



## NON-PERFORMING LOANS – SECONDARY MARKET

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Bank of Mongolia



# Agenda

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**1**

Non-Performing Loans (NPL): Recent trends and current state

**2**

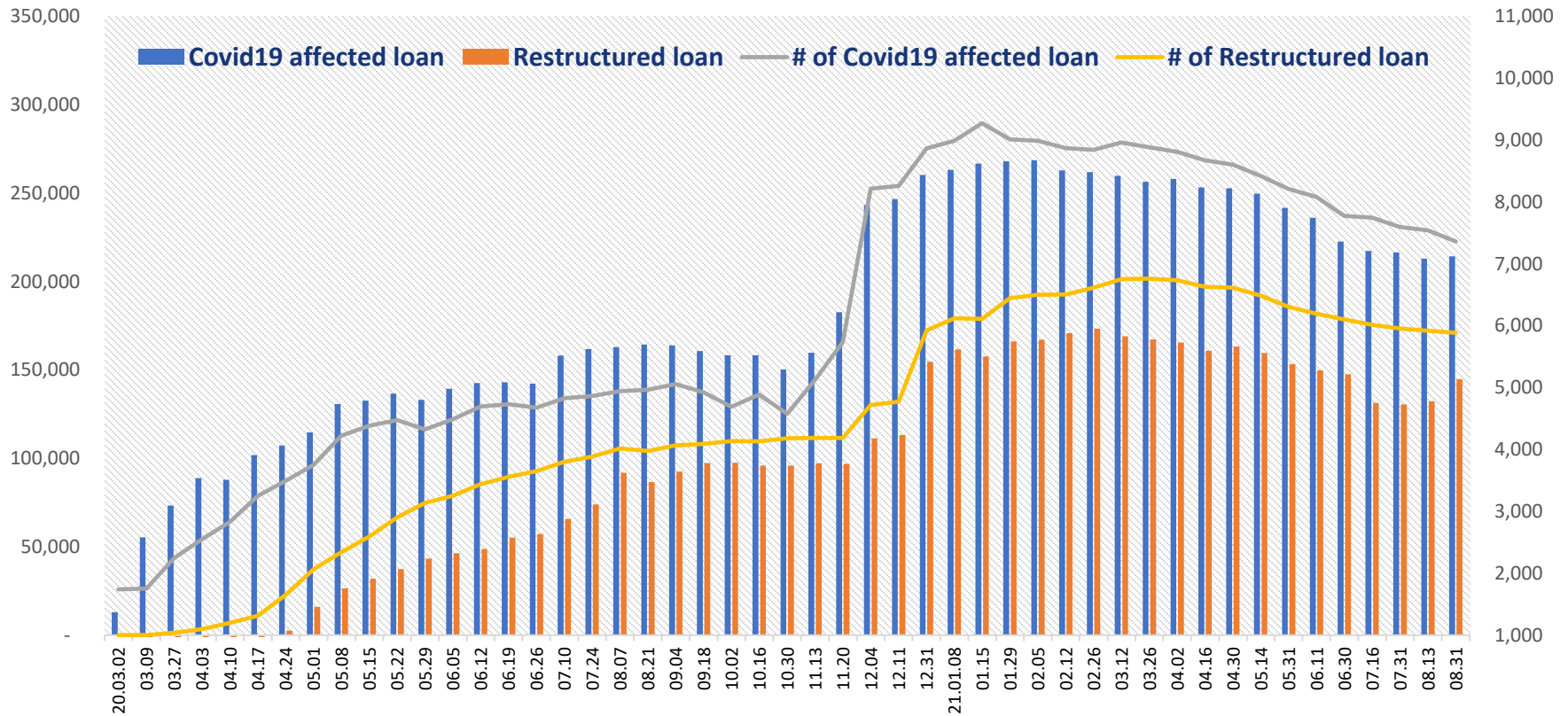
Current NPL resolution framework

**3**

Impediments to the development of secondary markets



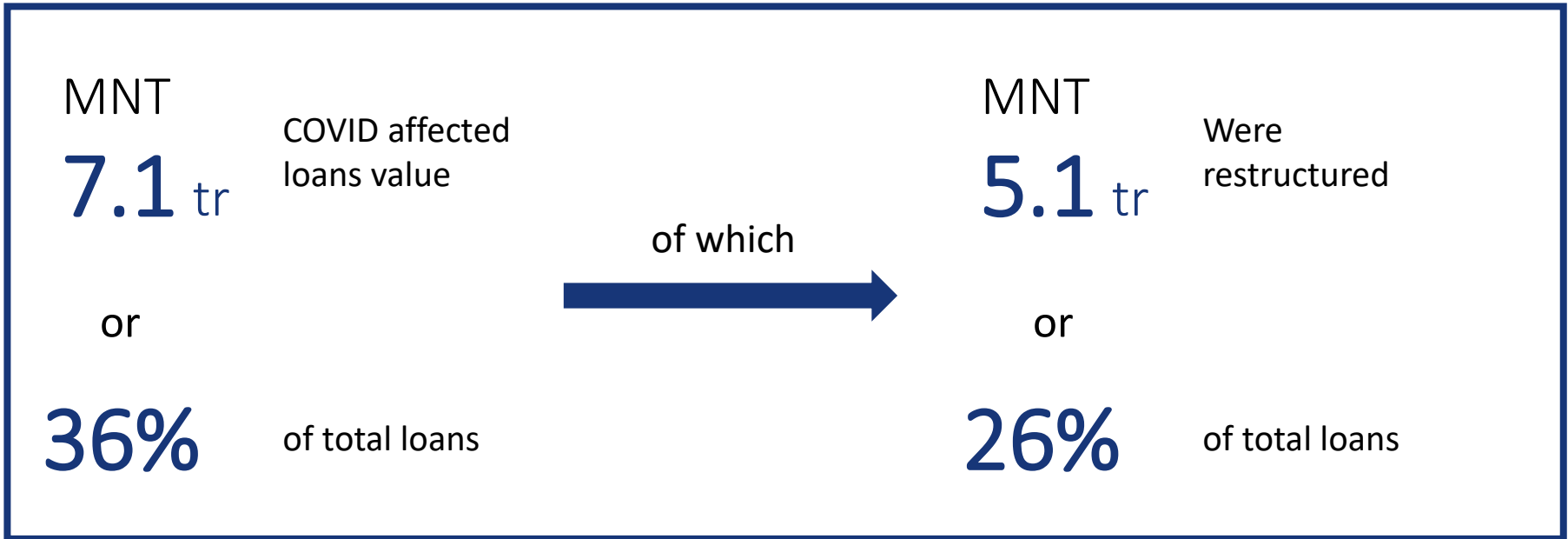
# NPL: Recent trends



- Due to COVID and the ensuing economic slowdown, overall quality of loans has deteriorated
- The Bank of Mongolia introduced some relief measures to avoid credit crunch and stimulate the economy
- NPLs increased sharply at the height of the pandemic but is now declining
- Challenges still remain



# NPL: Current state – snapshot



## COVID affected loan monitoring

Ratios	Performing Restructured loan	Restructured loan provision	Restructured loan moving from performing to NPL	Restructured loan moving from NPL to Performing	Restructured NPL provision	Restructured NPL
	$\frac{\text{Total restructured loan}}{\text{Total restructured loan}}$	$\frac{\text{Total restructured loan provision}}{\text{Total restructured loan provision}}$	$\frac{\text{Total restructured loan moving from Performing to NPL}}{\text{Total restructured loan moving from Performing to NPL}}$	$\frac{\text{Total restructured loan moving from NPL to Performing}}{\text{Total restructured loan moving from NPL to Performing}}$	$\frac{\text{Total NPL provision}}{\text{Total NPL provision}}$	$\frac{\text{Total NPL}}{\text{Total NPL}}$
<b>Current ratio</b>	74.9%	5.0%	56.3%	53.8%	38.6%	23.3%
<b>Goal</b>	>90%	<3%	<10%	>80%	>90%	<10%



# Current NPL resolution framework

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- **Bank internal work-out:**
  - Banks have internal resolution units
  - Those that don't outsource it to entities that specialize in such procedures – but the asset remains on balance
  
- **Out-of-court settlements/alternative dispute resolution:**
  - If the relevant contract includes out-of-court settlement provisions, parties may elect to pursue (i) arbitration by a third party or (ii) court mediation
  - In both instances asset remains on balance
  
- **Court proceedings/hearing:**
  - There are three court stages in general: First Instance, Appellate and the Supreme court
  - All cases can advance to the Supreme Court
  - The whole process can last up to 7 years
  
- **NO ORGANIZED SECONDARY MARKETS**



# Impediments to the development of secondary markets

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## ➤ **Under process:**

- Laws establishing factoring units, asset management companies (public and private) and laws on financial consumer protection are being currently drafted
- The above will contribute towards establishment of a more seamless and structured secondary markets
- However, limitations hereunder present structural obstacles

## ➤ **Legal/structural limitations:**

- Bankruptcy laws do not provide for sufficient protection for natural or legal persons facing insolvency
- Collateral repossession process is inefficient and long. Civil code and other structural laws provide for extensive debtor protection in such cases
- Due to the above, contract enforcements is compromised – this depresses asset price significantly and by extension potential profit for participants of the secondary market



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THANK YOU