulatory
authority in
Mongolia.

Four JSCs
collected
MNT42.5 billion
from the
primary market.

Membership of
SCCs increased
up to 70,968.

The non-bank
financial sector
constituted
13.6% of GDP.

Insurance
density reached
MNT 60,708.

Credit and
insurance services
based on technology
are entering the
market rapidly.

The percentage of
non-performing loans
and interest rates,
decreased to 8.5%
and 3.0%,
respectively.

2019



Government Premises IV, Baga Toiruu 3, Chingeltei District,
Ulaanbaatar, Mongolia, 15160



+976-51-264444



press@frc.mn



www.frc.mn



Санхүүгийн зохицуулах хороо



@FRC_of_Mongolia